# KEY TAX POINTS FROM TODAY'S BUDGET

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TAXATION AWARDS 2015 WINNERS

***In his repeated desire to put forward a Budget for "The Next Generation", has the Chancellor boldly gone where no Chancellor has gone before? The Elman Wall Tax Team has put together a brief summary of the most important elements, which may impact you or your business. So will the Budget allow you to "live long and prosper"?***

**Income Tax**

- Personal Allowance increased to

  £11,000 for 2016/17

  £11,500 for 2017/18

- Basic Rate Tax Band increased to:

  £32,000 for 2016/17

  £33,500 for 2017/18

- Income rates remain unchanged.

## OWNER MANAGED BUSINESSES

**Headline: The higher rate tax threshold increases to £45,000**

**Detail:** We already knew that the Chancellor plans to increase the personal 'tax free' allowance to £12,500 by 2020, and in today's budget he took us one step closer to this target, announcing that from April 2017 (2017/18) the personal allowance will rise to £11,500 (£11,000 – 2016/17). As a result of this, with the basic rate tax band being £33,500, the higher rate of tax will now only be charged on income exceeding £45,000 (£43,000 – 2016/17).

**EW Tax Team Say:** *Despite the promise of a 'tax lock' before the last Budget tax rates on dividend income went up. In today's Budget, the Chancellor made an effort to redeem himself with the above mentioned increases to the rate bands, which goes some way to help business owners save tax on the profits they have strived for. To put the savings into monetary terms the increased basic rate tax band will save the average shareholder £375 (£1,500 taxed at 7.5% instead of 32.5%). When this is coupled with the £11,500 personal allowance and £5,000 exemption purely against dividend income, there are some fairly significant savings to be made. These tax breaks are far greater than those offered to self-employed individuals outside of a company structure so are not to be sneered at. Things may be looking up again for small business owners.*

**Headline: Increase in s.455 tax on loans to shareholders**

**Detail:** Many individuals like to 'borrow' money from their companies. The problem comes nine months post year-end when the s.455 tax arises at 25% of the loan value, if not otherwise repaid. Effective from April 2016, there will be an increase in s.455 tax to 32.5%, bringing the tax in-line with the higher rate of tax incurred on dividend income received by individuals.

**EW Tax Team Say:** *As before, this continues to be a loan to the Treasury.*

*For the majority of individuals, the rate increase will not be a factor to consider as loans are repaid within nine months of the year-end, either via existing cash resources or company dividends, so there is no cash-flow impact to the company.*

*For those individuals who have arrangements in place with their companies to fund larger purchases, the cash-flow impact will now have to be considered more carefully as a 30% increase in the charge could have an unintended effect on the balance sheet and business growth. It is worth bearing in mind that any loans in place prior to April 2016 will not be affected by the increase as the tax has already been paid, only increases in loans or new loans from next month will be affected. So if you are planning to take any significant loans, it may be best to do it before 5 April!*

**Corporation Tax**

- Rate of tax reduce from April 2017 to 19%

  Reducing to 17% by April 2020.
- Annual Investment Allowance remains at £200,000.
- 100% First Year Allowance on low emission vehicles extended to March 2021.

## CORPORATION TAX

### Headline: Further reductions to Corporation Tax rates

**Detail:** In the 2015 Summer Budget, the Chancellor announced that the corporation tax rate would be cut to 18% in 2020. Today he revised this by further cutting the rate to 17%.

**EW Tax Team Say:** *The UK currently has the lowest corporation tax rate in the G20. Whilst the further reduction will be welcomed by companies, it will have little overall impact on the whole, since public sector receipts from corporation tax only amount to 6% of the total receipts and there is another four years to wait!*

### Headline: Treatment of tax losses

**Detail:** Currently, there is a restriction on how losses can be utilised against alternative income sources or profit making companies within the same group. 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.

For companies with profits in excess of £5 million, only 50% of the profits can be offset by carried forward losses.

**EW Tax Team Say:** *This is another positive measure for small businesses since the restrictions will only impact larger businesses. The increased flexibility will give businesses more options when it comes to utilising losses and should allow such losses to be translated into cash savings at an earlier opportunity.*

**Savings**

- From April 2016:

  Banks will stop withholding basic rate (20%) tax at source on bank interest.

  £1,000 tax free allowance for savings interest for basic rate tax payers

  £500 tax free allowance for savings interest for basic rate tax payers

- Freedom to withdraw from ISA savings during the tax year without losing the tax relief.

- Lifetime ISA for individuals under 40s

  £1 bonus for every £4 saved.

## PERSONAL TAX, PENSIONS, SAVINGS & INVESTMENTS

### Headline: New tax allowances

**Detail:** From April 2017, the government has announced the implementation of two new £1,000 allowances, one for property income and the other for trading income, aimed at what the Chancellor called "micro-entrepreneurs". Those with property or trading income below £1,000 will no longer need to declare or pay tax on that income. With those with higher levels of income being able to have this as a flat rate deduction instead of calculating their expenses.

