ACCOUNTABILITY

THE NEWSLETTER OF FINLAYSONS CHARTERED ACCOUNTANTS

SPRING 2016

FINLAYSONS
CHARTERED ACCOUNTANTS

Budget Newsletter Spring 2016

Budget Highlights

Small Business Rate Relief threshold rising to £12,000
Corporation tax to reach 17% from April 2020
New Lifetime ISA for the under-40s
Stamp duty on commercial property reduced for lower bands
Capital gains tax to be cut from 28% to 20%
Income tax personal allowance rising to £11,500 from April 2017
Class 2 NICs for the self-employed abolished from 2018
ISA allowance to rise to £20,000
New sugar levy on soft drinks from 2018

Business tax and investment incentives

Corporation tax

Corporation tax rates are as follows:

Financial year to	31 March 2017	31 March 2016
Corporation tax rate	20%	20%

The corporation tax rate will be 19% for the financial years beginning 1 April 2017, 1 April 2018 and 1 April 2019, and 17% for the financial year beginning 1 April 2020.

Corporation tax loss relief

For losses incurred on or after 1 April 2017, businesses will be able to use carried forward losses against profits from other income streams or from other companies within a group.

From 1 April 2017, the amount of profit that can be offset through losses carried forward will be restricted to 50%. This restriction will only apply to profits in excess of £5m. For groups, the £5m allowance will apply to the group.

Corporation tax payment dates

It was previously announced that companies with annual taxable profits of £20m or more would make corporation tax payments in the third, sixth, ninth and twelfth months of their accounting period. The introduction of this is to be deferred so that the new payment dates will now apply to accounting periods starting on or after 1 April 2019.

Loans to participators

The rate of tax charged on loans to participators and other arrangements is to be increased from 25% to 32.5% so that it continues to mirror the higher rate of dividend tax. This new rate will apply to loans made and benefits conferred by close companies on or after 6 April 2016. For accounting periods which straddle 6 April 2016, different rates will be applied to separate loans made or benefits conferred before, and on or after, 6 April 2016.

Personal service companies

From April 2017, individuals working through their own company in the public sector will no longer be responsible for deciding whether the intermediaries legislation (known as IR35) applies and then paying the relevant tax and national insurance contributions (NICs). This responsibility will instead move to the public sector employer, agency, or third party that pays the worker's intermediary. They will have to decide if the rules apply to a contract and, if so, account for and pay the liabilities through the RTI system and deduct the relevant tax and NICs.

The existing IR35 rules will continue as they are now for non-public sector engagements.

Profits from trading in and developing UK land

Legislation will be introduced to ensure that non-resident developers of UK property will always be brought into UK tax on the profits from that development. The legislation puts in place a specific set of rules to tax trading profits derived from land in the UK and these rules will apply equally to resident and non-resident businesses, and will not depend on the existence of a 'permanent establishment' in the UK.

The legislation will be introduced at Report Stage of Finance Bill 2016 and will take effect from the date of introduction. Anti-avoidance rules will take effect from Budget Day to counteract arrangements, put in place between Budget Day and the date the new legislation is introduced, that are designed to get around the charge.

Research and Development (R&D)

Legislation is to be introduced to prevent an unintended reduction in the R&D relief available to some SMEs when the Large Company relief, which is being replaced by R&D Expenditure Credit, expires on 31 March 2016. The revised calculation will apply in respect of expenditure incurred on or after 1 April 2016.

Vaccine research relief will cease to apply to expenditure inccurred on or after 1 April 2017.

Enterprise Management Incentives (EMI)

A rights issue which takes place on or after 6 April 2016 in respect of shares received on exercise of an EMI option will be treated in the same way for share identification purposes as other rights issues: the new shares will be treated as acquired at the same time as the original shares.

Enterprise Zones

The period in which businesses investing in new plant and machinery, in enhanced capital allowance sites in Enterprise Zones, can qualify for 100% capital allowances is to be extended to eight years. The legislation will have effect from Royal Assent.

Venture capital schemes

The method of determining the five year period for the average turnover amount and the relevant three preceding years for the operating costs conditions will be clarified for both Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs) to ensure that the most recently filed accounts of a company are generally used to determine the end date of the relevant period. This will have effect from 18 November 2015 for shares issued under EIS and for investments made by VCTs, however an investee company may elect to apply the existing legislation for investments received between 18 November 2015 and 5 April 2016, inclusive.

