Summer Budget 2015: Implications for Healthcare

The Budget proposals are intended to encourage and reward those in work, for example by raising the personal tax allowance and higher rate threshold, increasing free child care for working families and introducing a compulsory National Living Wage as of next year. It is also intended to help business, for example with a reduction to the corporation tax to 18% by 2020, an increase in the NIC threshold for employers and a permanent annual investment allowance for capital expenditure at £200,000.

Nevertheless this is a tax raising Budget and the Government intends to make £37bn of savings by 2019-20. There are planned contributions of £5bn from avoidance and tax planning, evasion and compliance, and imbalances in the tax system. A further £12bn will be saved through changes to the welfare system and limiting tax credits. Plans to deliver the remaining £20bn will be set out in the autumn following the Spending Review.

While it is a tax raising budget, it is encouraging to see the NHS will receive a further £8bn by 2020 in addition to the £2bn already announced. There is also a focus on bridging the health gap for people with mental health problems and the population as a whole while targeted investment of an additional £1.25bn in funds towards new access and waiting times standards introduced for key mental health services, healthcare for people with eating disorders and focus to people with mental health illness returning to work.

There is also targeted investment announced of £8.5m over the next 5 years in England for mental health services for the most vulnerable veterans in the community, while £75m will fund NHS care for women who experience mental ill health during the perinatal or antenatal period and £1bn over the next 5 years to start new access standards for children and young people.

At a regional level in the North the Government is committing £20m investment over 4 years in establishing four pilot 'Connected Health Cities', as part of the foundation stage of the Health North project as part of the drive to see bodies work across sectors with finite resources to operate more efficiently in an integrated manner.

On the tax and pensions front the Summer Budget is a mixed bag this year with important changes in some cases, such as the Pensions Personal Allowance limits which taken together with other recent pension changes will have a dramatic impact on the workforce and will flow through into strategic workforce planning as some staff may make decisions to reduce working hours or to leave NHS employment. At the same time some stability has been provided in the case of a "tax lock", ensuring specific tax rates and reliefs in place will remain for the duration of the Parliament.

As an aside, in the next few weeks the revised contracted-out services VAT guidance, which we understand is now complete, will be issued. We will wait to see if the policy has indeed remained unchanged as promised (with the guidance simply being made clearer), or whether there are as we expect changes to interpretation that will impact NHS budgets.

If you want to know what else you can expect from George Osborne between now and 2020, then your luck is in. The Government has promised to produce a Business Tax Roadmap by April 2016, setting out its plans for business taxes over the rest of this Parliament.

We have summarised below the key tax proposals which could affect the NHS arising from the Budget Report delivered on 8 July 2015. Click here for KPMG's general commentary on the Summer Budget 2015.

Pensions

The Chancellor has announced a reduction to the Annual Allowance to £10,000 a year for higher earners. This is in addition to the cut in Lifetime Allowance to £1m from 2016 which has already been announced and will impact those earning around £75,000 or more. Those earning over £110,000 are very likely to impacted by both the Lifetime and Annual Allowances, which means that they may not get value back for their own pension contributions and may leave their scheme. The new rules will be effective from 6 April 2016 – but there is work to be done before then.

Here is our initial press release on the subject: KPMG Pensions Budget Press Release

VAT & Income Taxes: Tax lock

The Chancellor confirmed legislation to enact a 'lock' to ensure rates of VAT, Income Tax and National Insurance Contributions (NICs) do not rise for the rest of this Parliament.

For VAT this protects the current scope of the standard (20%) reduced (5%) and zero (0%) rates of VAT for the rest of this Parliament and none of the individual VAT rates can be increased and the supplies that currently qualify for reduced or zero rate will not be removed from these rates. This means that those in the sector currently benefiting from the favourable treatment on items such as fuel and power, outpatient drugs, and medical equipment purchased from charitable funds can continue to do so.

The tax lock appears to create an immediate issue for the UK and HMRC in connection with addressing the consequences of the recent loss at the Court of Justice of the European Union with regards to the reduced rate for the installation of energy-saving materials. The UK has been informed that the reduced rate is currently drawn too widely and is therefore required by the European Commission to refine the scope of the reduced rate for the installation of energy-saving materials but any narrowing of the reduced rate would seemingly fail to meet the requirements of the tax lock.