**EW Tax Team Say:** *This is a clear indicator that the government is trying to tackle the "black economy", by inviting more people to declare their previously undeclared income. It is intended to boost the number of those making a small amount of money online by giving them a tax break on the first £1,000 earnt, as a tax break for the "digital age". Specifically mentioned by the Chancellor were sites like eBay and Airbnb, where those trying to earn a little extra cash will no longer have to pay tax on earnings up to £1,000. This is obviously good news for those carrying on a "hobby trade" or have a spare room, but overall won't help the majority of the public.*

### Headline: New Lifetime ISA for the under-40s

**Detail:** Following the introduction of the Help to Buy ISA and increase in the annual limits for ISAs over the last couple of years, the government has created a further ISA to entice the under-40s to save for homes and/or their retirement. It follows the same system as the Help to Buy ISA – you save X and the government will contribute Y on the crystallisation of said event. This time around, each "millennial" will be able to save £4,000 per year, and receive a £1,000 bonus every year until they reach the age of 50, using some or all towards a first home (worth up to £450,000) or withdrawing it once you hit 60.

**EW Tax Team Say:** *Yet again this is a move to target the younger electorate, attracting the middle earners who currently have no hope of owning their own home by bringing that dream that little bit closer. It also appears to be another way to force savings for retirement – even if you own your home, anyone under the age of 40 will be able to open a Lifetime ISA next year and save towards a pension. This could be less attractive than an ordinary pension where you save out of untaxed income, the government pays tax relief at your marginal rate plus if it's a workplace pension, your employer makes contributions too. Therefore, with the Lifetime ISA, the bonus is the same as tax relief if you're a basic rate tax payer, but lower if you pay a higher or additional rate tax.*

*There are, however, stiff penalties if you wish to access your cash prior to buying a home or hitting the tender age of 60. As you lose all entitlement to the government bonus and interest, additionally incurring a 5% penalty, anyone choosing one of these will need to be entirely sure they won't need to access the cash between opening the account and the earlier of buying a first home or reaching 60.*

## CAPITAL GAINS TAX

**Headline: Capital Gains Tax rates reduced**

**Detail:** The headline rate is to reduce from 28% to 20% and the basic rate from 18% to 10%, however, the old rates will continue to apply to certain assets.

**EW Tax Team Say:** *Obviously beneficial to those who actively invest in the stock market, the position is less clear cut for others.*

*Firstly, special rates remain unaffected, for example, Entrepreneur's Relief on sale of businesses. Secondly, the old rates continue apply to three major groups of capital gains; residential property (unless covered by main residence relief), carried interest for private equity firms, and ATED related gains.*

**Headline: Entrepreneur's Relief extended**

**Detail:** Associated disposals have been widened, Trading company definitions have been extended and Third Party Investors can now claim relief if shares are held for three years.

**EW Tax Team Say:** *The associated disposal definition is basically a technical change and should not really impact on planning.*

*However, the new rules will allow a degree of transparency in determining whether a company (or group) can be classed as trading. Essentially, where a company has made an investment, this opens up opportunity to widen the availability of the relief.*

*The last aspect is interesting given that EIS, SEIS and VCT are all more attractive propositions than Entrepreneur's Relief. This means that the extension is useful to major investors (who exceed their annual investment limits - £1.3m), larger companies (who are too big to permit the other reliefs - £15m gross assets) and certain specialist trades blocked from the other schemes. Is it a coincidence that one of these industries is property development…?*

**Pension**

- Lifetime Allowance will be indexed from 2018.
- The Annual Limit remains unchanged at £40,000.

**Capital Gains Tax**

- The annual exemption remains unchanged at £11,100 for 2016/17.
- The rates of tax are reducing from:

  18% to 10% for basic rate tax payers

  28% to 20% for higher rate tax payers.

# EMPLOYEES AND EMPLOYERS

### Headline: NIC on Termination Payments

**Detail:** Currently, the first £30,000 of certain termination payments is tax free and the full payment is exempt from employers/employees NIC.

Following responses from last year's Consultation, from April 2018 employer national insurance contributions will be due on payments above £30,000. The government has however announced that the full payment will be outside the scope of employees NIC.

**EW Tax Team Say:** *It appears that the government are trying to 'catch out' employers who set up a payment to specifically meet the criteria of a termination payment in order to avoid having to pay the national insurance charge.*

*The tax due on the payment will now be further aligned to the amount paid on employment income. That being said, assuming that the first £30k of termination payments will be exempt from employer national insurance, it is still likely to be an efficient measure for compensating an employee on loss of employment. There had been a lot of discussion that the treatment of termination payments would be completely reformed so the fact that it is only an employer's NIC charge above the £30k which is being imposed is good news!*

### Headline: Simplification of EMI shares when rights issued

**Detail:** Prior to today's announcement, Enterprise Management Incentive (EMI) share schemes had their own particular way of calculating gains on the sale of shares – imposing different classes for those shares issued after the initial exercise which led to burdensome calculations for disposal purposes.