A new condition will be introduced to clarify the non-qualifying investments a VCT may make for liquidity management purposes. This will have effect from 6 April 2016.

Trading income received in non-monetary form

Legislation will be introduced to confirm that trading and property business income received in non-monetary form is brought into account in calculating taxable profits for corporation tax and income tax purposes. This will have effect in relation to transactions occurring on or after 16 March 2016.

National insurance contributions (NICs)

2016/17		Employee (primary)	Employer (secondary)
Class 1			
Payable on weekly earnings of:			
Below	£112 (lower earnings limit)	Nil	–
	£112 - £155 (primary threshold)	*0%	–
	Up to £156 (secondary threshold)	–	Nil
	Above £156	–	13.8%
	£155.01 - £827 (upper earnings limit)	**12%	–
	£156.01 - £827 upper secondary threshold (UST) for under 21s	12%	0%
	£156.01 - £827 apprentice upper secondary threshold (AUST) for under 25s	12%	0%
	Above £827	**2%	–

**No NICs are actually payable but notional Class 1 NIC is deemed to have been paid; this protects contributory benefit entitlement.*
***Over state pension age, the employee contribution is generally nil.*

Employment Allowance		up to £3,000 (per year)
Class 1A	On relevant benefits	13.8%
Class 2	Self employed	£2.80 per week
	Small profits threshold	£5,965 per annum
Class 3	Voluntary	£14.10 per week
Class 3A	Voluntary contributions may be available to 5 April 2017 in order to obtain extra additional State Pension (maximum £25 a week) - variable contribution rates according to age.	
Class 4	Self employed on annual profits	
	£8,060 - £43,000	*9%
	Excess over £43,000	*2%

**Exemption applies if State Pension age was reached by 6 April 2016.*

Changes to the Employment Allowance

From April 2016 the annual Employment Allowance for employer NICs increases from £2,000 to £3,000. However, companies where the director is the sole employee will no longer be able to claim this allowance.

Future changes

It was announced that from April 2018, Class 2 NICs will be abolished, and a reform of Class 4 NICs will be undertaken.

Termination payments

From April 2018, employer NICs will be due on termination payments above £30,000 that are already subject to income tax.

The first £30,000 of a termination payment will remain exempt from income tax and the full payment will be outside the scope of employee NICs.

Tax and travel

Car and fuel benefits

The taxable petrol and diesel car benefit is based on the car's CO_2 emissions. It is calculated using the car's UK list price and applying the 'appropriate percentage', as shown in the table on the right. The car fuel benefit is calculated by applying the same percentages to the fuel benefit charge multiplier, which for 2016/17 is £22,200.

The appropriate percentage will increase by 2% for cars emitting more than 75 g/km to a maximum of 37% in each of years 2017/18 and 2018/19.

CO2 emissions g/km	Appropriate percentage	
	Petrol	Diesel
0 - 50	7	10
51 - 75	11	14
76 - 94	15	18
95 - 99	16	19
100 - 104	17	20
105 – 109	18	21
110 – 114	19	22
115 – 119	20	23
120 – 124	21	24
125 – 129	22	25
130 - 134	23	26
135 - 139	24	27
140 - 144	25	28
145 - 149	26	29
150 - 154	27	30
155 - 159	28	31
160 - 164	29	32
165 - 169	30	33
170 - 174	31	34
175 - 179	32	35
180 - 184	33	36
185 - 189	34	37
190 – 194	35	
195 – 199	36	
200 and above	37	

VAT on fuel for private use in cars

Where businesses wish to reclaim the input VAT on fuel which has some degree of private use, they must account for output VAT for which they may use the flat rate valuation charge.

Plug-in Grants

Motorists (private or business) purchasing new qualifying ultra-low emission cars can receive a grant of 35% towards the cost of the vehicle, up to a maximum of either £2,500 or £4,500 depending on the model. The scheme also covers new qualifying ultra-low emission vans, where the available grant will be 20% towards the cost of the vehicle, up to a maximum of £8,000. Vehicles with CO_2 emissions of 75 g/km or less, including electric, plug-in hybrid and hydrogen-fuelled cars, are potentially eligible for the subsidy. There are strict criteria to be met before specific vehicles can be confirmed as eligible under the rules of the scheme.

