THE BUDGET 2016

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ACCOUNTANTS

George Osborne presented the first Spring Budget of this Parliament on Wednesday 16 March 2016.

In his speech the Chancellor reported on 'an economy set to grow faster than any other major advanced economy in the world'.

Towards the end of last year the government issued the majority of the clauses, in draft, of Finance Bill 2016 together with updates on consultations. Publication of draft Finance Bill clauses is now an established way in which tax policy is developed, communicated and legislated.

The Budget updates some of these previous announcements and also proposes further measures. Some of these changes apply immediately, others in April 2016 and some take effect at a later date.

Our summary focuses on the issues likely to affect you, your family and your business. To help you decipher what was said we have included our own comments. If you have any questions please do not hesitate to contact us for advice.

Main Budget tax proposals

Our summary concentrates on the tax measures which include:

- reductions in the rates of capital gains tax
- introduction of a Lifetime ISA for under 40s
- changes to Entrepreneurs' Relief
- abolition of Class 2 NIC
- reduction in the corporation tax rate
- reforms to corporate tax losses.

The Budget proposals may be subject to amendment in a Finance Act. You should contact us before taking any action as a result of the contents of this summary.

Contents

Personal Tax

The personal allowance

For those born after 5 April 1938 the personal allowance is currently £10,600. Those born before 6 April 1938 have a slightly higher allowance. Legislation has already been enacted to increase the personal allowance to £11,000 in 2016/17. From 2016/17 onwards one personal allowance will apply regardless of age.

Comment

Not everyone has the benefit of the full personal allowance. There is a reduction in the personal allowance for those with 'adjusted net income' over £100,000 which is £1 for every £2 of income above £100,000. So for 2015/16 there is no personal allowance where adjusted net income exceeds £121,200 (£122,000 for 2016/17).

Tax bands and rates

The basic rate of tax is currently 20%. The band of income taxable at this rate is £31,785 so that the threshold at which the 40% band applies is £42,385 for those who are entitled to the full basic personal allowance.

Legislation has already been enacted to increase the basic rate limit to £32,000 for 2016/17. The higher rate threshold will therefore rise to £43,000 in 2016/17 for those entitled to the full personal allowance.

The additional rate of tax of 45% remains payable on taxable income above £150,000.

Tax bands and personal allowance for 2017/18

The Chancellor has announced that the personal allowance will be increased to £11,500 and the basic rate limit increased to £33,500 for 2017/18. The higher rate threshold will therefore rise to £45,000 for those entitled to the full personal allowance.

Tax bands and rates - dividends

Currently, when a dividend is paid to an individual, it is subject to different tax rates compared to other income due to a 10% notional tax credit being added to the dividend. So for an individual who has dividend income which falls into the basic rate band the effective tax rate is nil as the 10% tax credit covers the 10% tax liability. For higher rate and additional rate taxpayers, the effective tax rates on a dividend receipt are 25% and 30.6% respectively.

To determine which tax band dividends fall into, dividends are treated as the last type of income to be taxed.

From 6 April 2016:

- the 10% dividend tax credit is abolished with the result that the cash dividend received will be the gross amount potentially subject to tax
- a new Dividend Tax Allowance charges the first £5,000 of dividends received in a tax year at 0%

- for dividends above £5,000, new rates of tax on dividend income will be 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

Comment

Many individuals do not have £5,000 of dividend income so are potential winners in the new regime. The removal of any tax on dividends up to £5,000 increases the attractiveness of holding some investments which provide dividend returns rather than interest receipts. Use can then also be made of the CGT annual exemption by selective selling of investments.

Basic rate taxpayers in particular need to appreciate that all dividends received still form part of the total income of an individual. If dividends above £5,000 are received, the first £5,000 will use up some or all of any basic rate band available. The element of dividends above £5,000 which are taxable may well therefore be taxed at 32.5%.

Tax on savings income

Savings income is income such as bank and building society interest. In 2015/16 some individuals qualify for a 0% starting rate of tax on savings income up to £5,000. However, the rate is not available if taxable non-savings income (broadly earnings, pensions, trading profits and property income) exceeds the starting rate limit.

The starting rate limit remains at £5,000 for 2016/17.

In addition, from 2016/17 the Savings Allowance (SA) will apply to savings income. Income within the SA will be taxed at a new 0% rate (the 'savings nil rate'). However, the available SA in a tax year will depend on the individual's marginal rate of income tax. Individuals taxed at up to the basic rate of tax will have an SA of £1,000.

For higher rate taxpayers, the SA will be £500 whilst no SA is due to additional rate taxpayers.

Alongside the introduction of the SA, banks and building societies will cease to deduct tax from account interest they pay to customers.

Comment

The new SA will exempt from tax interest receipts for many taxpayers. The government anticipates that around 95% of taxpayers will not have any tax to pay on their savings income. However, the allowance works in a complex way. For example, a taxpayer whose total non-savings income is near to £43,000 in 2016/17 (the point from which higher rate taxes are payable) needs to be aware that savings income is still added to other income to determine whether the SA is £1,000 or £500.