With regards to income taxes, the tax lock will provide that the rates of income tax and Class 1 NICs should not rise and that increases to the Upper Earnings Limit will not exceed the Higher Rate Tax Threshold.

For VAT and income tax the tax lock will be effective on the date the summer Finance Bill 2015 receives Royal Assent and for NICs after Royal Assent of the National Insurance Contributions Bill. The tax lock will only be effective from these dates to the end of this Parliament.

VAT refund for certain Public Bodies

The Summer Budget also announced a VAT refund mechanism for certain public bodies on specified shared services. Further detail has not yet been published but based on a Tax Information and Impact Note released by HMRC in December 2014, this is expected to help reduce the VAT cost suffered by some Non-Departmental Government Bodies on entering into shared service arrangements. Qualifying bodies and services are expected to be named by the Treasury but it is not yet clear how this will affect

private sector providers. We will have to wait for further detail to see if this creates opportunities for the sector.

Other indirect taxes

Climate Change Levy

Currently, renewable source electricity, which includes electricity from renewable and other efficient energy sources, is exempt from climate change levy (CCL). In addition electricity used for qualifying purposes such as domestic use is not subject to CCL. However, this measure will remove the exemption in connection with renewable source electricity. Therefore, all electricity purchased by organisations for non-domestic purposes, e.g. for office buildings, will become subject to CCL. The current rate of CCL is 0.554p per kWh.

Although there will be transitional provisions, the effective date of this measure will be 1 August 2015.

Insurance Premium Tax

With effect from 1 November 2015 the standard rate of Insurance Premium Tax will increase to 9.5%, from the current standard rate of 6%, raising the cost for most types of property cover.

Corporation tax

There are NHS bodies with investments in subsidiary companies; the following announcements made in the Budget will be applicable to such companies and may therefore be of interest to NHS bodies.

Rate of corporation tax

The current main rate of corporation tax is 20%. This is set to decrease to 19% from 1 April 2017 and 18% from 1 April 2020.

Capital allowances

In the 2014 Budget there was an announcement that the Annual Investment Allowance limit would fall from £500,000 to £25,000 from 1 January 2016. The Government has announced in this Budget that the allowance will be permanently set at £200,000 for expenditure on plant and machinery incurred from 1 January 2016.

Goodwill

Currently a tax deduction can be claimed for the acquisition cost of assets linked to customer relationships and business reputation (more commonly referred to as goodwill). This tax relief is withdrawn from immediate effect for all future purchases of assets. This measure will apply to accounting periods beginning on or after 8 July 2015, but not in respect of acquisitions made before 8th July 2015.

Tax payments

From 2017, corporation tax payments for groups with taxable profits over £20m will be payable in the 3rd, 6th, 9th and 12th month of the year they relate to.

Employment Taxes

The Government will:

1) Establish the **Office of Tax Simplification (OTS)** on a permanent basis with an expanded role and capacity. The new, expanded OTS will be put on a statutory footing in Finance Bill 2016; and

2) Commission the OTS to review the closer **alignment of income tax and National Insurance** Contributions.

Rates & thresholds

Income tax

The income tax personal allowance will increase from £10,600 in 2015-16 to £11,000 in 2016-17. It will increase to £11,200 from 2017-18.

The Government will increase the higher rate threshold from £42,385 in 2015-16 to £43,000 in 2016-17 and to £43,600 in 2017-18. The Government will also have a legal duty to consider the impact of the level of the personal allowance on an individual working 30 hours a week on the National Minimum Wage (NMW) and to report on this at each fiscal event. To underpin this, the Government has also announced a review of the NMW timetable to align it with the tax year.

National Insurance

The NICs Upper Earnings Limit will increase to remain aligned with the higher rate income tax threshold.

National Living Wage & National Minimum Wage

A premium for those aged 25 and over, starting at 50 pence, will be introduced leading to a new National Living Wage (NLW) of £7.20 from April 2016.

An additional £1 million in 2015-16 to be invested in NMW enforcement to tackle non-compliant employers.

Employee Expenses & Benefits

Consultations on terminations and travel & subsistence – Following recommendations by the OTS, the Government will consult on simplifying the tax and NICs treatment **of termination payments** and the tax treatment of **travel and subsistence**. We anticipate that the consultation papers will be published in the coming weeks.

