



# Summer Budget 2015: Implications for Social Housing

In the Chancellor's words, this Summer Budget was one that aims to put security first and sets out a number of reforms seeking to move Britain from a low wage, high tax, high welfare economy to a higher wage, lower tax, lower welfare economy.

However, for housing associations, a key message was the 1% reduction in social housing rents for each of the next 4 years. The Summer Budget lacked any real focus on fixing the housing crisis, with no word on investment in house building and supply. Whilst the relaxation of planning laws announced in the "Productivity Plan" is welcome, it needs to be followed up with wider reforms to tackle land market issues and the ability to actually build new homes.

The Summer Budget set out the actions to be taken by the Government in their aim to:

- eliminate the deficit and run an overall surplus to start paying down debt, while increasing spending on defence and the NHS;
- reward people and back aspiration, notably through the introduction of a new National Living Wage and substantial reforms to the welfare system;
- back business and make the economy more productive;
- secure a truly national recovery through devolution and the creation of the right conditions for strong growth throughout the UK.

We have summarised below the key taxation proposals which could affect social housing providers arising from the Summer Budget Report delivered on 8 July 2015. [Click here](#) for KPMG's general commentary on the 2015 Summer Budget Report.

## Measures directly affecting social housing providers

The reforms to the welfare system include a freeze in working-age benefits and the withdrawal of the family premium from housing benefit (affecting new claims from April 2016). Alongside these, the Government will reduce rents in social housing in England by 1% a year for 4 years from 2016, and has challenged housing associations and local authorities to deliver further efficiency savings than they have done thus far.

A "pay to stay" "tax" will apply to social housing tenants with household incomes of £40,000 and above in London, and £30,000 and above in the rest of England. Those caught by this will have to pay a market or near market rent for their accommodation. Local authorities will repay the rent subsidy that they receive from tenants to the Exchequer while the intention is that housing associations will be able to use the rent subsidy that they receive to reinvest in new housing. This is very unlikely to offset the dampening effect of the rental reduction on housing associations' development plans. The Government is to consult and set out the detail of this reform in due course.



The Government will review the use of lifetime tenancies in social housing to ensure the best use of the country's social housing stock and that households are offered tenancies that match their needs.

From April 2017, the Budget will remove the automatic entitlement to housing support for new claims from 18-21 year olds who are out of work (although exemptions to this will apply).

The Chancellor confirmed right to buy for housing associations will go ahead in some form.

The national living wage will affect care and support contract providers.

One significant current issue in the sector which was not mentioned in the Budget is that of Gift Aid. 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.

### **Apprenticeship Levy**

Funding is to be raised to support 3 million apprenticeships starts 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. Further details will be set out at the Spending Review.

### **Help to Buy: ISA**

Following the announcement of the introduction of the Help to Buy: ISA in the March 2015 Budget, it was announced in the Summer Budget that Help to Buy: ISAs would be available for first time buyers to start saving into from 1 December 2015. In addition to the £200 per month that first time buyers will be able to deposit into their Help to Buy: ISA, they will be able to open their account with an initial one off £1,000 deposit. For every £200 a first time buyer saves, the Government will provide a £50 bonus up to a maximum bonus of £3,000 on £12,000 of savings.

### **Corporation Tax**

#### *Rate of corporation tax*

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



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 it cannot be offset against trading profits in a different period.

#### *Wear and tear allowance*

Currently, landlords of furnished properties can, broadly, deduct 10% of their rent received from their taxable profits, in order to account for wear and tear, irrespective of their expenditure. From April 2016, the Government will replace this allowance with a new system that will enable landlords of residential property to only deduct costs which they actually incur.

#### *Tax payments*

From 2017, corporation tax payments for companies with taxable profits over £20m will be payable in the 3<sup>rd</sup>, 6<sup>th</sup>, 9<sup>th</sup> and 12<sup>th</sup> month of the accounting period they relate to, a significant acceleration in their tax payment profile.

### **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.

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 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 and other indirect taxes**

#### *Climate Change Levy*

Currently, renewable source electricity, which includes electricity from renewable sources (e.g. solar and wind), 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.



There were no significant VAT changes introduced that should impact social housing providers.

### **Insurance Premium Tax**

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

### **Income and employment tax**

#### Simplification

##### *Making tax easier*

The Government is to establish the Office of Tax Simplification (OTS) on a permanent basis with an expanded role and capacity. The OTS will be commissioned to review the closer alignment of income tax and National Insurance Contributions.

#### Rates and 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 and 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.

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 in the 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 (gCO<sub>2</sub> /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.

#### *Tax-Free Childcare*

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.

#### 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.

### Pensions

#### *Annual Allowance and Lifetime Allowance*

The Chancellor has announced a reduction to the Annual Allowance to £10,000 a year for higher earners which will be particularly significant for Defined Benefit scheme members. 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 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. The new rules will be effective from 6 April 2016 – but there is work to be done before then.

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. Earnings for this purposes is based on a new definition, "adjusted income", which includes income from investments and property for example. Crucially, it also includes the value of the employer's contributions (see below). The reduction is applied by removing £1 of Annual Allowance for every £2 of adjusted income.

The value of the employer's contributions is easy to assess for Defined Contribution schemes. Not so for Defined Benefit schemes. So the value will have to be calculated in the same way as for the Annual Allowance calculation, by applying a factor of 16 to the increase in the benefit. This "Pension Input Amount" will be adjusted to reflect employee contributions to determine a deemed employer contribution. Higher earning Local Government Pensions Scheme (LGPS) members with long service and a real pay rise can relatively easily accrue a Pension Input Amount which exceeds £40,000.

The Chancellor's detailed notes include reference to another new earnings definition called "threshold income", which includes earnings sacrificed for pension provision and other income such as from investments and property. Those with threshold income of £110,000 or less will not be subject to any reduction in the Annual Allowance (it will remain at £40,000). For those with threshold income above £110,000 the adjusted income figure will apply, and the inclusion of the employer contribution amount will count towards the £150,000 and may then lead to a tapering in the Annual Allowance. This means LGPS members and those in the 1/60th Final Salary section of Social Housing Pensions Scheme (SHPS) above the threshold are very likely to see their Annual Allowance reduce.



Others may also be at risk. So they will incur an additional Annual Allowance charge (or a new charge if otherwise they would not have had one), as well as a Lifetime Allowance charge.

Our initial calculations show that employees in the LGPS or in the 1/60th Final Salary section of SHPS 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 above the amount they may have paid anyway. At this earnings level, the Budget changes could be viewed as a 10% pay cut. When viewed alongside the continued pay constraints we anticipate that affected members may be seeking to understand their options – without options they may leave the scheme and possibly their employment. If the current pension schemes do not give you sufficient flexibility (for example the LGPS) you may need to consider alternatives or revise your reward strategy.



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