BUDGET 2016 SUMMARY

March 2016

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Introduction

One of the main themes of the Chancellor's March 2016 Budget was to ensure that the next generation inherits a strong economy, is better educated, and grow up fit and healthy. His proposed "sugar tax" on the soft drinks industry will be used to fund longer school days for those that want to offer their pupils a wider range of activities, including extra sport.

He again stressed his prudence in concentrating on debt repayment and the importance of "mending the roof while the sun shines", although he acknowledged that there were numerous factors that could impact on his "bullish" growth forecasts and promises of future budget surpluses.

There will be further changes affecting savers and he hinted that there could be yet further changes to pensions, but not for the time being.

Business

CORPORATION TAX (CT)

A single CT rate of 20% has applied since 1 April 2015 regardless of the level of the company's profits. In the Summer 2015 budget it was announced that this would reduce to 19% in April 2017. The Chancellor has now confirmed this will be reduced to 17% from 1 April 2020.

There will be fundamental changes to the rules for setting off corporate tax losses starting on 1 April 2017. For losses incurred on or after 1 April 2017, companies will be able to use carried forward losses against profits from other income streams or from other companies within a group. However, large companies with profits in excess of £5m will only be allowed to offset brought forward losses against 50% of the amount of profit in each future period.

DIVIDENDS

It was announced in the Summer 2015 Budget that there would be a reform of the dividend allowance, and they would no longer attract a 10% notional tax credit.

From 6 April 2016 dividend income will receive a £5,000 tax free allowance and any amounts received over this will be taxed at the appropriate rate. This means that basic rate taxpayers will pay 7.5% tax on dividend income, higher rate taxpayers 32.5% and additional rate taxpayers 38.1%.

Allowance/Band	Amount/Rate
Tax free allowance	£5,000
Basic rate taxpayer	7.5%
Higher rate taxpayer	32.5%
Additional rate taxpayer	38.1%

LOANS TO PARTICIPATORS

Where a "close" company controlled by 5 or fewer shareholders (participators) makes a loan to one of those persons the company is required to pay tax to HM Revenue and Customs. The rate of tax increases from 25% to 32.5% from 6 April 2016 in line with the dividend rate for higher rate taxpayers. This tax is not payable if the loan is cleared within 9 months of the end of the accounting period and will continue to be repaid to the company if the loan is repaid or written off after the 9 month period.

CAPITAL GAINS TAX

An unexpected announcement was a reduction in the rate of capital gain tax from 6 April 2016 down from 18% to 10% for basic rate taxpayers and 28% down to 20% for higher rate taxpayers. The 18% and 28% rates remain for disposals of residential property.

There has been no change in the inheritance tax nil rate band which remains at £325,000 until 2020 although an additional nil band will be available from 6 April 2017 where the main residence or assets of an equivalent value are left to direct descendants. This additional relief will be protected where the person downsizes to a less valuable property from 8 July 2015 onwards. Please contact us if you would like to discuss inheritance tax planning.

INTEREST RELIEF RESTRICTED FOR MULTI- NATIONAL COMPANIES

From 1 April 2017, to restrict profit shifting by multi-nationals, the UK will be introducing a Fixed Ratio Rule limiting corporation tax deductions for net interest expense to 30% of a group's UK earnings before interest, tax, depreciation and amortisation (EBITDA). This is in line with the rules that exist in several other countries and will address profit-shifting through interest charges. Note that this restriction will not apply where the net UK interest expense is less than £2 million.

STAMP DUTY LAND TAX (SDLT)

The rules for calculating the SDLT charged on purchases of non-residential properties and transactions involving a mixture of residential and non-residential properties changed with effect from Budget Day to bring them more into line with the mechanism for charging SDLT on residential property.

On and after 17 March 2016, SDLT will be charged at each rate on the portion of the purchase price which falls within each rate band. The new rates and thresholds for freehold purchases and leases premiums are:

Purchase price	SDLT rate	Cumulative
Up to £150,000	Nil	£Nil
£150,001 to £250,000	2%	£2,000
£250,001 and over	5%	No maximum

As announced in the Autumn statement 2015, an additional 3% will be added to the current rate of SDLT for additional residential properties. Following consultation, there will be no exemption from the higher rates for significant investors.

Purchasers will have 36 months to claim a refund for additional SDLT if they buy a new main residence before disposing of their previous main residence.

