Spring 2016

The Budget

BARTFIELDS

What's Inside
This Year

Spring Budget,
16 March 2016

Your Guide To The Budget 2016

How will the changes this year affect you?

Introduction

When Chancellor George Osbourne entered parliament in June 2001 he was the youngest Conservative MP in the House of Commons and when he became Chancellor in May 2010 he was the youngest Chancellor to take office since Randolph Churchill in 1886.

But standing to deliver his 8th budget speech, whilst Mr Osbourne appeared to be an old hand he certainly came up with some new tricks!

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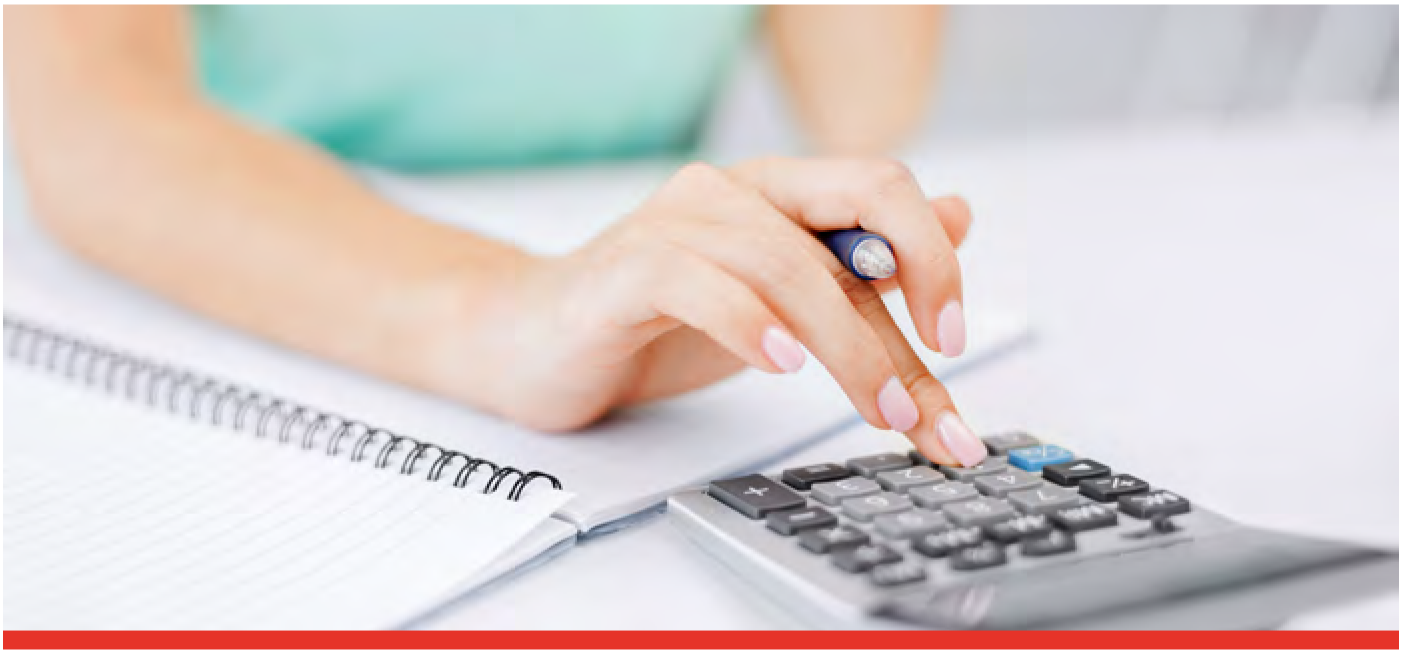

Personal taxation

Personal Tax: Allowances

From 6 April 2016 the amount an individual can earn before paying tax will be £11,000 and earnings up to £43,000 will be at the basic rate of tax of 20 %. The Chancellor announced future increases in his budget for the year which starts on 6 April 2017 when the personal allowance will rise to £11,500 and the higher rate tax threshold will increase to £45,000.

Personal Tax: Two New Tax Allowances

From April 2017, there will be two new tax-free £1,000 allowances to cover income from the "sharing economy".

Selling goods or providing services from occasional jobs

The first is for selling goods or providing services from occasional jobs.