Voluntary payrolling of benefits – Draft regulations have been published to underpin the introduction of voluntary payrolling of benefits in kind with effect from April 2016. The new regime has been extended to cover almost all benefits in kind, with the following exceptions: accommodation; beneficial loans; credit tokens and vouchers. Additional reporting requirements where employer's payroll company cars will be introduced from April 2017.

Business expenses exemption and scale rate payments – Draft regulations have been published relating to scale rate payments under the forthcoming business expenses exemption, which will take effect from April 2016. Under the new regulations, the following "standard meal allowance" day rates will be available:

(a) £5 where qualifying travel is 5 hours or more; or
(b) £10 where qualifying travel is 10 hours or more; or
(c) £25 where qualifying travel is 15 hours or more and is ongoing at 8pm on that day.

And this will be supplemented by an additional meal allowance not exceeding £10, in cases where either the £5 or £10 meal allowance is paid and the qualifying travel remains continues beyond 8pm on that day.

Trivial Benefits Exemption – As announced at Autumn Statement 2014, from April 2016 the Government will simplify the tax system by introducing a statutory exemption for trivial benefits in kind costing less than £50.

Company car tax rates for 2019-20 – The appropriate percentage of list price subject to tax will increase by 3 percentage points for cars emitting more than 75 grams of carbon dioxide per kilometre (gCO2 /km), to a maximum of 37%, in 2019-20.

No announcement has been made regarding whether a benefit in kind will arise on the provision of **electric fuel**, nor has there been any indication of a published Approved Mileage Allowance Payment (AMAP) or advisory fuel rate for electric vehicles.

Employment Allowance – The Government will increase the annual Employment Allowance from £2,000 to £3,000. This will come into effect from April 2016. Companies where the director is the sole employee will no longer be able to claim the Employment Allowance from April 2016.

The Government reaffirmed its commitment to introducing **Tax-Free Childcare** to support working parents with the costs of childcare. Due to a legal challenge, Tax-Free Childcare will now be launched from early 2017.

Short Term Business Visitor (STBV) Agreement

HMRC announced that they will be introducing a new procedure to simplify the administration of PAYE in respect of short term business visitors (STBVs) who do not qualify for exemption from UK taxation under the terms of a double tax treaty.

Non-Domiciled Individuals

The Government will legislate so that from April 2017 anybody who has been resident in the UK for more than 15 of the past 20 tax years will be deemed to be domiciled in the UK for tax purposes and any individual born in the UK to parents who are UK domiciled will not be able to claim non-domicile status whilst they are resident in the UK.

Salary Sacrifice

The Government will actively monitor the growth of salary sacrifice schemes that reduce employment taxes and their effect on tax receipts. No further announcement on pension or any other salary sacrifice has been made.

Remuneration Planning

Unfunded employer financed retirement benefit schemes (EFRBS) – The Government will consult on tackling the use of unfunded EFRBS to obtain a tax advantage in relation to remuneration planning.

Employment Intermediaries

Employment intermediaries and tax relief for travel and subsistence – as initially announced in March, the Government intends to restrict tax relief for travel and subsistence for workers engaged through an employment intermediary, such as an umbrella company or a personal service company. A consultation on the detail of the measures has been published and following its conclusion the changes will take effect from 6 April 2016.

IR35 reform – The Government will engage with stakeholders this year on how to improve the effectiveness of existing intermediaries' legislation ('IR35') which is designed to protect against disguised employment. Any organisation that engages individuals through the individual's personal service business (limited company or partnership) may be affected by any proposed changes.

Contact us

Corporation Tax – Priti Waghela
T: +44 (0) 161 246 4990
E: priti.waghela@kpmg.co.uk

VAT – Steven Brooks
T: +44 (0) 20 7896 4295
E: steven.brooks@kpmg.co.uk

Employment Tax – Caroline Laffey
T: +44 (0) 20 7896 4295
E: paul.moreels@kpmg.co.uk

Pensions – Mark Belchamber
T: +44 (0) 20 7311 4979
E: mark.belchamber@kpmg.co.uk

www.kpmg.co.uk

Produced by Create Graphics | Document CRT033310