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SUMMER BUDGET 2015

FULL SUMMARY

The Chancellor George Osborne delivered the first Budget of the new Parliament this afternoon: the first by a Conservative Government since 1996.

It had been promised the Budget would reward work over welfare and while the expected welfare reforms were unveiled, the main headlines are expected to be taken by the 'national living wage' introduced to lift the minimum wage from next year.

Billed by the Chancellor at the outset as a "big budget for a country with big ambitions", it included a number of changes to the taxation system. These measures included some of the promises made in the pre-election Conservative manifesto on inheritance tax, pensions and raising income tax thresholds, together with some not wholly unexpected changes, such as permanent non-dom status being abolished from April 2017 and some surprise announcements.

The replacement of the dividend credit with a tax-free dividend allowance and higher tax rates on dividends will increase the tax cost of extracting profits from companies for many business owners and investors. Buy-to-let investors will also be disappointed with tax relief on mortgage interest being gradually reduced to the basic rate.

As expected, the inheritance tax exemption was raised to £500,000 for individuals and £1million for couples where they pass on their home to their descendants. This is funded by the annual allowance on pension contributions being tapered down to £10,000 for those earning between £150,000 and £210,000.

For companies, the reduction in the corporation tax rate to 18% by 2020 will be welcomed, but the restriction on the deductibility of goodwill purchased from today will disappoint some.

With the Government looking to raise a further £5billion from tax evasion, avoidance and aggressive tax planning, a number of anti-avoidance measures were introduced.

The Finance Bill, which will give effect to many of the announced measures, will be published on Wednesday 15 July 2015. Royal Assent is not expected until the autumn.

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PERSONAL TAX

Income Tax rates and allowances

- The tax-free personal allowance will be increased to £11,000 from April 2016 and £11,200 from April 2017.
- Higher rate tax at 40% will commence at £43,000 in 2016/17 and £43,600 in 2017/18.

Income Tax on dividends

- The 10% dividend tax credit will be abolished from April 2016 and replaced with a £5,000 tax-free allowance.
- Dividend income in excess of £5,000 will be taxed at 7.5%, 32.5% and 38.1% depending on whether the individual is a basic, higher or additional rate taxpayer.

Inheritance Tax

- The existing nil-rate band of £325,000 will remain fixed until 2020/21.
- An additional nil-rate band will apply where a residence is passed on to descendants on death. It will start in April 2017 at £100,000 and rise to £175,000 by 2020/21.
- Any unused nil-rate band can be transferred to a surviving spouse for use on their death.
- The new rate only applies to properties used by the deceased as their own residence, so buy-to-let properties will not be covered.
- The additional band will be tapered away for estates worth more than £2million.
- Measures will be introduced to allow those who downsize or sell their homes before death to benefit from the increased inheritance tax bands.

Pensions

- The Lifetime Allowance will be reduced to £1million from April 2016.
- Transitional protection for those pension funds already worth more than this will be introduced.
- From April 2016, the annual allowance for pension contributions will be reduced for those with 'adjusted incomes' in excess of £150,000.
- Definition of 'adjusted income' includes pension contributions, so salary sacrifice in exchange for employer contributions will not succeed in avoiding the tapered annual allowance.
- Annual allowance of £40,000 will be tapered away by £1 for every £2 of income down to £10,000.

- Maximum allowance for anyone earning more than £210,000 will therefore be £10,000.
- Pension input periods will be aligned with the income tax year for all schemes.
- Carry forward of unused allowance is still available, but where applicable based on the tapered allowance.
- Planning opportunities may be available for those who have already contributed the maximum allowance for 2015/16 to make further payments before 6 April 2016.
- There will be a consultation on wider reform of pension tax relief.

Landlords

- The rent-a-room threshold will be increased, so the first £7,500 of rental income can be received tax-free when you let a room in your own home.
- Mortgage interest relief on buy-to-let properties will no longer be available in full at the landlord's marginal rate from April 2017.
- Over a four year period the proportion of mortgage interest relief at higher rates will be reduced, so that from April 2020 all finance costs only receive a basic rate tax deduction.

Non-domiciled taxpayers and remittance basis

- At present an individual is deemed UK domiciled for inheritance tax when they have been resident for 17 out of the last 20 tax years. Income tax and capital gains tax do not currently have a deemed domicile rule.
- From April 2017, non-domiciled taxpayers who have been UK resident for more than 15 of the last 20 tax years will be deemed UK domiciled for all tax purposes.
- Anyone treated as deemed domiciled will not be able to access the remittance basis charge and will be taxable on worldwide income and gains. Worldwide assets will be subject to inheritance tax.
- It will now take five years to lose your deemed domicile for inheritance tax purposes when you leave the UK rather than three years.
- The remittance basis charges of £30,000 and £60,000 for those resident for seven out of nine years and 12 out of 14 years respectively remain unchanged.
- The £90,000 remittance basis charge for those resident for 17 out of 20 years will be abolished as it is no longer relevant.
- Taxpayers with a UK domicile of origin who move abroad and take up an overseas domicile will be taxed as UK domiciled if they return and become UK resident again.
- Consultation on all these measures will take place over the summer, with legislation to be included in Finance Bill 2016 and effective from April 2017.