Individual Savings Accounts (ISAs)

The overall ISA savings limit is £15,240 for 2015/16 and will remain at this figure for 2016/17.

Two changes are proposed with effect from 6 April 2016. The following changes will be made to the existing ISA Regulations:

- Savers will be allowed to replace cash they have withdrawn from their account earlier in a tax year, without this replacement counting towards the annual ISA limit for that year. This flexibility will be available in relation to both current year and earlier years' ISA savings where provided for in the terms and conditions of a 'flexible ISA'.
- A third ISA, the Innovative Finance ISA, is being introduced for loans arranged via a peer to peer (P2P) platform.

The total an individual can save each year into all ISAs will be increased from £15,240 to £20,000 from April 2017.

Lifetime ISA

A new Lifetime ISA will be available from April 2017 for adults under the age of 40. Individuals will be able to contribute up to £4,000 per year and receive a 25% bonus from the government. Funds, including the government bonus, can be used to buy a first home at any time from 12 months after opening the account, and can be withdrawn from age 60 completely tax-free.

Further details of the new account, which will be available from 2017, are as follows:

- Any savings an individual puts into the account before their 50th birthday will receive an added 25% bonus from the government.
- There is no maximum monthly contribution and up to £4,000 a year can be saved into a Lifetime ISA.
- The savings and bonus can be used towards a deposit on a first home worth up to £450,000 across the country.
- Accounts are limited to one per person rather than one per home, so two first time buyers can both receive a bonus when buying together.
- Where an individual already has a Help to Buy ISA they will be able to transfer those savings into the Lifetime ISA in 2017, or continue saving into both. However only the bonus from one account can be used to buy a house.
- Where the funds are withdrawn at any time before the account holder is aged 60 they will lose the government bonus (and any interest or growth on this) and will also have to pay a 5% charge.
- After the account holder's 60th birthday they will be able to take all the savings tax-free.

Comment

The new Lifetime ISA is designed to allow flexible saving for first time buyers and those wishing to save for their retirement. The Chancellor said in his speech:

'My pension reforms have always been about giving people more freedom and more choice.

So faced with the truth that young people aren't saving enough, I am today providing a different answer to the same problem.'

Help to Save

The government has announced the introduction of a new type of savings account aimed at low income working households.

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.

Pensions consultation and reform

The government consultation 'Strengthening the incentive to save' looked at the way pensions are taxed. The consultation found that while the current system gives everyone an incentive to save into a pension, and people like the 25% tax free lump sum, it is also inflexible and poorly understood. Young people in particular are not saving enough, often because they feel they have to choose between saving for their first home and saving for retirement.

Comment

The Chancellor said in his speech:

'Over the past year we've consulted widely on whether we should make compulsory changes to the pension tax system. But it was clear there is no consensus.'

The Chancellor is introducing the Lifetime ISA as a vehicle for younger people to save.

Pensions advice

The Financial Advice Market Review (FAMR) aims to support the provision of affordable and accessible advice. FAMR was a joint review between the Financial Conduct Authority and Her Majesty's Treasury, and its recommendations were published on 14 March 2016.

The government commits to implement all of the recommendations for which it is responsible, and will:

- Consult on introducing a single clear definition of financial advice to remove regulatory uncertainty and ensure that firms can offer consumers the help they need.
- Increase the existing £150 Income Tax and National Insurance relief for employer arranged pension advice to £500. The new exemption will ensure that the first £500 of any advice received is eligible for the relief. It will be available from April 2017.
- Consult on introducing a Pensions Advice Allowance. This will allow people before the age of 55 to withdraw up to £500 tax free from their defined contribution pension to redeem against the cost of financial advice. The exact age at which people can do this will be determined through consultation. This means that a basic rate taxpayer could save £100 on the cost of financial advice.

The government will also restructure the delivery of public financial guidance to make it more effective.

Phased rollout of Tax-Free Childcare

The government has announced it will introduce Tax-Free Childcare in early 2017. Tax-Free Childcare will be gradually rolled out to children under 12 with the parents of the youngest children being able to enter the scheme first. The scheme will be open to all eligible parents by the end of 2017.

The existing scheme, Employer-Supported Childcare, will remain open to new entrants until April 2018 to support the transition between the schemes.

Business Tax

Corporation tax rates

The main rate of corporation tax is currently 20% and this rate will continue for the Financial Year beginning on 1 April 2016. The main rate of corporation tax will then be reduced as follows:

- 19% for the Financial Years beginning on 1 April 2017, 1 April 2018 and 1 April 2019
- 17% for the Financial Year beginning on 1 April 2020.

