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2016 SPRING BUDGET

FULL SUMMARY

The Chancellor delivered his 2016 Budget earlier this afternoon, promising to "put the next generation first". The sugar levy on soft drinks has unsurprisingly grabbed many headlines, as has the introduction of a lifetime ISA for the under-40s.

Unashamedly including a pro-EU message in his speech, the Chancellor made it clear that all economic forecasts assume that the UK remains in the EU after June's referendum, and that the economy is on course to clear the deficit by 2020, despite a revision downwards of the growth forecasts. Sterling has dipped slightly this afternoon against both the Dollar and the Euro.

Offering "long-term solutions for long-term problems", Mr Osborne did however announce quite a number of tax changes, of varying significance. The increase in the Personal Allowance and higher rate threshold for income tax from 2017 are welcome, as are the reductions to the Capital Gains Tax (CGT) rates to 10% for basic rate and 20% for higher rate taxpayers. The reduction in the CGT rate aims to encourage enterprise, and will not therefore apply to the sale of residential property or carried interest for private equity investors.

From midnight tonight, there will be a fundamental reform to Stamp Duty Land Tax (SDLT) for commercial properties, moving to a progressive rather than "slab" system. This now mirrors in structure, if not rates, SDLT on residential property.

For companies, the Treasury's "Business tax road map" includes a further reduction in the Corporation Tax (CT) rate to 17%, by 2020, which will give the UK one of the lowest CT rates, certainly as compared with other major economies. On the same date, reforms will be made to loss relief for corporates, to increase the flexibility of the utilisation of losses in different streams or group companies. The cost of this flexibility will be a restriction of relief to 50% of profits above £5m. New rules will also apply, from 2017, to limit the tax relief that large multinationals can claim for their interest expense.

Please see our summary for further details of all key tax announcements: we expect more with the publication of the Finance Bill on 24 March 2016.

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> **"put the next generation first"**

PERSONAL TAX

Income Tax

- The tax-free Personal Allowance will increase to £11,000 from April 2016 and £11,500 from April 2017.
- The higher rate tax threshold will start at £45,000 from April 2017, with no change to the additional rate band which starts at £150,000.

National Insurance

- While still shying away from the complete merger of Income Tax and National Insurance, Class 2 contributions paid by the self-employed will be abolished completely from April 2018.
- Class 4 contributions will be reformed so that they include the contributory element which counts towards benefit entitlement, eg State Pensions and Jobseeker's Allowance.

Lifetime ISA

- Available from April 2017 for anyone aged between 18 and 40, the lifetime ISA will allow savers to receive up to £1,000 as a top up if they save £4,000 each year.
- If the funds are withdrawn after your 60th birthday they will be tax-free.
- The funds can be accessed at any time before 60, but the Government bonus would be forfeit and there will be a 5% penalty charge.

CGT

- The main rate of CGT will fall to 20% for higher/additional rate taxpayers and 10% for basic rate taxpayers from 6 April 2016.

- The original rates of 28% and 18% will continue to apply to the sale of residential property to which principal private residence relief does not apply (ie second homes).

- The new lower rates are intended to promote share ownership rather than property.

Trading and property income allowances

- Two new allowances will be introduced from April 2017 to exempt from tax the first £1,000 of trading and/or property income.

- Income below £1,000 will be exempt and does not need to be declared.

- Income over £1,000 can be treated in the normal way with expenses deducted or expenses can be disregarded and the £1,000 allowance deducted instead.

Employee shareholder status

- A lifetime limit of £100,000 on gains eligible for exemption from CGT under employee shareholder status will be introduced.

Non-domiciled status

- The previously announced reforms to the deemed domiciled rules for Income Tax and CGT for long-term residents are confirmed to take effect from April 2017.

- There will be an effective rebasing of non-UK assets to their market values on 6 April 2017 so that those subject to deemed domicile will not be taxed on pre-2017 increases.

- Full details will be published in draft in Finance Bill 2017 published shortly before Christmas 2016.

BUSINESS TAX

Corporation Tax rate

- The main rate of Corporation Tax is reduced to 17% from 1 April 2020.

