Summer Budget 2015: Implications for charities

The Chancellor has stated that this Budget is intended "to move Britain from a low wage, high tax, high welfare economy to a higher wage, lower tax, lower welfare economy."

Though there is little that is directly aimed at charities, and some in the sector will be disappointed that no action has been taken on matters such as the limited VAT recovery available to charities yet the ability to claim Research and Development Credits has been withdrawn, there are issues that will affect organisations in the sector in their role as employers and taxpayers and changes that will impact on their employees.

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 rate to 18% by 2020, an increase in the NIC threshold for employers and a permanent Annual Investment Allowance for capital expenditure of £200,000.

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

The Government has also promised to produce a Business Tax Roadmap by April 2016, setting out its plans for business taxes over the rest of this Parliament which may be welcomed as an aid to planning for the future.

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

Measures directly affecting charities

The Government confirmed that it will commit nearly £70 million of banking fines over the next 5 years to support military charities and other specified good causes.

A significant announcement is that the Government will also put in place legislation so universities and charities will not be able to claim the Research and Development Expenditure Credit for expenditure from 1 August 2015. This will not affect spin-out companies established to commercialise research.

Final clarification continues to be sought from HMRC in relation to the corporation tax implications of the technical analysis of Gift Aid donations paid by wholly owned subsidiaries, as set out in the Technical release issued by the Institute of Chartered Accountants in England and Wales in October 2014. We understand that HMRC will conclude their thoughts in the near future.

Securing £5 billion from the tax system

The Government intends to introduce measures to secure £5 billion by 2019-2020 from tackling tax avoidance and tax planning, non-compliance and imbalances in the tax system. The Chancellor has placed greater focus on operational rather than legislative changes which see HMRC receiving an £800 million package which appears to be directed at reducing the tax gap. In particular, part of this additional investment is intended to tackle compliance by public bodies. Monitoring the impact for the sector of matters such as the tax impact of salary sacrifice arrangements and the Green Paper on pensions tax reliefs will need to be watched closely.

Tax simplification

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 (see below).

VAT & Income Taxes: Tax lock

The 'tax lock' is a measure that aims to ensure that rates of VAT, income tax and National Insurance Contributions (NICs) do not rise above their 2015-16 levels.

In terms of VAT, this means that none of the individual VAT rates (20% and 5%) can be increased and that supplies that currently qualify for the reduced rate or zero rate will not be removed from these rates.

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 NIC Upper Earnings Limit will not exceed the Higher Rate Tax Threshold.

For VAT and income tax the tax lock will be effective from 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.

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 supplied to businesses and public sector

consumers. 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.

Apprenticeship Levy

Funding is to be raised to support 3 million apprenticeships during the course of this Parliament through a levy on large employers. There will be formal engagement with business on the implementation of the levy, which will also consider the interaction with existing sector levy boards, and further details will be set out at the Spending Review.

Corporation Tax

It is common for charities to own non-charitable subsidiary companies; the following announcements made in the Budget will be applicable to such companies and may therefore be of interest to charities.

Rate of corporation tax

The 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.

Business Goodwill

Currently a tax deduction can be claimed for the acquisition cost of goodwill. This tax relief will be withdrawn and the measure will apply to accounting periods beginning on or after 8 July 2015, but not in respect of acquisitions made before 8 July 2015.

A loss arising on a disposal of such goodwill (purchased on or after 8 July 2015) will be treated as a non-trade expense (currently it is part of the trading profits calculation) this means that it cannot be offset against trading profits in a different period.

Tax payments

From 1 April 2017, corporation tax payments for groups of companies with taxable profits over £20m will be payable in the 3rd, 6th, 9th and 12th month of the tax accounting period to which they relate.

Insurance Premium Tax

From 1 November the standard rate of Insurance Premium Tax will be increased from 6% to 9.5%.

Income and Employment taxes

Rates & thresholds

Personal 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 employers 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 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 Payments (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.

- As announced on Wednesday 1 July, the Government reaffirms 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.

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.

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.

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.

Pensions

- The Chancellor has announced a reduction to the Annual Allowance to £10,000 a year for higher earners. In effect the Annual Allowance reduction will be tapered from the current £40,000 threshold down to £10,000 for those earning between £150,000 and £210,000.

- This is in addition to the cut in Lifetime Allowance to £1 million 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 be 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.

- Our initial calculations show that employees earning above around £170,000 will see full tapering of the Annual Allowance down to £10,000. This means they may face an additional Annual Allowance tax charge of £13,500 a year – this is in addition to the amount they may have paid anyway. At this earnings level, the budget changes could be viewed as a 10% pay cut.

- The new rules will be effective from 6 April 2016 but there are detailed issues to assess with regards Lifetime Allowance protection and the new income definitions which will require clear interpretation. We will continue to share our insights with you as these develop.

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

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