Corporate tax loss relief

The government will introduce two reforms to corporate tax losses from April 2017. First, losses arising on or after 1 April 2017 will be useable, when carried forward, against profits from other income streams or other companies within a group. Second, from 1 April 2017, companies will only be able to use losses carried forward against up to 50% of their profits above £5 million. For groups, the £5 million allowance will apply to the group.

Capital allowances on business cars

The current 100% first year allowance (FYA) on businesses purchasing low emission cars will be extended to April 2021. A low emission car is one where the CO_2 emissions do not exceed 75 gm/km and this threshold will fall to 50 gm/km from April 2018. In addition, the CO_2 emission threshold for the main rate of capital allowances for business cars will reduce from 130 gm/km to 110 gm/km from April 2018.

Corporation tax payment dates

At the Summer Budget 2015, the government announced it would bring forward corporation tax payment dates for companies with taxable profits over £20 million. This measure has been deferred by two years and will now apply to accounting periods starting on or after 1 April 2019.

Loans to participators

The 25% rate of tax charged on loans to participators and other arrangements by close companies will increase to 32.5%. This applies to loans made and benefits conferred on or after 6 April 2016. This increased rate mirrors the dividend upper rate. The government has noted that this will prevent individuals gaining a tax advantage by taking loans or making other arrangements to extract value from their company rather than remuneration or dividends.

Enterprise Zones - enhanced capital allowances

This measure extends the period in which businesses investing in new plant and machinery in ECA sites in Enterprise Zones can qualify for 100% capital allowances to eight years.

Removal of statutory renewals allowance

The government will withdraw the statutory renewals allowance, which provides businesses with tax relief for the cost of replacing tools. The changes ensure that tax relief for expenditure incurred on the replacement of tools will be obtained under the same rules as those which apply to other capital equipment. Businesses will be able to claim tax relief under the normal capital allowance regime or, in the case of residential landlords, for the cost of replacing domestic items such as furnishings and appliances. The withdrawal will come into effect for expenditure on or after 6 April 2016 for income tax purposes and from 1 April 2016 for corporation tax.

Company distributions

Legislation will be introduced with effect from 6 April 2016 to:

- amend the Transactions in Securities legislation, which is designed to prevent tax advantages in certain circumstances. The amendments, for example, include liquidations as potentially coming within the scope of the legislation
- introduce a new Targeted Anti-Avoidance Rule, which would prevent some distributions in a liquidation being taxed as capital, where certain conditions are met and there is an intention to gain a tax advantage.

Comment

In some situations shareholders of close companies can receive a payment from the company which is taxed as a capital gain instead of as dividend income. If Entrepreneurs' Relief is available the gain will be subject to only 10% tax. The government is concerned that the new dividend tax rates introduced from 6 April 2016 will encourage shareholders to convert to capital what might otherwise be taxed as income.

Abolition of Class 2 National Insurance Contributions (NIC)

The government will abolish Class 2 NIC from April 2018. The government will publish its response to the recent consultation on state benefit entitlement for the self-employed in due course. This will set out details of how the self-employed will access contributory benefits after Class 2 is abolished.

Property and trading income allowances

From April 2017, the government will introduce a new £1,000 allowance for property and trading income. Individuals with property or trading income below £1,000 will no longer need to declare or pay tax on that income. Those with income above the allowance will be able to calculate their taxable profit either by deducting their expenses in the normal way or by simply deducting the relevant allowance.

Making tax digital

From 2018 businesses, self-employed people and landlords who are keeping records digitally and providing regular digital updates to HMRC will be able to adopt pay-as-you-go tax payments. This will enable them to choose payment patterns that suit them and better manage their cash flow.

Reform of Substantial Shareholding Exemption (SSE)

SSE means that capital gains on corporate share disposals are not subject to UK corporation tax where certain conditions are satisfied. It was introduced in 2002 and was designed to ensure that tax does not act as a disincentive to commercially desirable business sales or group restructuring. There have been significant developments in the UK and international corporate tax landscape since the SSE was first introduced. The government will therefore consult on the extent to which the SSE is still delivering on its original policy objective and whether there could be changes to its detailed design in order to increase its simplicity, coherence and international competitiveness.

Petroleum Revenue Tax (PRT)

The rate of PRT will be permanently reduced to zero for all chargeable periods ending after 31 December 2015.

Anti-avoidance

The government will change the deduction of tax at source regime to bring all international royalty payments arising in the UK within the charge to income tax, unless those taxing rights have been given up under a double taxation agreement or the EU Interest and Royalties Directive.

Employment Taxes

NIC for apprentices under 25

From 6 April 2016 employer NICs are 0% for apprentices under 25 who earn less than the upper secondary threshold (UST) which is £827 per week (£43,000 per annum). Employers are liable to 13.8% NIC on pay above the UST. Employee NICs are payable as normal.

An apprentice needs to:

- be working towards a government recognised apprenticeship in the UK which follows a government approved framework/standard
- have a written agreement, giving the government recognised apprentice framework or standard, with a start and expected completion date.

Employers need to identify relevant apprentices and generally assign them NIC category letter H to ensure the correct NICs are collected.