People who make up to £1,000 from occasional jobs – such as sharing power tools, providing a lift or selling goods they have made – will no longer need to pay tax on that income. Potentially this could include hobby income, occasional selling of items on eBay, where there is no intention to trade but simply to sell on the goods or services produced.

Income from Property

A second allowance is to cover income from property you own. The first £1,000 of income from property – such as renting a driveway or loft storage – will be tax free. The legislation is as yet unclear as to if this will be in addition to the rent a room relief of £7,500 per annum available from 6 April 2016 for renting a room within your main residence. This could potentially give over £700 per month tax free income for renting a room in your home if you include either a space on your drive or some storage in your loft.

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Top tax tip

See how the dividend changes affect you! Ask for a dividend tax impact review to check if further tax may become payable and review ways we can help!

Savings: ISA's

ISA limits have been increased to £20,000 from April 2017.

Income Tax: Changes to dividend tax

From 6 April 2016 the Dividend Tax Credit will be replaced by a new 0% tax rate on the first £5,000 of dividend income per year. UK residents will pay tax on any dividends received over the £5,000 allowance at the following rates:

- 7.5% on dividend income within the basic rate band
- 32.5% on dividend income within the higher rate band
- 38.1% on dividend income within the additional rate band

The dividend tax will be calculated on distributions made after 6 April 2016. Dividend income that is within the dividend allowance (and savings income within the new savings allowance) will still count towards an individual's basic or higher rate tax thresholds and may therefore affect the level of entitlement to savings allowance and the rate of tax that is due on any dividend income in excess of the £5,000 0% band.

Dividends received on shares held in an Individual Savings Account (ISA) will continue to be tax free.

Savings: Lifetime ISA

With effect from April 2017 a Lifetime ISA (LISA) can be opened and any savings deposited before your 50th birthday will receive an added 25 % bonus from the government. The LISA can be opened at any time between your 18th and 40th birthday and any amount up to £4,000 per year can be deposited to receive the additional credit.

Existing Help to Buy ISA savings can be transferred into the LISA or they can be kept as separate savings vehicles but only one bonus can be used to buy a house.

If the savings are retained to age 60 then all of the savings can be withdrawn tax-free. There is a level of flexibility as all or some of the deposits can be withdrawn at any time but the bonus and any interest on the bonus is lost and a charge of 5 % will be levied.

Income and Corporation Tax: Repeal of the renewals allowance

The renewals allowance pre-dates capital allowances and was intended to allow the costs of replacing implements, utensils and articles used in a business.

However, the renewals allowance legislation is no longer necessary as alternative provisions will provide tax relief for this type of expenditure. These will be either under the existing capital allowances regime or the new relief for residential landlords, for costs incurred in replacing domestic items such as furnishings and appliances.

The measure will repeal the renewals allowance for expenditure incurred on or after 6 April 2016 for Income Tax purposes and from 1 April 2016 for Corporation Tax purposes.

These dates align with the introduction of a new relief for domestic items for residential landlords, ensuring alternative relief for this type of expenditure is available.

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Business taxation

Class 2 National Insurance contributions (NICs)

Class 2 NICs will be abolished from April 2018 and from that date the self-employed will only need to pay Class 4 National Insurance on their profits.

Paying Class 2 NICs currently enables self-employed people to build entitlement to the State Pension and other contributory benefits but after April 2018, Class 4 NICs will be reformed so the self-employed can continue to build benefit entitlement.

> **"From April 2017, small businesses occupying property with a rateable value of £12,000 or less will pay no business rates.**

National Insurance on pay-outs above £30,000

From April 2018 employers will pay National Insurance contributions on pay-outs (for example, termination payments) above £30,000 where Income Tax is also due.

For people who lose their job, payments up to £30,000 are tax-free provided there is no contractual entitlement to receive this payment and no National Insurance is payable. This will remain unchanged.

Business Rates Cut

From April 2017, small businesses occupying property with a rateable value of £12,000 or less will pay no business rates.

