December 2, 2015
2015-144

flash Alert

A Publication for Global Mobility and Tax Professionals by KPMG's Global Mobility Services Practice

United Kingdom – Autumn Statement Affirms Income Tax Changes, Apprentice Levy

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In This Issue:

On 25 November 2015, the Chancellor of the Exchequer delivered the U.K.'s Spending Review and Autumn Statement[1]. The Spending Review and Autumn Statement ("the Autumn Statement"), which embodies the taxation and spending plans of the government, included, among other things, the income tax and social security rates and thresholds for the coming year, the introduction of the Apprenticeship Levy in 2016, and simplification of the tax rules governing employee share plans.

Few details were given about many of the measures announced, either in the Autumn Statement speech or the supporting documents published. However, a number of matters were mentioned that will have an impact on employers of internationally mobile employees, and on those employees themselves. These are summarized below.

Why This Matters

The main themes of the Autumn Statement were continuing modernisation of the tax collection process, the introduction of an Apprenticeship Levy, and a tightening of the rules around tax compliance and avoidance. The aforementioned will present ongoing challenges for employers, who will need to adjust to these changes and take steps to foster proper compliance going forward.

Costs of assignments to the U.K. may also increase following the introduction of the Apprenticeship Levy, which is discussed below. Employers may wish to update cost projections as appropriate.

Tax rates and allowances for the 2016/17 year were also confirmed.

Tax Thresholds

Many of the tax rates and thresholds were announced in the Summer Budget; they were confirmed in the Autumn Statement[2]. (For prior coverage of the Summer Budget, see GMS *Flash Alert* 2015-089, 20 July 2015.)

Income Tax

The personal allowance (nil-rate band) will rise from £10,600 in 2015/16 to £11,000 in 2016/17. The personal allowance will continue to be phased out by £1 for every £2 by which income exceeds £100,000.

The remaining tax bands are set out on the following page.

	Rate	2015/16	2016/17
Starting rate for savings *	0%	£0 - £5,000	£0 - £5,000
Basic rate	20%	£0 - £31,785	£0 - £32,000
Higher rate	40%	£31,786 - £150,000	£32,001 - £150,000
Additional rate	45%	Over £150,000	Over £150,000

* If an individual's non-savings taxable income exceeds the starting-rate limit, then the rates applicable to dividends are 7.5 percent for dividend income up to the basic rate limit and 32.5 percent up to the additional rate above that. The rate applicable to dividend income above the additional tax rate limit is 38.1 percent. Other savings income is taxed at the appropriate income tax rate. For 2016/17 there is also a dividend allowance of £5,000.

NIC

Employee and Employer NIC Rates and Thresholds for 2016/17			
Earnings per week (£)	***Employee (Class 1 Primary)***		***Employer (Class 1 Secondary)***
Below £112 (Lower Earnings Limit) (£112 in 2015/16)	0%	Below £156 (Secondary Threshold) (£156 in 2015/16)	0%
£111 - £155 (Primary Threshold) (£112 to £155 in 2015/16)	0%	Above £156 (£156 in 2015/16)	13.8%
£155 - £827 (Upper Earnings Limit) (£155 to £815 in 2015/16)	12%		
Above £827 (£815 in 2015/16)	2%		

Apprenticeship Levy

The government had previously announced in the Summer Budget it would introduce an Apprenticeship Levy to be paid by employers to help fund the cost of new apprenticeships. The main announcement in the Autumn Statement is the confirmation that the rate of the levy will be 0.5 percent of an employer's 'paybill', to be collected via the Pay-As-You-Earn (PAYE) system. The Levy will be payable alongside PAYE and National Insurance, and KPMG LLP (U.K.) anticipates it will be due by the usual monthly PAYE deadlines. In the government response to the consultation on the Levy, published alongside the Autumn Statement, it has been confirmed that ‘paybill’ means an employee’s total earnings, but does not include other payments such as benefits-in-kind.

All U.K. employers, regardless of the number of their employees, are subject to the Levy because there is no threshold in terms of the size of the business. However, there will be a flat allowance offset of £15,000 against the Levy for all employers. Employers operating multiple payrolls will only have one allowance and there will be a ‘connected persons’ rule to prevent employers setting up multiple entities to claim multiple allowances.