Comment

The proposals exclude apprenticeships which do not follow government approved frameworks, also known as common law apprenticeships. A similar 0% rate of employer NIC already applies for employees under the age of 21.

Employee benefits and expenses changes from 6 April 2016

From 6 April 2016 a number of changes are introduced relating to the tax treatment of employee benefits in kind and expenses:

- There will be a statutory exemption for certain expenses, such as travelling and subsistence expenses, reimbursed to an employee. This will replace the current system where employers have to apply for a dispensation to avoid having to report non-taxable expenses (on forms P11D).
- Employers will be able to include taxable benefits in pay and thus account for PAYE on the benefits. However, in order to payroll benefits for 2016/17, employers will have to register with HMRC for the service before the start of the new tax year. Employers will then not have to include these payrolled benefits on forms P11D.
- The £8,500 threshold below which employees do not pay income tax on certain benefits in kind will be removed. There will be new exemptions for carers and ministers of religion.

Comment

The statutory exemption for reimbursed expenses will mean that all employees will automatically get the tax relief they are due on qualifying expenses payments.

Another option is introduced which allows amounts based on scale rates to be paid or reimbursed, instead of the employee's actual costs. The rates that can be used are either HMRC approved figures or figures specifically agreed with HMRC in writing.

The approved figures only cover meals purchased by an employee in the course of business travel.

Simplification of the administration of tax on employee benefits and expenses

The government will introduce a package of measures to further simplify the tax administration of employee benefits and expenses by:

- extending the voluntary payrolling framework to allow employers to account for tax on non-cash vouchers and credit tokens in real time from April 2017

- consulting on proposals to simplify the process for applying for and agreeing PAYE Settlement Agreements

- consulting on proposals to align the dates by which an employee has to make a payment to their employer in return for a benefit-in-kind they receive to 'make good'

- legislating to ensure that if there is a specific statutory provision for calculating the tax charge on a benefit in kind, this must be used.

Employer provided cars

The scale of charges for working out the taxable benefit for an employee who has use of an employer provided car are now announced well in advance. Most cars are taxed by reference to bands of CO_2 emissions. There is a 3% diesel supplement. The maximum charge is capped at 37% of the list price of the car.

From 6 April 2016 there will be a 2% increase in the percentage applied by each band with similar increases in 2017/18 and 2018/19. For 2019/20 the rate will increase by a further 3%.

From 6 April 2017 the appropriate percentage for cars which have neither a CO_2 emissions figure nor an engine cylinder capacity, and which cannot produce CO_2 emissions in any circumstances by being driven, will be set at 9%. From 6 April 2018 this will be increased to 13%, and from 6 April 2019 to 16%.

Van benefit charge for zero emissions vans

The van benefit charge for 2015/16 is £3,150 increasing to £3,170 in 2016/17.

The government will extend van benefit charge support for zero-emission vans so that from 6 April 2016 the charge will be 20% of the main rate in 2016/17 and 2017/18, and will then increase on a tapered basis to 5 April 2022. The government will review the impact of this incentive at Budget 2018 together with enhanced capital allowances for zero-emission vans.

Taxation of termination payments

From April 2018 the government will tighten the scope of the income tax exemption for termination payments to prevent manipulation.

Termination payments over £30,000 which are subject to income tax will also be subject to employer NIC. The government will undertake a technical consultation on tightening the scope of the exemption.

Travel and subsistence expenses rules

In September 2015 the government published a discussion document aimed at modernising the tax rules for travel and subsistence (T&S). The government has analysed responses and concluded that, although complex in parts, the current T&S rules are generally well understood and work effectively for the majority of employees and has decided not to make further changes to the T&S rules at this time.

Employment intermediaries and relief for travel and subsistence

As announced at March Budget 2015, the government will introduce legislation in Finance Bill 2016 to restrict tax relief for home to work travel and subsistence expenses for workers engaged through an employment intermediary. This will bring the rules into line with those that apply to employees.

Simplifying the NIC rules

The government will commission the Office of Tax Simplification to review the impact of moving employee NIC to an annual, cumulative and aggregated basis and moving employer NIC to a payroll basis.

Disguised remuneration schemes

The government will introduce a package of measures to tackle the current and historic use of disguised remuneration schemes, which are used to avoid income tax and NIC. Legislation will be included in Finance Bill 2016 which will prevent a relief in the existing legislation from applying where it is used as part of a tax avoidance scheme from Budget Day.

The government will hold a technical consultation on further changes to the legislation which will be included in a future Finance Bill. This will include a new charge on loans paid through disguised remuneration schemes which have not been taxed and are still outstanding on 5 April 2019.

Employee share schemes: simplification of the rules

The government will make a number of technical changes to simplify the tax-advantaged and non-tax-advantaged employee share scheme rules.

Employment Allowance

The NIC Employment Allowance was introduced from 6 April 2014. It is an annual allowance which is available to many employers and can be offset against their employer NIC liability.