Zero emission vans

As previously announced, the benefit for zero emission vans is to be increased on a tapered basis so that there will be a single van benefit charge applying to all vans by April 2020. For 2016/17 the charge will be 20% of the value of the standard van benefit charge (i.e. £634). There is no fuel benefit for such vans, as set out below.

Company vans

The taxable benefit for the unrestricted private use of vans is £3,170. There is a further £598 taxable benefit if the employer provides fuel for private travel.

Van and fuel charge	Van £	Fuel £	Total £
Tax (20% taxpayer)	634	119.60	753.60
Tax (40% taxpayer)	1,268	239.20	1,507.20
Tax (45% taxpayer)	1,426.50	269.10	1,695.60
Employer's Class 1A NICs	437.46	82.52	519.98

Mileage rates

Changes to the HMRC business mileage rates are announced from time to time. The rates from 1 March 2016 are as follows:

Vehicle	First 10,000 miles	Thereafter	Car – fuel only advisory rates Engine capacity	Petrol	Diesel	LPG
Car/van	45p	25p	1400cc or less	10p	8p	7p
Motorcycle	24p	24p	1401cc to 1600cc	12p	8p	8p
Bicycle	20p	20p	1601cc to 2000cc	12p	10p	8p
			Over 2000cc	19p	11p	13p

The fuel only advisory rates relate to company cars only. They can be applied as a tax-free maximum rate for employees claiming for petrol used on business journeys and for employees reimbursing their employers with the cost of petrol used for private journeys. HMRC will consider claims for a higher maximum rate, if it can be demonstrated that it is necessary for an employee to use a car with higher than average fuel costs.

Income tax and personal savings

Income tax

	2016/17	2015/16
Basic rate band – income up to	£32,000	£31,785
Starting rate for savings income	*0%	*0%
Basic rate	20%	20%
Dividend ordinary rate	**7.5%	0%
Higher rate – income over	£32,000	£31,785
Higher rate	40%	40%
Dividend upper rate	**32.5%	25%
Additional rate – income over	£150,000	£150,000
Additional rate	45%	45%
Dividend additional rate	**38.1%	30.6%
Starting rate limit (savings income)	*£5,000	*£5,000

*For 2016/17, Scottish taxpayers are effectively subject to the same income tax rates as the rest of the UK. *If an individual's taxable non-savings income exceeds the starting rate limit, then the starting rate limit for savings will not be available for savings income. For 2016/17, £1,000 of savings income for basic rate taxpayers (£500 for higher rate) may be tax-free. **For 2016/17 the first £5,000 of dividends are tax-free.*

Personal allowances (PA)

	2016/17	2015/16
Born after 5 April 1938	£11,000	£10,600
Born before 6 April 1938	*£11,000	*£10,660
Married couple's allowance (MCA) (relief given at 10%)		
Either partner born before 6 April 1935	*£8,355	*£8,355
Transferable Tax Allowance ('Marriage Allowance')		
For certain married couples (relief given at 20%)	£1,100	£1,060

**Allowances are reduced by £1 for every £2 that adjusted net income exceeds £27,700 to a minimum PA of £11,000 (£10,600) and to a minimum MCA of £3,220.*

Where adjusted net income exceeds £100,000, PA is reduced in the same way until it is nil regardless of the individual's date of birth.

The Government has committed to raise the PA to £12,500 by the end of this Parliament, and to increase it to £11,500 for 2017/18.

Tax shelters

	2016/17	2015/16
Venture Capital Trust up to	£200,000	£200,000
Enterprise Investment Scheme up to	£1,000,000	£1,000,000
Seed Enterprise Investment Scheme up to	£100,000	£100,000
Social Investment Tax Relief up to	£1,000,000	£1,000,000

Micro-entrepreneurs

From April 2017, the Budget introduces two new £1,000 allowances for property and trading income.

Individuals with property income or trading income below the level of allowance will no longer need to declare or pay tax on that income.

Those with relevant incomes above £1,000 can benefit by simply deducting the allowance instead of calculating their exact expenses.