VAT

The VAT registration limit has been increased by £1,000 to £83,000 from 1 April 2016. The de-registration limit also increased by £1,000 to £81,000.

BENEFITS IN KIND (BIK)

The additional 3% supplement on diesel cars that was intended to be abolished from 6 April 2016 will now be retained and expected to be abolished in 2021.

From 6 April 2016 the government will introduce a statutory exemption for benefits costing £50 or less. This is a welcomed exemption that will reduce needless administration.

SMALL BUSINESS RATE RELIEF (SBRR)

The government recognises that business rates represent a higher fixed cost for small businesses and have included support for these businesses. From April 2017 the government will:

- Permanently double SBRR from 50% to 100%
- Increase threshold from £12,000 to £15,000
- Increase the threshold for the standard business rates multiplier to a rateable vale of £51,000.

OFFSHORE PROPERTY DEVELOPERS

The government believes it is unfair to allow property developers to use offshore structures to avoid UK tax on their trading profits from developing property in the UK. By enforcing the international rules on the taxation of trading profits derived from property, the government will level the playing field between UK and offshore developers.

The government will introduce legislation in Finance Bill 2016 to ensure offshore structures cannot be used to avoid UK tax on profits that are generated from developing UK property.

HMRC will also create a task force to focus on offshore property developers. This task force will target offshore structures used to avoid tax on profits and rental income from property development in the UK.

TAX AVOIDANCE & EVASION

Alongside the measures above targeting multinational enterprises, the government is cracking down on all forms of tax evasion and avoidance, and aggressive tax planning and non-compliance. There should be a level playing field for the majority who pay their tax, and everyone should make their contribution.

COMPANY DISTRIBUTIONS

As announced at the Spending Review and Autumn Statement 2015, the government will amend the Transactions in Securities rules and introduce a Targeted Anti-Avoidance Rule in order to prevent opportunities for income to be converted to capital in order to gain a tax advantage. The government will respond to the consultation on company distributions in March 2016.

Personal

PERSONAL ALLOWANCE & INCOME TAX BANDS

As already announced, the basic personal allowance for 2016/17 will be £11,000. The March Budget announced that this will increase to £11,500 for 2017/18. Remember that if your adjusted net income exceeds £100,000 the personal allowance is reduced by £1 for every £2 over £100,000 giving an effective rate of 60% on income between £100,000 and £122,000 for 2016/17. Contact us for advice on planning to avoid this 60% rate.

The 20% basic rate band for 2016/17 will be £32,000 and for 2017/18 it was announced that this will be £33,500. This means that you will pay 40% tax if your taxable income exceeds £43,000 for 2016/17 and the threshold will be £45,000 for 2017/18. The 45% top rate continues to apply to taxable income over £150,000 for 2016/17.

	2015/16	2016/17	2017/18
Personal allowance	£10,600	£11,000	£11,500
Basic rate band	£31,375	£32,000	£33,500
Higher rate band	£31,375 - £150,000	£31,375 - £150,000	£31,375 - £150,000
Additional rate band	Above £150,000	Above £150,000	Above £150,000
Loss of Personal allowance	Above £100,000	Above £100,000	Above £100,000

The Chancellor has recognised self-employment is a major part of the British economy and confirmed Class 2 National Insurance will be abolished from April 2018.

FURTHER CHANGES TO ISAs

The current £15,240 ISA limit is frozen for 2016/17. The Junior ISA limit remains at £4,080 for 2016/17.

The Chancellor announced that the ISA allowance will increase to £20,000 from 6 April 2017 and that from the same date there will be a new “Lifetime ISA” account where investors aged between 18 and 40 who save up to £4,000 a year will have 25% (up to £1,000) added by the government. Those who have been saving in the new “Help to Buy” ISA will be able to transfer their savings to this new account and use the savings to help them buy their first home or use them to provide an additional pension. These may in future replace traditional pension saving schemes.

PROPERTY & TRADING INCOME ALLOWANCE

From April 2017, the government will introduce new allowances for the first £1,000 of trading income and the first £1,000 of property income. Those with income below this level will no longer need to declare or pay income tax on that income. Those with income above the allowance will also benefit by deducting the relevant allowance from their gross income. This appears to be aimed at people starting small businesses on E-Bay and renting on air B&B.

This is very useful if sharing low levels of income, as there will be an allowance per individual.