Non-domiciled taxpayers and inheritance tax on UK residential property

- From April 2017, all UK residential property held directly or indirectly (ie through a company, trust or partnership) by a foreign domiciled taxpayer will be subject to inheritance tax.
- There will be no exemption for let or occupied properties, nor will any de minimis limit apply as currently with properties subject to the Annual Tax on Enveloped Dwellings (ATED).
- Inheritance tax will be due when a specifically defined chargeable event occurs, including the death of the individual shareholder or the tenth anniversary of the trust.
- The definition of 'excluded property' will be amended so that it no longer includes shares in companies which derive their value from UK residential property.
- Only the value of the UK residential property will be chargeable to inheritance tax if the company has diverse assets.
- A consultation will take place over the summer and legislation will be included in Finance Bill 2017.

Trusts

- In an effort to simplify the charges on Trusts, non-relevant property is ignored when calculating the rate of charge on a 10 year anniversary.
- This will apply to all charges arising on or after the date of Royal assent regardless of when the Trust was created.
- There are new rules about adding property to more than one relevant property trust on the same day. Property added to two or more relevant property settlements on the same day after commencement together, with the value added to the settlement at the date of commencement, will be brought into account in calculating the rate of charge on a 10 year anniversary.
- The new rule will not apply to Trusts created before 10 December 2014 where a will was executed before 10 December 2014, although this exclusion will be limited to deaths before 6 April 2017.

CAPITAL TAXES

Venture Capital Schemes

- As announced at Spring Budget 2015 and subject to state aid approval, certain restrictions and new qualifying criteria are to be introduced with respect to Venture Capital Schemes (Enterprise Investment Scheme, Venture Capital Trusts and Seed Enterprise Investment Scheme).
- A general requirement is to be introduced that all investments are made with the intention to grow and develop the business and that all investors are "independent" from the company at the time of the first share issue.
- New qualifying criteria will limit relief to companies that are "knowledge intensive" companies within 10 years of their first commercial sale or other qualifying companies within seven years of their first commercial sale. An exclusion will apply where the investment represents more than 50% of turnover averaged over the previous five years.
- A cap on total investment a company may receive through Venture Capital Schemes of £20million for knowledge intensive companies and £12million for other qualifying companies is to be introduced.
- The employee limit for knowledge intensive companies is increased to 500.
- New rules to prevent Venture Capital Schemes being used to acquire existing businesses, whether by way of share or asset purchase, are to be introduced.
- The Government will monitor the use of Venture Capital Schemes for investment in community energy organisations benefiting from subsidies for the generation of renewable energy.

Carried Interest

- Measures are introduced to secure that the carried interest paid to investment fund managers will be charged in full to capital gains tax with only limited deductions being permitted. The benefit of the base cost shift is removed.
- The change is effective from 8 July 2015.

BUSINESS TAXES

Corporation Tax

- The main rate of corporation tax is to be reduced to 19% from 1 April 2017 and by a further 1% to 18% from 1 April 2020. The main rate from 1 April 2016 remains at 20%.
- Corporation tax relief for the amortisation of purchased goodwill and other customer related intangible assets is to be removed. The restriction will apply to all acquisitions made on or after 8 July 2015, excluding acquisitions made pursuant to an unconditional obligation entered into before then.

Research & Development (R&D)

- The research and development expenditure credit (RDEC) legislation is to be amended to exclude claims by universities and charities. The measure relates to a university's or charity's own independent research, and also the R&D they carry out as subcontractors.
- The proposed amendments do not affect "spin out" companies used by universities or charities to commercialise their research.
- The amendment will apply to expenditure incurred on or after 1 August 2015.

Corporate Debt and Derivative Contracts

- Following the consultation commenced at Budget 2013, a number of measures to modernise the taxation of loan relationships and derivative contracts are to be included in Finance Bill 2015.
- Amendments will be made to remove the requirement that amounts brought into account for tax must "fairly represent" profits, gains and losses arising and bring the calculation of taxable amounts in line with the usual approach to the computation of profits for both commercial and tax purposes. As a result, taxation will be based only on amounts recognised as items of accounting profit or loss rather than on amounts recognised anywhere in the accounts, for example reserves or equity.
- A new regime wide anti avoidance rule is to be introduced to counter arrangements entered into with a main purpose of obtaining a tax advantage by way of the loan relationships or derivative contracts rules.

Corporation Tax payment dates

- New and accelerated payment dates are to be introduced for companies with annual taxable profits of £20million or more.
- The £20million threshold will be divided by the number of companies in the group in applying these rules to group companies.
- Corporation tax will be payable in quarterly instalments on the 3rd, 6th, 9th and 12th month of the accounting period.
- The measure will apply to accounting periods starting on or after 1 April 2017.