Individual Savings Accounts (ISAs)

2016/17 limits:

Overall investment limit	£15,240
Junior ISA and Child Trust Fund limit	£4,080

With effect from 6 April 2017, the ISA annual allowance will increase from £15,240 to £20,000.

The Government will legislate to allow the ISA savings of a deceased person to continue to benefit from tax advantages during the administration of their estate and will set out further plans for introducing this measure in 2016.

Lifetime ISA

From 6 April 2017 any adult under 40 will be able to open a new Lifetime ISA. They can save up to £4,000 each year and will receive a 25% bonus from the Government for every pound they put in, up to the age of 50.

Funds can be used to save for a first home or for retirement. Features include:

- both the savings and Government bonus can be used towards a deposit on a first home, worth up to £450,000
- 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
- during the 2017/18 tax year, those that have a Help to Buy: ISA can transfer the savings into the Lifetime ISA, or continue saving into both, but will only be able to use the bonus from one to buy a house
- after their 60th birthday savers can withdraw the savings, tax-free
- savers can withdraw money at any time before their 60th birthday for any purpose, but the Government bonus, together with any interest or growth thereon will be lost. A 5% charge will also be payable.

Pensions

The Government will increase the existing £150 income tax and national insurance relief for employer arranged pension advice to £500.

Where a serious ill-health lump sum is paid to an individual who has reached age 75, it will be taxable at that individual's marginal rate rather than at a flat rate of 45%.

A change is to be made to align the tax treatment of a charity lump sum death benefit after a member has died under the age of 75, whether paid out of drawdown pension funds and flexi-access drawdown funds or out of funds that have not been accessed (uncrystallised funds).

The Scottish rate of income tax (SRIT)

Under the Scotland Act 2012, with effect from 6 April 2016 the Scottish Parliament has the power to set a separate annual rate of income tax for Scottish taxpayers. The new regime means that taxpayers who are deemed to be resident in Scotland will effectively pay two types of income tax on their non-savings income, with the main UK rates of income tax being reduced by 10p for Scottish taxpayers, and the Scottish Parliament levying the SRIT in its place.

In its draft Budget in December 2015, the Scottish government announced that the new SRIT will be set at 10p in the pound for 2016/17. However, while the overall rates of tax paid by Scottish taxpayers remain unchanged for the coming year, the new rules will affect many employers and employees. Any employer in the UK, even those based outside Scotland, will see a change to PAYE procedures if a single one of their employees is classed as a Scottish taxpayer for the purposes of SRIT.

A new 'S' prefix will be added to the tax code of Scottish taxpayers, and payroll software will need to apply the correct rates of SRIT. However, employers should not use an 'S' tax code until advised to do so by HMRC. There is no requirement to identify the SRIT proportion of tax on the P60, but the P60 should show a Scottish tax code where relevant.

Value Added Tax (VAT)

From	1 April 2016
Standard rate	20%
VAT fraction	1/6
Reduced rate	5%

Current Turnover Limits

Registration – last 12 months or next 30 days over	£83,000 from 1 April 2016
Deregistration – next 12 months under £81,000 from 1 April 2016	
Annual and Cash Accounting Schemes	£1,350,000
Flat Rate Scheme	£150,000

Duties

Stamp duty land tax (SDLT) for non-residential property

Changes take effect on and after 17 March 2016 for purchasers of non-residential property with an upfront payment worth more than £150,000 or a lease net present value (NPV) of more than £5m. These measures do not apply in Scotland.

The measure changes the rules for calculating the SDLT charged on purchases of non-residential properties and transactions involving a mixture of residential and non-residential properties. At present, for purchases of freehold, the assignment of an existing lease and for the upfront payment (premium) on a new leasehold transaction, SDLT is charged at a single percentage of the price paid for the property, depending on the rate band within which the purchase price falls.