From April 2016, the government will increase the NIC Employment Allowance from £2,000 to £3,000 a year. The increase will mean that businesses will be able to employ four workers full time on the new National Living Wage without paying any NIC.

To ensure that the NIC Employment Allowance is focussed on businesses and charities that support employment, from April 2016 companies where the director is the sole employee will no longer be able to claim the Employment Allowance.

Employers who hire an illegal worker face civil penalties from the Home Office. The government will build on this deterrent by removing a year's Employment Allowance from those receiving civil penalties, starting in 2018.

Salary sacrifice

The government is considering limiting the range of benefits that attract income tax and NIC advantages when provided as part of salary sacrifice schemes. However, the government's intention is that pension saving, childcare, and health-related benefits such as Cycle to Work should continue to benefit from income tax and NIC relief when provided through salary sacrifice arrangements.

Off-payroll working in the public sector

From April 2017 the government will make public sector bodies and agencies responsible for operating the tax rules that apply to off-payroll working through limited companies in the public sector. The rules will remain unchanged for those working in the private sector. Liability to pay the correct employment taxes will move from the worker's own company to the public sector body or agency/third party paying the company.

The government will consult on a clearer and simpler set of tests and online tools.

Capital Taxes

Capital gains tax (CGT) rates

The current rates of CGT are 18% to the extent that any income tax basic rate band is available and 28% thereafter. The government is to reduce the higher rate of CGT from 28% to 20% and the basic rate from 18% to 10%. The trust CGT rate will also reduce from 28% to 20%. The 28% and 18% rates will continue to apply for carried interest and for chargeable gains on residential property that do not qualify for private residence relief. In addition, the 28% rate still applies for ATED related chargeable gains accruing to any person (principally companies). These changes will take effect for disposals made on or after 6 April 2016.

The rate for disposals qualifying for Entrepreneurs' Relief (ER) remains at 10% with a lifetime limit of £10 million for each individual.

Example 2016/17

Annie, a higher rate taxpayer, has the following chargeable gains after the annual exemption:

- Gains eligible for ER £100,000
- A residential property gain £30,000
- Other gains £10,000

The ER gain is taxable at 10%. The residential property gain will be taxed at 28% and other gains at 20%.

Goodwill on Incorporation and ER

New rules were introduced from 3 December 2014 which prevent individuals from claiming ER on disposals of goodwill when they transfer their business to a related company in which they, or a member of their family, held any shares whatsoever. This means that CGT became payable on the gain at the normal rates of 18% or 28% rather than 10%.

Revised legislation will be introduced in Finance Bill 2016 to allow ER to be claimed in respect of gains on goodwill where the individual holds less than 5% of the shares, and less than 5% of the voting power, in the acquiring company.

Relief will also be due where an individual holds 5% or more of the shares or voting power if the transfer of the business to the company is part of arrangements for the company to be sold to a new, independent owner.

This measure will have backdated effect and will therefore apply to disposals on or after 3 December 2014.

Associated disposals and ER

New rules were introduced in 2015 which were aimed at combatting abuse of ER. Whilst preventing the abuse, those rules also resulted in relief not being due on 'associated disposals' when a business was sold to members of the claimant's family under normal succession arrangements.

Certain revisions are to be made so that ER will be allowed on a disposal of a privately-held asset when the accompanying disposal of business assets is to a family member.

In addition, under the 2015 rules an associated disposal can only qualify for ER if there is also a material disposal of 5% or more of the claimant's share in a partnership or holding in a company. Under the proposals this is not to apply where the claimant disposes of the whole of his interest and has previously held a larger stake.

These changes will have a backdated effect for associated disposals made on or after 18 March 2015.

Joint ventures, partnerships and ER

Changes introduced in 2015 to combat abuse of ER also resulted in relief not being due to investors in some types of genuine commercial structures where tax avoidance was not a main motive. Those affected were companies with shares in joint venture companies and corporate partners with shares in trading companies because their investments were reclassified as non-trading activities. ER is only available to companies or partnerships which are predominantly trading so ER status was lost in a number of cases.

To enable genuine commercial structures to qualify for ER, this measure changes the definitions of a 'trading company' and a 'trading group' which apply for ER. Where the new definitions apply, a company which holds shares in a joint venture company will be treated as carrying on a proportion of the activities of that company corresponding to the investing company's fractional shareholding in it. Also, the activities of a corporate partner in a firm will be treated as having their true nature (trading or non-trading) when determining whether the company is a trading company.

It will also be a requirement that the person making the disposal on which relief is claimed has at least a 5% interest in the shares of the joint venture company, and effectively controls at least 5% of the voting rights in that company. Where a partnership with a corporate partner is concerned, the person making the disposal must be entitled to at least 5% of the partnership's assets and profits, and control at least 5% of the voting rights in the corporate partner.