- This is an additional 1% reduction to that previously announced at Summer Budget 2015.

- The Corporation Tax rate will reduce from the current rate of 20% to 19% from 1 April 2017.

Loans to participators charge

- The rate of Corporation Tax chargeable under the loans to participator rules is increased from 25% to 32.5% from 6 April 2016.

- The new rate is specifically linked to the dividend higher rate which will also be 32.5% from 6 April 2016.

Corporation Tax payment dates

- The measures announced at Summer Budget 2015 to accelerate the payment dates for those companies that have taxable profits over £20m are to be deferred by two years.

- The new payment schedule under which instalments are paid in the third, sixth, ninth and twelfth month of the year will now apply to accounting periods starting on or after 1 April 2019.

Deductibility of corporate interest

- Rules are to be introduced to address base erosion and profit shifting through the deduction of interest expenses.

- A new rule, to take effect from 1 April 2017, will limit the tax relief that large multi-national enterprises can claim for their interest expenses.

- Interest relief will be restricted to 30% of the group's EBITDA.

- A de minimis group threshold of £2m net UK interest expense is provided for.

- It is anticipated that exceptions will be introduced for groups with legitimately high interest payments.

- The worldwide debt cap legislation will be repealed with similar rules integrated into the new interest restriction rules.

Entrepreneurs' relief

- Relief will be expanded to include investors in unlisted trading companies.

- Entrepreneurs' relief will be available in circumstances where the investor is not a director or employee or owns more than 5% of the shares.

> **"We need to light the fires of enterprise"**

- Shares must be newly issued on or after 17 March 2016, held for three years from 6 April 2016 and held continually for at least three years before disposal.

- CGT on disposal will be 10% subject to the lifetime allowance of £10m for entrepreneurs' relief qualifying gains.

- Relief will also be extended to the disposal of privately held assets when accompanying a disposal of business assets to a family member.

Royalty withholding tax

- A domestic anti-abuse provision is to be introduced targeting royalties made to a connected person as part of a tax advantaged arrangement exploiting the provisions of a double-tax agreement.
- The measure is aimed at royalty payments made to tax havens without deduction of UK tax via the use of a conduit company based in an appropriate treaty jurisdiction.
- A wider definition of royalty payments is to be introduced.
- The withholding tax will apply to payments that are attributable to a UK permanent establishment even where the payment of the royalty is not made from the UK.

Corporation Tax loss relief

- The current streaming rules are to be made more flexible so that losses, when carried forward, may be used against profits from other income streams or other companies within the group.
- Companies will only be able to use losses carried forward against up to 50% of their profits above £5m.
- For groups of companies the £5m allowance will apply to the group.
- These changes will come into effect from 1 April 2017.

Patent Box

- The operation of the Patent Box rules are to be modified, such that the lower effective 10% rate for patent income will depend on, and will be proportionate to, the extent of the research and development expenditure incurred by the company claiming the relief.
- This will come into effect on 1 July 2016.

Renewals allowance

- The renewals allowance, which allows relief to traders and property businesses for the cost of replacing tools, is to be withdrawn.
- Relief for such expenditure should now be claimed under the normal capital allowances regime or, in the case of residential landlords, under the rules introduced from 6 April 2016, for the cost of replacing domestic items such as furnishings and appliances.

Business rates

- Small Business Rate Relief (SBRR) is to be permanently doubled in England from 1 April 2017.
- The SBRR threshold in England will increase to rateable values up to £12,000 tapering to £15,000 from 1 April 2017.
- The Government is to raise the threshold at which business rates in England are calculated using the standard multiplier to properties with rateable values of £51,000 and above, again with effect from 1 April 2017.
- The Government is to work with Local Authorities to standardised business rates bills to ensure that all ratepayers can receive and make payments online by 1 April 2017 and to ensure that all Local Authority billing and collection systems link with HMRC digital tax accounts by 2022.
- More frequent (at least three yearly) revaluations of properties in England for business rate purposes are to be introduced. A discussion paper is to be issued in March 2016 outlining options to deliver this.