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 lease premiums are:

Transaction Value Band	Rate
£0 - £150,000	0%
£150,001 - £250,000	2%
£250,000 +	5%

For new leasehold transactions, SDLT is already charged at each rate on the portion of the 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 £5m. The new rates bands and thresholds for rent paid under a lease are:

NPV of rent	Rate
£0 - £150,000	0%
£150,001 - £5,000,000	1%
£5,000,000 +	2%

SDLT: higher rates on purchases of additional residential properties

From 1 April 2016 changes will apply to individuals purchasing a residential property in England, Wales and Northern Ireland who, at the end of the day of the transaction, own two or more residential properties and are not replacing a main residence. Companies and other non-natural persons purchasing residential property will also be subject to the higher rates, including the first purchase of a residential property in England, Wales and Northern Ireland. The higher rates will be three percentage points above the current SDLT rates, as follows:

Threshold	Existing SDLT rates	New additional property SDLT rates
£0 - £125,000	0%	3%
£125,000 - £250,000	2%	5%
£250,000 - £925,000	5%	8%
£925,000 - £1,500,000	10%	13%
£1,500,000 +	12%	15%

A similar levy will apply to the Land and Buildings Transaction Tax in Scotland.

Capital taxes

Capital gains tax (CGT)

On chargeable gains	2016/17
Total taxable income and gains	
Up to £32,000	10%
From £32,001	20%
Trust rate	20%

Annual exempt amount – individuals £11,100 and most trustees £5,550.

Budget 2016 announces that, from 6 April 2016, the higher rate of CGT will be reduced from 28% to 20%, and the basic rate from 18% to 10%.

There will be an eight percentage point surcharge on these new rates for carried interest and for gains on residential property. Private Residence Relief will continue to ensure that an individual's main home is not subject to CGT.

Employee Shareholder Status (ESS)

Budget 2016 introduces an individual lifetime limit of £100,000 on gains eligible for CGT exemption through ESS. This limit will apply to arrangements entered into on or after 17 March 2016, and will not apply to arrangements already in place.

Entrepreneurs' relief (ER)

Qualifying gains will be taxed at 10%. Claims may be made on more than one occasion up to a 'lifetime' total of £10m.

ER will be extended to external long term individual investors in unlisted companies, providing a 10% CGT rate for gains accruing on the disposal of newly issued shares in unlisted companies purchased on or after 17 March 2016. This new investors' relief is subject to the shares being held for a minimum of three years from 6 April 2016, and a separate lifetime limit of £10m of gains.

Goodwill on incorporation

The Government will allow ER to be claimed, subject to certain conditions, on gains on the goodwill of a business when that business is transferred to a company controlled by five or fewer persons or by its directors. These changes will take effect for disposals made on or after 3 December 2014.

Associated disposals

There are to be changes to the availability of ER on associated disposals which will be backdated with effect from 18 March 2015. The changes allow ER to be claimed on an 'associated disposal' of a privately-held asset when the accompanying disposal of business assets is to a family member. Relief can also be claimed in some cases where the disposal of business assets does not meet the present 5% minimum size condition.

Joint ventures and partnerships

Changes to the definition of a 'trading company' and a 'trading group' for ER purposes are to be introduced and will apply to disposals on or after 18 March 2015. Where the new definitions apply, a fraction of the activities of a joint venture company will be treated as carried on by a company which holds shares in the joint venture company. Similarly, where the new definitions apply, trading activities of a company in its capacity as a partner in a firm will be taken into account in deciding whether the company is a trading company for ER purposes.

Property: Finance costs

Legislation will be introduced in Finance Bill 2016 to clarify that the basic rate tax reduction is available to beneficiaries of deceased persons' estates. It will also ensure that the basic rate reduction applies and is calculated as intended.

National Minimum Wage and National Living Wage

From 1 April 2016, the new National Living Wage (NLW) will be introduced for workers aged 25 and above, in the form of a premium on top of the existing National Minimum Wage (NMW). Initially set at £7.20, the NLW is expected to rise to over £9 by 2020. A new NMW rate comes into effect on 1 October each year and will continue to apply for those aged under 25. The table below shows the NMW and NLW rates applying from **1 April 2016.**

	Apprentices*	16 and 17	18 - 20	21 - 24	25 and over
National Minimum Wage	£3.30	£3.87	£5.30	£6.20	-
National Living Wage	-	-	-	-	£7.20

The Government has also announced an increase in the NMW from 1 October 2016, as follows:

	Apprentices*	16 and 17	18 - 20	21 - 24
National Minimum Wage	£3.40	£4.00	£5.55	£6.95

**Rate applies to apprentices under 19, or those 19 and over in the first year of apprenticeship.*

The NMW and NLW cycles will be aligned with effect from April 2017 so that both rates are amended in April each year.

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