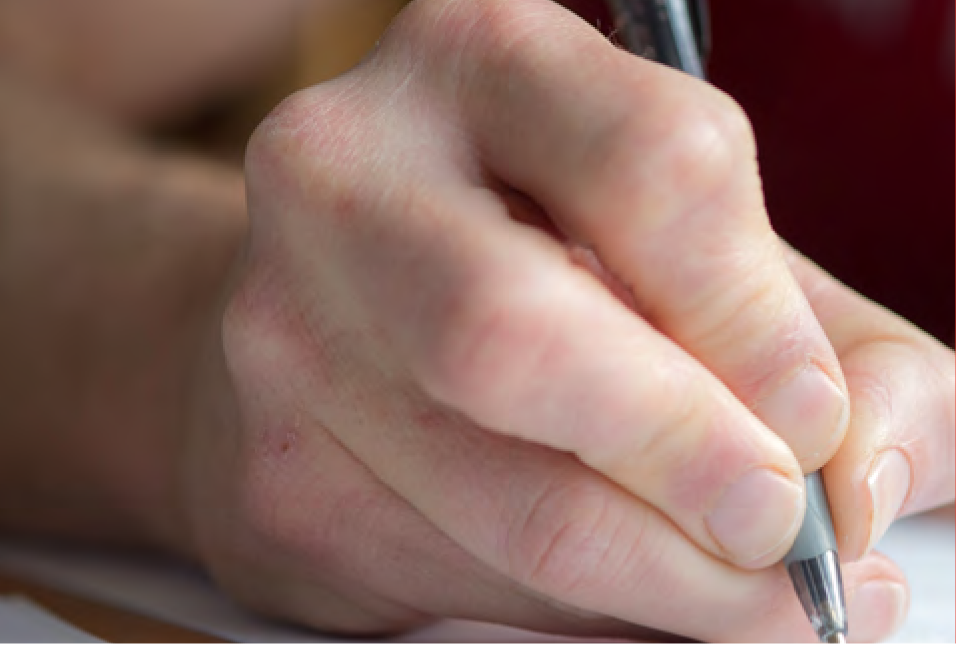
Currently, this 100 % relief is available if you are a business that occupies a property (e.g. a shop or office) with a value of £6,000 or less.

There will be a tapered rate of relief on properties worth up to £15,000.

Capital Allowances: Extension for Enterprise Zones

Capital allowances give a business the ability to get tax relief for the costs of qualifying plant and machinery assets against their taxable income.

Companies investing in plant or machinery in designated enhanced capital allowance



Corporation Tax: Rate to fall

The CT main rate will reduce to 17 % for the Financial Year beginning 1 April 2020.

(ECA) sites in Enterprise Zones, receive 100 % ECAs for expenditure incurred provided the P&M is used primarily within the designated sites.

The qualifying expenditure must be incurred in the period of eight years beginning with 1 April 2012, and the area in which the plant or machinery is to be used must be an Assisted Area at the time that the expenditure is incurred.

VAT

Some overseas businesses sell goods to UK consumers, mainly via online marketplaces, but ship the goods to the UK before sale and store them in fulfilment houses close to their final delivery point. Because these businesses are overseas businesses they may not be paying the correct VAT. HM Revenue and Customs (HMRC) will have new powers to target these businesses and consider whether to:

- compulsorily register the overseas business for VAT in the UK
- direct them to appoint a UK-established VAT representative, and/or
- require an appropriate form of security

If the business does not comply HMRC will approach the provider of the online marketplace through which the overseas business is trading and make them jointly and severally liable for the VAT.

One for Amazon and other online stores to watch out for!

Corporation Tax: Loans to participators

Close companies can make loans (via a director's loan account) to their participators or make other arrangements through which participators extract value rather than paying remuneration or dividends.

The rate of tax charged on loans to participators and other arrangements is currently 25 % but it is being specifically linked to the dividend upper rate, which will be 32.5 % from 6 April 2016. This change 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.

Capital gains tax

Capital Gains Tax

The Chancellor made substantial changes to the Capital Gains Tax (CGT) rules in his 2015 budgets which had significant impact on the legitimate transfer of businesses to family members under normal business succession arrangements. Some of the changes we see in Capital Gains Tax in the 2016 budget concern reversing the more negative consequences of the 2015 changes.

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Capital Gains Tax: Rate Changes

Where an individual, trust or personal representative has a chargeable gain accruing after 6th April 2016 the rate of Capital Gains Tax (CGT) is to be reduced. The basic rate of CGT falls from 18 % to 10 % and the higher rate of 28 % falls to 20 %.

It should be noted that this rate does NOT apply to chargeable gains accruing on the disposal of residential property (which do not qualify for private residence relief) where the existing rates of 28 % and 18 % will remain.