PROPERTY TAXES

Stamp Duty Land Tax (SDLT) and commercial property

- SDLT on transactions involving commercial property (non-residential properties and transactions involving a mixture of residential and non-residential properties) are to be charged by reference to the portion of the purchase price which falls within each specified rate band (the "slice" system). Currently SDLT is charged as a single percentage of the price paid for the property depending on the rate band within which the purchase price falls (the "slab" system). The new rates and thresholds are:

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

- A new 2% rate is introduced for leasehold transactions where the net present value of the rent is above £5m. The new rate bands and thresholds are:

Net Present Value of Rent	Rate
£0 - £150,000	0%
£150,001 - £5,000,000	1%
£5,000,000 +	2%

- The measures will have effect on and after 17 March 2016. Where contracts have been exchanged but transactions have not completed before 17 March 2016 the purchaser will be able to choose whether the old or new structure and rates should apply.

> **"Storm clouds are gathering again"**

SDLT: higher rates on addition residential properties

- Higher rates of SDLT will be charged on the purchase of additional residential properties such as second homes and buy-to-let properties.
- The higher rates will be 3% above the current SDLT rates:

Threshold	Existing Rate	Additional Property Rates
£0 - £125,000	0%	3%
£125,001 - £250,000	2%	5%
£250,001 - £925,000	5%	8%
£925,001 - £1,500,000	10%	13%
£1,500,000 +	12%	15%

- The new rates will have effect for purchases which complete on or after 1 April 2016. Where contracts have been exchanged on or before 25 November 2015 but not completed until on or after 1 April 2016 the higher rates will not apply.
- These SDLT measures do not apply in Scotland as SDLT was devolved to Scotland on 1 April 2015. The measures will apply in Wales until 1 April 2018, when SDLT will be devolved to Wales.

Offshore property developers

- Measures are to be introduced to ensure that profits from trading in UK land are always subject to UK tax.
- The current territorial restriction in UK legislation is removed so that the profits of a trade carried on by a company dealing in UK land, or developing UK land, will be subject to UK taxation regardless of the residence of the company and regardless of whether or not the trade is carried on through a permanent establishment carried on in the UK.
- The new charge will apply to disposals that occur on or after the date the legislation is introduced in Parliament at Report Stage, expected to be June 2016.
- A targeted anti-avoidance rule is to be introduced effective from Budget day, 16 March 2016 to support the new core rule.

ANTI-AVOIDANCE

Disguised remuneration

- A number of technical changes are to be introduced to tackle the use of disguised remuneration avoidance schemes.
- The measures will include the insertion of an additional targeted anti-avoidance rule and the withdrawal of the transitional relief on investment returns.
- The transitional relief works alongside the EBT settlement opportunity which closed on 31 July 2015. Only settlements entered into with HMRC on or before 30 November 2016 will, therefore, qualify for the relief.

Intermediaries' legislation and the public sector

- Measures are to be introduced under which the responsibility for determining whether the intermediaries rules (IR 35) apply to individuals working through their own company in the public sector will move to the public sector employer, agency or third party that pays the intermediary company.
- Where the rules apply the employer, agency or third party will account for the relevant Income Tax and NIC through the Real Time Information (RTI) system.

VAT

- The VAT registration limit increases from £82,000 to £83,000, and the threshold at which a business can deregister from VAT is increased from £80,000 to £81,000.
- Measures aimed at overseas businesses selling goods to businesses via online marketplaces are to be introduced. HMRC have become concerned that such businesses are selling goods to UK customers where the goods have been shipped to the UK prior to sale, stored in a UK fulfilment house and then sold via an online market place to a UK customer without the overseas business accounting for VAT.
- The new measures allow HMRC to compulsorily register the overseas business for UK VAT, or direct them to appoint a VAT representative in the UK who would be liable for payment of the VAT, and to allow them to require some form of security.
- It also allows HMRC to make the online marketplace jointly and severally liable for the unpaid VAT if the overseas business does not become compliant with UK law or remove them from the marketplace.

ABOUT HAYSMACINTYRE

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As a mid-tier firm we're large enough to provide a wide range of services, yet small enough to offer a personal, responsive approach.

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