The new definitions mean that, in some cases, whether a company is a trading company or the holding company of a trading group will depend on the size of the claimant's shareholding in the company.

External investors and ER

ER will be extended to external investors (other than employees or officers of the company) in unlisted trading companies. To qualify for the 10% CGT rate under 'investors' relief' the following conditions will apply:

- shares must be newly issued and subscribed for by the individual for new consideration
- be in an unlisted trading company, or an unlisted holding company of a trading group
- have been issued by the company on or after 17 March 2016 and have been held for a period of three years from 6 April 2016
- have been held continuously for a period of three years before disposal.

An individual's qualifying gains for investors' relief will be subject to a lifetime cap of £10 million.

Capital gains and employee shareholder agreements

The 'employee shareholder' was a new employment status made available from 1 September 2013. Employee shareholders who agreed to give up certain statutory employment rights received in exchange at least £2,000 of shares in their employer or parent company free of income tax and national insurance. Qualifying conditions do apply.

Any eventual gains on shares received with an original value of up to £50,000 are CGT free. However, a lifetime limit of £100,000 on the CGT exempt gains is introduced on disposals under Employee Shareholder Agreements entered into after 16 March 2016.

Other Matters

Stamp Duty Land Tax (SDLT) and Land and Buildings Transaction Tax (LBTT)

The Chancellor announced in the Autumn Statement that new rates of SDLT on purchases of additional residential properties would apply from 1 April 2016. Similar legislation was introduced in the Scottish Parliament for LBTT which applies to property transactions in Scotland. The LBTT legislation has now been enacted.

The new rates will be three percentage points above the current SDLT and LBTT rates. The higher rates will potentially apply if, at the end of the day of the purchase transaction, the individual owns two or more residential properties.

The SDLT proposals were subject to a consultation. The government has now announced:

- purchasers will have 36 months rather than 18 months to claim a refund of the higher rates if they buy a new main residence before disposing of their previous main residence
- purchasers will also have 36 months between selling a main residence and replacing it with another main residence without having to pay the higher rates
- a small share in a property which has been inherited within the 36 months prior to a transaction will not be considered as an additional property when applying the higher rates
- there will be no exemption from the higher rates for significant investors.

Comment

The main target of the higher rates is purchases of buy to let properties or second homes. However, there will be some purchasers who will have to pay the additional charge even though the property purchased will not be a buy to let or a second home. The proposed 36 month rules above will help to remove some transactions from the additional rates (or allow a refund). Care will be needed if an individual already owns, or partly owns, a property and transacts to purchase another property without having disposed of the first property.

LBTT has been enacted with the 18 month periods rather than 36 months.

SDLT on non-residential property

The government will change the calculation of SDLT on freehold and leasehold premium non-residential transactions, on and after 17 March 2016, so the rates apply to the portion of the purchase price within each band. The SDLT rates and thresholds for non-residential freehold and leasehold premiums will also change from the same date.

For new leasehold transactions, SDLT is already charged at each rate on the portion of the net present value (NPV) of the rent which falls within each band. On and after 17 March 2016 a new 2% rate for rent paid under a non-residential lease will be introduced where the NPV of the rent is above £5 million.

Comment

The LBTT on non-residential properties in Scotland is already based on a similar system to that proposed for SDLT.

VAT: overseas businesses and online marketplaces

Changes will be made to the existing rules which allow HMRC to direct an overseas business to appoint a VAT representative with joint and several liability. A new provision will then enable HMRC to hold an online marketplace jointly and severally liable for the unpaid VAT of an overseas business that sells goods in the UK via that online marketplace.

The measure will have effect from Royal Assent to Finance Bill 2016.

Comment

The objective of this measure is to give HMRC strengthened operational powers to tackle the non-compliance from some overseas businesses that avoid paying UK VAT on sales of goods made to UK consumers via online marketplaces. It is directed at getting overseas businesses, that are or should be VAT registered in the UK, paying VAT due either directly or through a VAT representative.

Business rates

Business rates have been devolved to Scotland, Northern Ireland and Wales. The Chancellor has announced cuts on business rates for half of all properties in England from 1 April 2017. In particular the government proposes to:

- Permanently double Small Business Rate Relief (SBRR) from 50% to 100% and increase the thresholds to benefit a greater number of businesses. Businesses with a property with a rateable value of £12,000 and below will receive 100% relief.
- Increase the threshold for the standard business rates multiplier to a rateable value of £51,000, taking 250,000 smaller properties out of the higher rate.

Insurance Premium Tax

The standard rate of IPT will be increased from 9.5% to 10% with effect from 1 October 2016.

General Anti-Abuse Rule (GAAR)

The government will legislate to introduce a new penalty of 60% of tax due to be charged in all cases successfully tackled by the GAAR. Small changes to the GAAR procedure will be made to improve its ability to tackle marketed avoidance schemes.

New 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. There will be an exclusion for small operators.

It is proposed to introduce the measure from April 2018.

