Tax Briefing

Budget 2016

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Personal tax

Allowances
The tax-free personal allowance has been set at £11,000 for 2016-17; it will rise to £11,500 for 2017-18. The Government intends to increase the personal allowance to £12,500 by the end of the current Parliament in 2020.

The personal allowance is set at the same level for taxpayers of all ages, although higher earners have their allowance reduced by £1 for every £2 by which income exceeds £100,000. Individuals with income in excess of £122,000 for 2016-17 and £123,000 for 2017-18 won't receive a personal allowance. The abatement triggers an effective marginal tax rate of 60% between £100,000 and £122,000 for 2016-17. If you have income in that range, you could consider making pension contributions or Gift Aid donations to reduce your taxable income.

New allowances
From 6 April 2017, there will be two new allowances worth £1,000 each to cover small trading profits and income from property, respectively. The aim of these allowances is to allow people to earn relatively small amounts for occasional jobs or letting property without having to worry about submitting a tax return or paying tax on that income. It is not yet clear how these allowances will interact with rent-a-room relief which provides a £7,500 allowance in 2016-17 for income from letting part of your own home as residential accommodation.

Tax rate and thresholds
Income tax rates are becoming more complicated as various rates are payable on different types of income. In 2016-17 earnings from employment, pensions or trading are taxed at 20% (the basic rate) up to £32,000, after your personal allowance has been deducted. Taxable earnings above £32,000 and less than £150,000 are taxed at 40% (the higher rate). Taxable earnings in excess of £150,000 are taxed at 45% (the additional rate). The higher rate threshold will rise to £45,000 in 2017-18.

The first £5,000 of dividends you receive in 2016-17 are taxed at a zero rate. Any additional dividends are taxed at 7.5% when received by basic

rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

Investors who receive their income as interest, rather than as salary, dividends or profits, can take advantage of the £5,000 savings band in which interest is taxed at zero. In addition basic rate taxpayers can receive a further £1,000 of interest taxed at zero. Higher rate taxpayers can receive only £500 of interest taxed at zero. Taxpayers with income over £150,000 must pay tax at 45% on all interest they receive which is not paid out of a tax-free account such as an ISA.

Personal tax is now so complicated the amounts due can't be worked out with a pencil and paper. We can advise you about your likely tax liabilities.

Lifetime ISA

From April 2017, individuals between the ages of 18 and 40 will be able to open a Lifetime ISA (LISA) and save up to £4,000 a year. For savings made up to the age of 50, the Government will add a bonus of 25% of the amount saved. The savings and bonus can be used towards a deposit on a first home worth up to £450,000; two first-time buyers can each use their LISA when buying a home together. Alternatively, the accumulated savings can be taken out free of tax after the age of 60. Withdrawals will be possible before this age, but the bonus (together with interest and growth on this) will be lost and there will be a 5% charge.

Employees

Company car tax
The benefit in kind charge for having private use of a company car continues to increase. Figures published in the

Budget set out the charges for 2019-20, to inform employees about the future tax cost of using a company car. Even low emission cars in the 0-50g/km band will be hit with a charge of 16% of list price from that year onwards.

Zero emission vans
The tax charge for zero emission vans will remain at 20% of the standard charge for 2016-17, rather than increasing to 40% as originally planned. The standard charge for a company van is set at £3,170, meaning that the amount charged to tax on a zero emission van will now be £634. Consequently, a basic rate taxpayer will pay tax of £126.80 on a zero emission van and a higher rate taxpayer will pay £253.60.

Fair bargain rule
A benefit in kind tax charge does not generally apply to a transaction that is a 'fair bargain' between the employee and the employer; for example, where an employer provides a service to employees at the same cost and on the same terms as to the public.

The law will be clarified from 6 April 2016 to ensure that the fair bargain rule doesn't apply to benefits which are calculated using a specific set of rules, such as those for living accommodation, cars, vans and cheap loans. Instead, the benefit in kind tax charge will continue to apply and will be reduced by any payments made by the employee.