Annual Investment Allowance (AIA)

- The permanent level of AIA is to increase to £200,000 (from £25,000) and will apply to all qualifying investment in plant and machinery made on or after 1 January 2016.

Future Consultations

- The Government is to consult on the rules for company distributions in autumn 2015.

Business Tax Roadmap

- The Government is to publish a business tax roadmap setting out its plans for business taxes over the rest of the Parliament.
- The roadmap is expected to be published by April 2016.

Taxation of Banks

- A supplementary corporation tax charge on banking sector profits of 8% is to be introduced from 1 January 2016.
- The supplementary tax will apply to group profits above £25million excluding the use of any existing carried forward losses.
- The bank levy is to be progressively reduced from its current rate 0.21% to 0.1% by 2021. The tax base will be restricted to UK operations from 1 January 2021.

EMPLOYMENT TAXES

National Living Wage (NLW)

- A National Living Wage for those aged over 25 is to be introduced from April 2016. This is to be achieved by way of a premium of 50 pence added to the National Minimum Wage (NMW) giving a rate of £7.20.
- The intention is that the NLW should increase to 60% of median earnings and achieve a target of £9.00 by 2020.
- The Government is to invest an additional £1million in 2015-16 in enforcement of the NMW to tackle non-compliance by employers and raise awareness of employees' obligations and rights.

NIC Employment Allowance

- The National Insurance Contributions (NIC) employment allowance is to be increased by £1,000 to £3,000.
- The allowance will no longer be available to "one man" companies where the director is the sole employee.
- Both changes will take effect from 6 April 2016.

Salary Sacrifice

- Although no changes to the salary sacrifice rules were announced, the effect of the growth of such arrangements and their impact on tax collections are to be monitored (with the implicit threat that this is an area that may be revisited).

Consultations

- The Government is to consult on the use of Unfunded Employer Retirement Benefit Schemes (EFRBS) in arrangements to provide tax advantaged remuneration.
- The Government is also to consult on proposals to reform the tax treatment of payments received from sporting testimonials.
- The Government is to consult on the tax and NIC treatment of termination payment.

ANTI-AVOIDANCE

Marketed Avoidance Schemes

- The Government is to consult on measures to penalise those who persistently enter into tax avoidance schemes which are defeated. Measures under consideration include a special reporting requirement and a surcharge where the tax return is found to be inaccurate as a result of a defeated avoidance scheme.
- The scope of the Promoters of Tax Avoidance Schemes regime is to be widened by bringing in Promoters whose schemes are regularly defeated.
- The Government is to consult on the detail of introducing additional penalties and new measures to strengthen the General Anti-Abuse Rule (GAAR).
- Measures derived from the above will be legislated for in Finance Bill 2016.

The Hidden Economy

- HMRC's powers are to be extended to facilitate the acquisition of data from online intermediaries and electronic payment providers in order to identify those operating in the hidden economy.
- Additional investigators are to be employed from 2016 to exploit this data.
- A digital disclosure channel is to be made available to tax payers for the purposes of disclosing unpaid tax liabilities.
- An additional £300million is to be invested over five years from 2016 to tackle non-compliance by small and mid-size businesses, public bodies and affluent individuals.
- The Government will also increase funding to HMRC by over £60million by 2020-21 to assist HMRC's efforts in investigating serious and complex tax crime, focusing on wealthy individuals and corporates.

VAT

No increase in VAT rates!

- The Chancellor has confirmed that for the duration of the current Parliament there will be no increase in the rate of VAT as part of the announced "tax lock".
- Legislation will be introduced to ensure that the standard rate can be no higher than 20%, the reduced rate no higher than 5%, and that the zero rate will be maintained at 0%.
- It was also confirmed that nothing will be removed from the items that currently qualify for VAT relief in respect of the reduced and zero rates of VAT. It will be interesting to see how this can be maintained if challenged by the European Commission.
- The European Court has recently ruled that the reduced rate of VAT relief applied to the supply and installation of certain energy saving materials for all residential accommodation is unlawful under EU VAT law. We would normally expect the Government to therefore restrict or remove the VAT relief in accordance with the judgement, however, it's not certain how this can be done under the "tax lock" policy.

VAT refunds for shared services

- Further to announcing the measure in the 2014 Autumn Statement the Government has confirmed it will introduce legislation to allow certain non-departmental public bodies and similar public bodies to reclaim the VAT on costs incurred in connection with their non-business activities.
- This should be legislated for in Finance Bill 2016.
- This is a welcome boost for the sector as it will enable many more of these bodies to take advantage of the cost savings and service improvements that shared services can provide without suffering a VAT cost.

For further information on any of the above details, please contact Nick Jordan, Tax Partner.

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ABOUT HAYSMACINTYRE

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