**EW Tax Team Say:** *Following today's simplification any additional EMI shares obtained, for example under a rights issue, will be pooled with the original holdings. This allows for administration friendly calculations to be carried out, allowing us to spend more time to provide meaningful tax advice! With Entrepreneur's Relief available (even if holding in the company is less than 5%) a further saving on tax due is likely to arise.*

### Headline: Limiting the capital gains exemption for Employee Shareholders

**Detail:** From midnight tonight there will be a limit of £100,000 imposed on gains made on the sale of new employee share scheme shares. Gains made over this limit will be subject to normal CGT rules (which as mentioned above are now more favourable). There continues to be no limit on gains on shares issued prior to this date.

**EW Tax Team Say:** *Very few companies take full advantage of the employee shareholder rules so this really has a limited impact. However, it does restrict the benefit further for those firms who were considering going down this route.*

### VAT

- Registration threshold increased to £83,000 from 1 April 2016.
- De-registration threshold increased to 81,000.

### Duty

- Levy on soft drinks containing 5g of sugar per 100ml and higher rate for those containing 8g per 100ml – to combat child obesity.

## PROPERTY

### Headline: SDLT reduced for commercial property

**Detail:** From 17 March 2016 the rate of SDLT on commercial properties is being reduced and will be on a "slice" approach rather than a threshold.

**EW Tax Team Say:** *In addition to the fairer application of the rates, wherein the difference between the charge on a £250,000 property and a £250,001 property was £7,500, there is also an absolute reduction in the rates involved. Overall, good news for businesses who want to move premises.*

### Headline: Renewals allowance scrapped

**Detail:** Renewals allowance, which is a mechanism to calculate the relief on capital expenditure incurred, is to be abolished from 6 April 2016.

**EW Tax Team Say:** *Astute readers will recall that last year the Chancellor announced that the Wear And Tear allowance would be removed for residential landlords, and instead relief could be claimed for replacing assets of the property business as the costs were incurred. HMRC's press release notes indicate that this will be withdrawn but that new rules will be brought in for residential landlords from 6 April so that relief is still available.*

### Headline: Business rates cut

**Detail:** Small business rate relief will be doubled from 50% to 100%. From 1 April 2017, businesses with a property with a rateable value of £12,000 and below will receive a 100% relief.

Businesses with a property that have a rateable value between £12,000 - £15,000 will receive a tapered relief.

**EW Tax Team Say:** *The government has announced that from next year, this means that 600,000 small firms will pay no business rates at all. This will represent a real and welcomed cash saving for many small businesses. Together with the corporation tax changes overall this will benefit many small and medium sized businesses.*

## TAX ADMINISTRATION AND AVOIDANCE

### Headline: Modernising tax collection

**Detail:** Whilst HMRC are continuing to push ahead with their 'Make Tax Digital' programme the Budget signalled a desire to make sure there was adequate investment in HMRC to carry out their administrative role. To this end, HMRC are enhancing their call centre staffing and additionally moving, for some services, to a 7-days a week service by 2017.

**EW Tax Team Say:** *One of the biggest issues faced by accountants in acting for clients is the ability to elicit prompt information from HMRC. Given, as widely reported, in 2014/15 over 7 million phone calls to HMRC went unanswered, this indicates something is seriously amiss with their service levels. Whilst the MTD drive should hopefully reduce the administrative burden to businesses, it needs to be questioned whether the additional investment is being targeted in the right way and, indeed, whether without significant additional investment HMRC is fit for purpose.*

### Headline: Class 2 National Insurance abolished

**Detail:** Having consulted on various related matters over the past couple of Budgets it has finally been announced that with effect from April 2018 Class 2 NIC will be abolished. The resultant saving of around £150 will apply to all self-employed.

**EW Tax Team Say:** *This is not really a surprise given past consultations, although this only coming in to play from April 2018 is perhaps a little disappointing. Interestingly even the government refers to Class 2 NIC as being "an outdated and complex feature of the NICs system"! To compensate for this, however, the associated Class 4 NIC system will be amended to ensure the self-employed otherwise continue to build up State Pension benefits. This would appear to include all self-employed, including for example partners of partnerships who are other classed by HMRC as 'High Net Worth Individuals' and otherwise under attack to pay more tax!*

### Headline: Further disguised remuneration attack

**Detail:** HMRC are to introduce further anti-avoidance provisions in the 2016 Finance Bill aimed at tax planning schemes involving the use of offshore trusts and loans.

**EW Tax Team Say:** *There is no question that the opportunity for aggressive tax planning is increasingly limited. However, there remains a concern about continued new legislation, like that in relation to Advance Payment Notices, being enacted which has some retrospective application. The indication from the current announcement (further details are awaited) is that a new charge on loans paid through such structures will be levied from April 2019, unless otherwise taxed. This will certainly be potentially worrying for many clients who have previously entered into such planning based on the law as it stood at that time.*