Rates and Allowances 2016/17

INCOME TAX RATES

2016/17 Band £	Rate %	2015/16 Band £	Rate %
0 - 5,000	0*	0 - 5,000	0*
0 - 32,000	20**	0 - 31,785	20**
32,001 - 150,000	40♦	31,786 - 150,000	40♦
Over 150,000	45•	Over 150,000	45•

*Only applicable to savings income. The rate is not available if taxable non-savings income exceeds £5,000. For 2016/17, £1,000 of savings income for basic rate taxpayers (£500 for higher rate) may be tax free.

**Except dividends 7.5% (0%). ♦ Except dividends 32.5% (25%). • Except dividends 38.1% (30.6%). Other income taxed first, then savings income and finally dividends. For 2016/17 the first £5,000 of dividends are tax free.

INCOME TAX RELIEFS

		2016/17	2015/16
Personal allowance	- born after 5 April 1938	£11,000**	£10,600**
	- born before 6 April 1938*	£11,000**	£10,660**

(Reduce personal allowance by £1 for every £2 of adjusted net income over £100,000.) **£1,100 (£1,060) may be transferable between certain spouses where neither pay tax above the basic rate.

	2016/17	2015/16
Married couple's allowance (relief at 10%)*	£8,355	£8,355
(Either partner 75 or over and born before 6 April 1935.)		
- min. amount	£3,220	£3,220
*Age allowance income limit	£27,700	£27,700
(Reduce age allowance by £1 for every £2 of adjusted net income over £27,700.)		
Blind person's allowance	£2,290	£2,290

PENSION PREMIUMS

2016/17 and 2015/16

Tax relief available for personal contributions: higher of £3,600 (gross) or 100% of relevant earnings (max. £40,000). Any contributions in excess of £40,000, whether personal or by the employer, may be subject to income tax on the individual.

The limit may be reduced to £10,000 once money purchase pensions are accessed.

Where the £40,000 limit is not fully used it may be possible to carry the unused amount forward for three years.

Employers will obtain tax relief on employer contributions if they are paid and made 'wholly and exclusively'. Tax relief for large contributions may be spread over several years.

INDIVIDUAL SAVINGS ACCOUNTS

	2016/17 and 2015/16
Overall investment limit	£15,240
Junior account limit	£4,080

VALUE ADDED TAX

Standard rate	20%
Reduced rate	5%
Annual Registration Limit-from 1.4.16 (1.4.15 - 31.3.16 £82,000)	£83,000
Annual Deregistration Limit-from 1.4.16 (1.4.15 - 31.3.16 £80,000)	£81,000

CAR, VAN AND FUEL BENEFITS

CO_2 emissions (gm/km) (round down to nearest 5gm/km)	% of car's list price taxed
0-50*	7
51-75*	11
76-94*	15
95	16
100	17
105	18
110	19
115	20
120	21
125	22
130	23
135	24
140	25
145	26
150	27
155	28
160	29
165	30
170	31
175	32
180	33
185	34
190	35
195	36
200 and above	37

2016/17

Company cars

For diesel cars add a 3% supplement but maximum still 37%.

For cars registered before 1 January 1998 the charge is based on engine size.

The list price includes accessories and is not subject to an upper limit.

The list price is reduced for capital contributions made by the employee up to £5,000.

Special rules may apply to cars provided for disabled employees.

*Rounding down to the nearest 5gm/km does not apply.

Car fuel benefit 2016/17

£22,200 x 'appropriate percentage'*

*Percentage used to calculate the taxable benefit of the car for which the fuel is provided.
The charge does not apply to certain environmentally friendly cars.
The charge is proportionately reduced if provision of private fuel ceases part way through the year. The fuel benefit is reduced to nil only if the employee pays for all private fuel.

Van benefit per vehicle 2016/17

Van benefit £3,170	Fuel benefit £598

The charges do not apply to vans if a 'restricted private use condition' is met throughout the year.
A reduced charge may be due if the van cannot in any circumstances emit CO_2 by being driven.

MILEAGE ALLOWANCE PAYMENTS

2016/17 and 2015/16

Cars and vans	Rate per mile
Up to 10,000 miles	45p
Over 10,000 miles	25p
Bicycles	20p
Motorcycles	24p

These rates represent the maximum tax free mileage allowances for employees using their own vehicles for business. Any excess is taxable. If the employee receives less than the statutory rate, tax relief can be claimed on the difference.

CAPITAL GAINS TAX

	2016/17** £	2015/16 £
Individuals		
Exemption	11,100	11,100
Standard rate	10%	18%
Higher rate*	20%	28%
Trusts		
Exemption	5,550	5,550
Rate	20%	28%

*For higher and additional rate taxpayers.
**Higher rates may apply to the disposal of certain residential property.

Entrepreneurs' Relief

The first £10m of qualifying gains are charged at 10%. Gains in excess of the limit are charged at the rates detailed above.