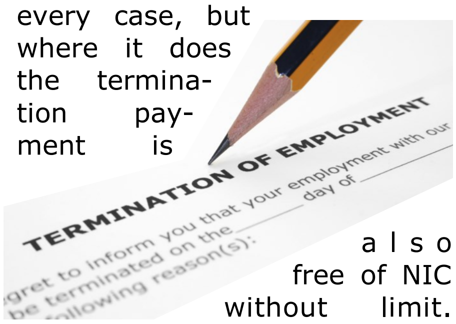
This potentially means that an employee may be in a worse position than a member of the public. The employee may suffer a benefits in kind charge on top of the market rate paid to the employer for the goods or services. However, employees who hire cars from their employer who is in the hire-car business are excluded from the application of this rule.

National insurance

Self-employed
Self-employed individuals currently pay Class 2

NIC at a flat rate of £2.80 per week and Class 4 NIC at the rate of 9% on profits over £8,060 and 2% on profits over £43,000. Class 2 NIC will be abolished from 6 April 2018, but the rates of Class 4 NIC are likely to be increased from the same date. Self-employed individuals are likely to pay greater NI contributions overall from 2018.

Termination payments
Most people are aware of the £30,000 tax exemption for payments made on the termination of an employment contract. This exemption doesn't apply in every case, but where it does the termination payment is



also free of NIC without limit. From 6 April 2018, termination payments will only be tax- and NIC-free up to £30,000, and the rules that determine which payments are tax-free will be tightened up.

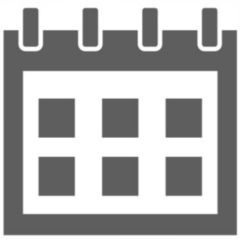
Employment allowance
The employment allowance reduces the amount of employer's NIC which is payable to HMRC. On 6 April 2016 the employment allowance increases from £2,000 to £3,000 per employer, but one-person companies who have no employees other than the single director will no longer be eligible to claim the allowance.

From April 2017 an employer will be barred from claiming the employment allowance if it has suffered a penalty for employing illegal workers.

Corporation tax

Rates
All sizes of company in the UK pay corporation tax at the main rate of 20% (except in the oil and gas sectors). The main rate will drop to 19% on 1 April 2017 and to 17% on 1 April 2020, making it the lowest rate of corporation tax amongst the G20 countries.

Payment dates
Companies with profits over £1.5 million pay corporation tax in quarterly instalments starting in the seventh month of the accounting period. Those companies or groups with profits over £20 million will see the timing of those instalments accelerated by four months, but not until 2019.



Directors' loans
When a company which is controlled by its directors, or by five or fewer shareholders, makes a loan to a director or shareholder, it must pay an extra corporation tax charge set at 25% of the loan. That corporation tax charge is only payable if the loan is outstanding nine months after the year end and it can be reclaimed from HMRC when the loan is repaid.

This corporation tax charge will rise to 32.5% for loans made on and after 6 April 2016. The change aligns the tax payable in respect of a loan from a company with the tax payable on a dividend paid to a higher rate taxpayer, although the tax on the loan can be reclaimed by the company, whereas dividend tax paid by an individual can't be reclaimed.

Losses
Companies who make losses may change their trade in order to achieve a profit. In some cases the losses made in early periods can become trapped and unusable, as tax law prevents a loss from being set against profits from a different trade.

From 1 April 2017 such restrictions on the use of losses will be lifted. A company will be able to carry forward losses to use against profits made from any activity. This is a very welcome change, particularly for small businesses with more than one activity.

Companies with profits over £5 million will be able to relieve losses against only 50% of their profits; the £5 million threshold will apply across a group of companies. Banks will be restricted to setting losses against 25% of their profits with effect from accounting periods starting on and after 1 April 2016.

VAT

Thresholds
The compulsory VAT registration threshold will rise to £83,000 on 1 April 2016, and the deregistration threshold will increase from £80,000 to £81,000.

