

2016 BUDGET

“Putting the next generation first”

The Chancellor, George Osborne, presented the 2016 Budget on 16 March 2016.

The tax on soft drinks, expected to raise £520m was welcomed by all parties. Broadly speaking, the Chancellor set his sights firmly on big businesses paying more tax, allowing him to offer additional tax breaks for the often overlooked Small – Medium sized business sector.

Our summary is split into the following categories:

- Personal tax
- Business tax
- Employment tax
- Capital taxes

Personal Tax

The personal allowance will be increased from £11,000 (2016/17) to £11,500 (2017/18). Personal allowances will continue to be reduced for those with an adjusted net income of over £100,000, and will cease when adjusted net income exceeds £122,000 (2016/17).

Tax Bands & Rates (2014/15)

Income tax bands remain at 20% and 40%. The threshold where 40% applies will rise from £43,000 (2016/17) to £45,000 in 2017/18.

Where taxable income exceeds £150,000, 45% tax rate remains unchanged.

Tax on dividend income will change significantly in 2016/17. Dividends will no longer be subject to a notional tax credit of 10%.

They will now be taxed at the following rates (with dividends being the last type of income to be taxed):

- 1st £5,000 – taxed @ 0%.
- Thereafter
 - Basic rate taxpayers 7.5%.
 - High rate taxpayers 32.5%.
 - Additional rate taxpayers 38.1%.

Personal Tax (contd.)

Individual Savings Accounts (ISAs)

The current ISA savings limit of £15,240 will remain unchanged in 2016/17, prior to increasing to £20,000 in April 2017.

Two additional changes are proposed with effect from 6th April 2016:

1. Savers will be allowed to replace cash they have withdrawn from their account earlier in a tax year, without this replacement impacting on their annual ISA limit for that year (subject to terms and conditions provided for within a 'flexible ISA').
2. The Innovative Finance ISA is being introduced for loans arranged via Peer to Peer platforms.

Lifetime ISAs

From April 2017, this new type of ISA will be available to adults under 40 yrs old.

- Individuals will be able to contribute up to £4,000 per annum, and receive a 25% bonus from the government.
- This bonus will apply to funds put into the account before the taxpayer's 50th birthday.
- Withdrawal of funds:
 - Tax free withdrawal from the age of 60 onwards.
 - If funds are withdrawn at any time before the account holder is aged 60, the government bonus is lost and funds will be subject to 5% charge.

Tax-Free Childcare scheme

A phased roll out of the tax free childcare scheme was announced, scheduled for early 2017. Full availability is anticipated by the end of 2017.

This is welcome news to the self-employed sector, who to date, have not been able to avail of tax relief on childcare costs (e.g. childcare vouchers).

Business Tax

Corporation Tax Rates

The main rate of corporation tax, currently 20%, will be reduced to 19% (for financial years beginning 1st April 2017-2018-2019). For financial years beginning 1st April 2020, corporation tax will be further reduced to 17%.

Capital Allowances on business cars

Low emission cars (emissions < 75g/km) will continue to attract 100% capital allowances to April 2021.

The threshold for a low emission car will drop from 75g/km to 50g/km, effective from April 2018.

Secondly, the main rate of capital allowances for business cars will reduce from 130g/km to 110g/km, effective from April 2018.

Business Tax (contd.)

Loans to Participators (i.e. Directors)

Currently loans to participators are subject to an additional tax charge of 25%. This will increase from 6th April 2016 to 32.5%, to maintain the link that this tax has traditionally had to the effective high rate of tax applicable to dividend income.

This will apply to loans made and conferred on or after 6th April 2016.

Abolition of Class 2 National Insurance Contributions (NIC)

Effective from April 2018, Class 2 NIC payable by the self-employed will be abolished.

Property and trading income allowances

From April 2017, a new £1,000 allowance will be introduced for property and trading income. Individuals with these types of income below £1,000 will no longer need to declare or pay tax on this income.

Those with income exceeding the allowance, can decide to either deduct allowable expenses (in the normal way) or alternatively, by simply deducting the relevant allowance from their income.

Employment Tax

Employer provided cars (Benefit in Kind)

Effective from 6th April 2016, the Benefit in Kind charges will be increased by 2%, (subject to maximum cap of 37% of list price of the car). Similar increases in 2017/18 and 2018/19 have been announced.

For 2019/20, the rate will increase by a further 3%.

The van benefit charge for 2015/16 is £3,150, and will increase to £3,170 in 2016/17.

Employer National Insurance allowance

The current allowance (£2,000) can be used to offset employer NIC. From April 2017, this will be increased to £3,000.

However, to ensure that the aims of the allowance are met, (namely to encourage employment), the government have announced that the allowance will no longer be available to companies where the director is the sole employee.

Employee benefits and expenses changes from 6th April 2016

Statutory exemptions for certain expenses reimbursed to employees (travelling / subsistence) will come into effect, replacing the current system of employers applying for dispensation.

Employment Tax (contd.)

Employee benefits and expenses changes from 6th April 2016 (contd.)

Employers will be able to include taxable benefits in pay, and therefore account for PAYE on same.

However, Employers will have to register with HMRC for this service before the start of the new tax year.

Employers who avail of this service would not have to include these benefits on their annual Forms P11d.

The £8,500 threshold (below which employees were exempt from income tax on benefits) will be removed, with new exemptions being introduced for ministers of religion and carers.

Capital Taxes

Capital Gains Tax (CGT) Rates

The current rates of CGT were reduced for disposals on or after 6th April 2016. The existing rates for gains (18% if taxable within the basic rate band and 28% if above basic rate band) will be replaced with 10% and 20%.

Stamp Duty Land Tax (SDLT) – Non-residential property

The old 'slab' system, whereby if the purchase price breached a SDLT threshold the *entire* price was subject to higher SDLT, has been abolished with effective from 17th March 2016. The new tiered system mirrors recent changes to residential properties. The new rates are as follows:

- Consideration up to £150,000 SDLT Rate 0%
- Over £150,000 and up to £250,000 SDLT Rate 2%
- Over £250,000 SDLT Rate 5%

Other announcements

Business Rates

Applying to properties in England only, Small Business Rate Relief (SBRR) will double from 50% to 100%. Properties with a rateable value of £12,000 and below, will receive 100% relief.

Contact us

If you would like to discuss the contents of our Budget 2016 summary, please contact Nigel Morrow.