The Chancellor stated that this measure is specifically intended to provide an incentive for individuals to invest in companies over property.

Capital Gains Tax: Changes to the rules on Entrepreneurs’ Relief and how it is applied to Associated Disposals

This measure is particularly relevant to farming businesses and their succession planning but is expected to benefit family businesses in general by reversing the negative consequences of the 2015 changes, making it easier to pass on businesses as going concerns within a family.

Often an individual uses a privately owned asset within their partnership or company.

When that individual retires or reduces their participation in the business they may dispose of this item as part of the business assets. In this case the individual would realise a gain on the private asset.

The reversal announced in the Budget 2016 allows Entrepreneurs' Relief (ER) to be claimed. Entrepreneurs' Relief gives a special rate of 10% CGT on the gain arising from an 'associated disposal' of a privately-held asset when the accompanying disposal of business assets is to a family member.

This measure is backdated to 18 March 2015 when the original change took effect.

Capital Gains Tax: Changes to the rules on Entrepreneurs' Relief on goodwill on incorporation

In the second "U" turn of the day the Chancellor announced that individuals and partners in a business who transfer their business to a close company (that is a company controlled by five or fewer persons or by its directors) and become or remain a participator in the acquiring company will be allowed to claim Entrepreneurs' Relief (ER). Entrepreneurs' Relief gives a special rate of 10% CGT on the gain arising from the transfer of the goodwill to the company. The principal condition is that the individual must hold less than 5% of the acquiring company's shares and has less than 5% of the voting power.

It is possible to claim ER if the 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 is backdated to 3 December 2014 when the original change took effect.

Capital Gains Tax: Lifetime limit imposed on Employee Shareholder Status Exemption

The Employee Shareholder Status (ESS) introduced in 2013 was to reduce regulatory burdens on business, promote business and employment growth and increase the choices available to businesses and employees. An employee exchanged certain employment rights for shares in the employing company.

For Employee Shareholder shares issued as consideration for entering into Employee Shareholder Agreements from midnight 16 March 2016 there will be a lifetime limit of £100,000 CGT exempt gains.

Any past or future gains, realised or unrealised, on Employee Shareholder shares that were issued in respect of Employee Shareholder agreements made before midnight 16 March 2016 will not count towards the limit.

Capital Gains Tax: Investors Relief. The extension of Entrepreneurs' Relief for Long Term Investors.

A new extension to Entrepreneurs' Relief (ER), 10% rate of CGT will apply to an individual, external investor who acquires by subscription new shares in unlisted trading companies.

The 10% CGT rate will apply to gains accruing on the disposal of those ordinary shares that were newly issued to the individual and acquired for new consideration on or after 17 March 2016. The shares will need to be held for at least three years starting from 6 April 2016.

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

Tax on property transactions

Stamp Duty Land Tax: Changes to the charge on non-residential property

From 17 March 2016 the rules for calculating the Stamp Duty Land Tax (SDLT) charged on purchases of non-residential properties and transactions involving a mixture of residential and non-residential properties will change.

At present, for purchases of a freehold, the assignment of an existing lease and 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 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.

The new rates bands and thresholds for rent paid under a lease are:

Net present value of rent	Rate
£0 - £150,000	0 %
£150,001 - £5,000,000	1 %
£5,000,000 +	2 %

“ 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.

Except for Scotland

On 1st April 2015 Scotland gained devolved powers to set the Land and Buildings Transaction Tax (LBTT) and so this policy will not apply. It will also only apply in Wales until 1 April 2018, when SDLT will be devolved to Wales.

Stamp Duty Land Tax: Changes to the charge on residential property

The Chancellor confirmed that the higher rate of SDLT on residential properties in England, Wales and Northern Ireland will apply to additional residential properties where the purchase is completed on or after 1st April 2016, with transitional rules for properties where the exchange of contract occurred prior to 25th November 2015. The additional rates are 3 percentage points above the standard rate of SDLT, charged on the proportion of the value of the property which falls into each band as follows:

Band	Existing residential SDLT rates	New additional property SDLT rates
£0* - £125k	0 %	3 %
£125k - £250k	2 %	5 %
£250k - £925k	5 %	8 %
£925k - £1.5m	10 %	13 %
£1.5+	12 %	15 %

Get in touch

If you would like to discuss any of the topics we've outlined then please get in touch with us – we'd be more than happy to answer any questions that you may have.

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