VAT evasion
The Government is taking action to tackle unfair competition from traders based overseas who sell their goods through online marketplaces in the UK. Such traders frequently fail to add VAT to their prices even though they are required to do so if the goods are held in the UK. This means the overseas traders can undercut UK traders who apply VAT correctly.

HMRC will be given the power to require an overseas trader to appoint a tax representative in the UK. HMRC will also be able to inform online marketplaces of the traders who have not complied.

Businesses which provide warehouse facilities to overseas traders to store goods before they are sold in the UK, will be subject to additional regulation.

Capital gains

Rates
Capital gains tax is to be cut from 28% to 20% for higher rate taxpayers and from 18% to 10% for basic rate taxpayers with effect from 6 April 2016. However, gains made on buy-to-let properties and second homes will still be subject to CGT at 28% or 18%. Carried interest will also be taxed at 28%. These extra tax rates will make CGT even more complicated as any particular gain could be taxed at up to two out of four rates.

Entrepreneurs' relief
Entrepreneurs' relief (ER) is to be expanded to long term investors who hold shares in unquoted trading companies. In a departure from the current conditions for ER, the investor won't have to be an employee or officer of the company, or hold at least 5% of the share capital.

The shares must be subscribed

for on or after 17 March 2016 and held for a period of three years to the date of disposal, which cannot be before 6 April 2019. If these conditions are met the gain will be taxed at 10%, subject to a lifetime cap of £10 million on such gains. That cap will apply separately from the lifetime cap for other entrepreneurs' relief gains.

In December 2014 the use of ER on the incorporation of business was restricted. The result was that ER can't be claimed where business-related goodwill is passed to a company in which the seller or his associates hold any shares. The Government has decided to row-back slightly on that restriction, allowing ER to be claimed on the transfer of goodwill to a company, if the seller ends up with a minority share in the company of less than 5%. This change is back-dated to 3 December 2014.

Employee shareholder status

Since 1 September 2013 employees have been able to surrender a collection of employment rights in return for free shares in their employing company. These are known as employee shareholder status shares (ESS).

When an employee disposes of the ESS shares, no CGT was payable on the gain, where the initial value of the ESS shares was no more than £50,000. From 17 March 2016 the tax free gain on the disposal of ESS shares will be limited to £100,000 per person for life. This change will limit the use of ESS shares by entrepreneurs who want to lock-in a tax-free gain to shares held in their own companies.

Property

SDLT – commercial

Stamp duty land tax (SDLT) was reformed for residential property purchases from 4 December 2014, this month it was the turn of SDLT on commercial properties to be shaken up. For property deals completed before 17 March 2016, SDLT is charged at a single rate on the whole price paid for the property, under the so-called 'slab' system. For property completions on and after 17 March 2016 the SDLT charge will be calculated according to the value falling within each of these bands:

Transaction value	Rate of SDLT
Up to £150,000	0%
£150,001 – 250,000	2%
Over £250,000	5%

Where the property is leasehold, SDLT is calculated on the basis of the net present value of the rents. The new bands and rates are:

Net present value of rent	Rate of SDLT
Up to £150,000	0%
£150,001 – £5,000,000	1%
Over £5,000,000	2%

Purchasers who exchanged contracts before 17 March 2016 but complete the deal after that date will have a choice whether they pay SDLT on a purchase of a commercial property under the new or the old rules.

These changes to SDLT don't apply to properties in Scotland where Land and Buildings Transaction Tax (LBTT) is set by the Scottish Government.

Business rates

Businesses who trade out of modest premises will pay zero business rates from 1 April 2017, as properties with rateable value (RV) of £12,000 or less will qualify for 100% small business rate relief (SBRR). Where the RV is over £12,000 but no more than £15,000 a tapered SBRR will apply. The small business rate (48.4p for 2016-17) will apply where the RV is no more than £51,000.

The Government is also consulting on how to make business rate valuations at three yearly intervals instead of the current five year period.