STATUTORY PAY RATES

Weekly benefit		2016/17	2015/16
Basic retirement pension	- single person	£119.30	£115.95
	- married couple	£190.80	£185.45
New state pension		£155.65	-

Statutory pay rates - average weekly earnings £112 or over

		2016/17	2015/16
Statutory Sick Pay		£88.45	£88.45
Statutory Maternity and Adoption Pay	- First six weeks	90% of weekly earnings	
	- Next 33 weeks	£139.58*	£139.58*
Statutory Paternity Pay	- two weeks	£139.58*	£139.58*

*Or 90% of weekly earnings if lower.

CAPITAL ALLOWANCES

Plant and machinery - Annual Investment Allowance (AIA)

The AIA gives a 100% write-off on most types of plant and machinery costs, including integral features and long life assets but not cars, of up to £200,000 p.a. for expenditure incurred on or after 1 January 2016. The previous rate was £500,000 p.a. Special rules apply to accounting periods straddling this date.

Any costs over the AIA fall into the normal capital allowance pools below. The AIA may need to be shared between certain businesses under common ownership.

Other plant and machinery allowances

The annual rate of allowance is 18%. An 8% rate applies to expenditure incurred on integral features and on long life assets.

A 100% first year allowance may be available on certain energy efficient plant and cars, including expenditure incurred on new and unused zero emission goods vehicles.

Cars

For expenditure incurred on cars, costs are generally allocated to one of the two plant and machinery pools. Cars with CO_2 emissions not exceeding 130gm/km receive an 18% allowance p.a. Cars with CO_2 emissions over 130gm/km receive an 8% allowance p.a.

NATIONAL INSURANCE

2016/17 Class 1 (employed) rates

Employee: Earnings per week	%	Employer**: Earnings per week**	%
Up to £155	Nil*	Up to £156	Nil
£155.01 - £827	12	Over £156	13.8**
Over £827	2		

*Entitlement to contribution-based benefits retained for earnings between £112 and £155 per week.

**The rate is 0% for employees under 21 and apprentices under 25 on earnings up to £827 per week.

Class 1A (employers)	13.8% on employee taxable benefits
Class 1B (employers)	13.8% on PAYE Settlement Agreements
Class 2 (self-employed)	flat rate per week £2.80 small profits threshold £5,965 p.a.
Class 3 (voluntary)	flat rate per week £14.10
Class 4 (self-employed)	9% on profits between £8,060 and £43,000 plus 2% on profits over £43,000

INHERITANCE TAX

Death rate	Lifetime rate	Chargeable transfers 2016/17 and 2015/16
Nil	Nil	0 - £325,000*
40%	20%	Over £325,000*

*Potentially increased for surviving spouses or civil partners who die on or after 9 October 2007.

Reliefs

Annual exemption	£3,000	Marriage	- parent	£5,000
Small gifts	£250		- grandparent	£2,500
			- bride/groom	£2,500
			- other	£1,000

Reduced charge on gifts within seven years of death

Years before death	0-3	3-4	4-5	5-6	6-7
% of death charge	100	80	60	40	20

CORPORATION TAX

Year to 31.3.17: Profits band £	Rate %	Year to 31.3.16: Profits band £	Rate %
All profits	20	All profits	20

Different rates apply for ring-fenced (broadly oil industry) profit.

STAMP DUTY AND STAMP DUTY LAND TAX

Land and buildings in England, Wales and N. Ireland

Rate♦	Residential*	Non-residential**	Rate
%	£	£	%
0	0 - 125,000	0 - 150,000	0
2	125,001 - 250,000	150,001 - 250,000	2
5	250,001 - 925,000	Over 250,000	5
10	925,001 - 1,500,000		
12	Over 1,500,000		

*Payable on consideration which falls in each bracket.

**Payable on consideration which falls in each bracket from 17 March 2016.

♦Rates may be increased by 3% where further residential properties costing £40,000 or over are acquired on or after 1 April 2016.

SDLT is charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain non-natural persons.

Shares and securities - rate 0.5%.

LAND AND BUILDINGS TRANSACTION TAX

Land and buildings in Scotland

Rate♦	Residential	Non-residential	Rate
%	£	£	%
0	0 - 145,000	0 - 150,000	0
2	145,001 - 250,000	150,001 - 350,000	3
5	250,001 - 325,000	Over 350,000	4.5
10	325,001 - 750,000		
12	Over 750,000		

The rates apply to the portion of the total value which falls within each band in respect of transactions with an effective date on or after 1 April 2015.

♦Rates may be increased by 3% where further residential properties costing £40,000 or over are acquired on or after 1 April 2016.

This summary is published for the information of clients. It provides only an overview of the main proposals announced by the Chancellor of the Exchequer in his Budget Statement, and no action should be taken without consulting the detailed legislation or seeking professional advice. Therefore no responsibility for loss occasioned by any person acting or refraining from action as a result of the material contained in this summary can be accepted by the authors or the firm.

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