ANNUAL TAX ON ENVELOPED DWELLINGS (ATED)

As announced at Spending Review and Autumn Statement 2015, the government will extend the reliefs available from ATED and the 15% higher rate of SDLT to equity release schemes (home reversion plans), property development activities and properties occupied by employees from 1 April 2016.

FURTHER CHANGES TO CGT ENTREPRENEURS' RELIEF

Entrepreneurs' relief (ER) will be extended to external investors in unlisted trading companies. This new investors' relief will apply a 10% rate of CGT to gains accruing on the disposal of ordinary shares held by individuals. These shares must be subscribed for by the claimant and acquired for new consideration on or after 17 March 2016. The shares must have been held for a period of at least three years starting from 6 April 2016 and there will be a lifetime cap of £10 million.

In the 2014 Autumn Statement it was announced that it is no longer possible to claim CGT entrepreneurs' relief against the gains arising on the sale on or after 3 December 2014 of goodwill by a sole trader or partnership to a limited company in which they have a controlling interest. That restriction was then legislated in Finance Act 2015. It has now been announced that the relief will still be available provided that the transferor does not receive more than 5% of share capital or voting rights in the acquiring company.

Changes definition of trading company and a trading group for ER purposes. Where the new definitions apply, a fraction of the activities of the joint venture will be treated as carrying on by the company which holds shares in the joint venture, look at what the partner or company does.

PENSION ALLOWANCES REDUCED

There was much speculation about further major changes to pensions such as taxing the lump sum and limiting tax relief, but these did not materialise.

From 6 April 2016 the pension fund lifetime allowance will be reduced from £1.25million to £1million. Transitional protection for pension rights already over £1million will be introduced alongside this reduction to ensure the change is not retrospective.

As already announced, those with income in excess of £150,000 will have the normal £40,000 annual allowance reduced by £1 for every £2 over £150,000.

SAVINGS INCOME

From April 2016, a tax-free allowance of £1,000 (or £500 for higher rate taxpayers) will be introduced for the interest that people earn on savings. If they are a basic rate taxpayer and have a total income up to £43,000 a year, they will be eligible for the £1,000 tax-free savings allowance.

If they are a higher rate taxpayer and earn between £43,000 and £150,000, they will be eligible for a £500 tax-free savings allowance, but those with income in excess of £150,000 a year will be taxed in full on their interest income.

As a result of these changes banks and building societies will pay interest gross from 6 April 2016.

SMALL DONATIONS TO CHARITY

The Gift Aid Small Donations Scheme (GASDS) allows charities to treat small donations such as those in collecting boxes as if Gift Aided.

With effect from 6 April 2016 the maximum annual donation amount which can be claimed through GASDS will be increased from £5,000 to £8,000 allowing charities and Community Amateur Sports Clubs to claim Gift Aid style top-up payments of up to £2,000 a year.

TERMINATION PAYMENTS

From April 2018, employment termination payments over £30,000 liable to income tax will also be subject to employers' NICs. The government will undertake a technical consultation on tightening the scope of the exemption.

Welfare

HELP TO SAVE

Individuals in low income working households will be able to save up to £50 a month into a Help to Save account and receive a 50% government bonus after two years. Account holders can then choose to continue saving under the scheme for a further two years. The scheme will be open to all adults in receipt of Universal Credit with minimum weekly household earnings equivalent to 16 hours at the National Living Wage or those in receipt of Working Tax Credits. Accounts will be available no later than April 2018.

NATIONAL MINIMUM WAGE

National minimum wage (NMW) rates will be amended in April each year to coincide with the uprating of the national living wage, starting from April 2017. The NMW rates for workers aged up to 24 and for apprentices will increase from October 2016 in line with the recommendations of the Low Pay Commission.

THE HOUSEHOLD BENEFIT CAP

From Autumn 2016, the government will introduce exemptions for recipients of Guardians Allowance, Carer's Allowance and the carers element of Universal Credit from the household benefit cap, which caps the amount of benefits out-of-work working-age families can receive at £20,000, and at £23,000 in Greater London

SOFT DRINKS INDUSTRY LEVY

The government will introduce a new soft drinks industry levy to be paid by producers and importers of soft drinks that contain added sugar. The levy will be charged on volumes according to total sugar content, with a main rate charge for drink above 5 grams of sugar per 100 millilitres and a higher rate for drinks with more than 8 grams of sugar per 100 millilitres.

The taxes will be used to fund longer school days for those that want to offer their pupils a wider range of activities, including extra sport

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