KPMG LLP (U.K.) Note

The government has announced that the £15,000 allowance will mean that 98 percent of employers will not pay the Levy, but this could still be a significant cost for employers who breach the “paybill” thresholds. We assume this will apply to “modified payrolls” (which apply to certain inbound assignees working in the U.K.) as well as to general U.K. payrolls, however we await further details on this. Employers who do pay the Levy should have an opportunity to benefit from the contributions that are made; again, more information is awaited on how exactly this will be achieved. We expect further details to be included in the draft Finance Bill 2016, expected to be published on 9 December 2015, in terms of precisely what pay elements will be subject to the Levy.

Employee Share Schemes

The Finance Bill 2016 will contain a number of technical changes to streamline and simplify aspects of the tax rules for employee share plans.

KPMG LLP (U.K.) Note

At this stage, we have no detail of the changes or the proposed timing and will need to await the publication of the draft Finance Bill 2016 on 9 December 2015.

The announcement suggests there will be some changes to both tax-advantaged and non-tax-advantaged share plans. We anticipate at least one of the changes to focus on defining what is meant by “Restricted Stock Unit” (RSU) awards in relation to the application of the new sourcing rules applicable to internationally mobile employees that took effect from 6 April 2015 (for prior coverage, see *Flash International Executive Alert* 2014-068, 18 July 2014). In particular, it is expected the changes will help clarify when income is taxed using the special tax rules that apply to “securities options” as opposed to under the “general earnings” rules. This has a knock-on impact for NIC, but also has a number of other implications relating to share plan reporting, the capital gains tax base cost for an individual, and the computation of a statutory corporate tax deduction on vesting gains.

If these changes are implemented as anticipated, this would bring welcome clarity as to how RSU awards should be treated for both tax and NIC purposes. There may still be a question of how an award should be treated where the plan includes a cash settlement provision, and we await further details on this point.

This may also have an impact on tax equalisation policies and, again, we will endeavour to keep readers informed of further developments in this regard.

Pensions Tax Relief Consultation

A consultation was announced at the Summer Budget 2015 on reforms to the U.K. pension system. That consultation has now closed and the government will publish its response to the comments received at the time of Budget 2016.

KPMG LLP (U.K.) Note

Although no major changes were announced, it is worth noting that the pension annual allowance will be tapered from £40,000 to £10,000 for individuals with income levels between £150,000 and £210,000. This takes effect from 6 April 2016, and will have a significant impact on the tax costs for U.K. inbound assignees.

Capital Gains Tax (CGT)

Generally, CGT is paid when an individual files a self-assessment tax return. Thus, for a gain made on 7 April 2014, tax would not generally be payable until the January following the end of the tax year (5 April 2015), in this case 31 January 2016, some 21 months later. Legislation will be introduced with effect from April 2019, providing that where CGT is due on the disposal of residential property, a payment on account of any CGT due must be made within 30 days of the completion of the disposal. This will not affect gains on properties which are not liable for CGT due to Principal Private Residence relief. A consultation will take place in 2016 on draft legislation that will be published.

Anti-Avoidance

Salary Sacrifice

The government continues to consider if it needs to take any action in respect of what it describes as "the growth of salary sacrifice arrangements." The government has stated that it will gather "further evidence, including from employers, on salary sacrifice arrangements to inform its approach."[3]

KPMG LLP (U.K.) Note

Many employers operate flexible benefit schemes that are salary sacrifice arrangements. They could be affected by any action the government decides to take. Any further developments in this area will be the subject of a separate GMS *Flash Alert*.

Employment Intermediaries and Tax Relief for Travel and Subsistence

As previously announced in the Summer Budget 2015, legislation will be introduced to restrict the available tax relief for travel and subsistence expenses for workers engaged through an employment intermediary. Such intermediaries include umbrella companies and personal service companies. The changes will take effect from 6 April 2016, and KPMG LLP (U.K.) anticipates legislation to be published on 9 December 2015, as part of the draft Finance Bill 2016. (For related coverage, see GMS *Flash Alert* 2015-133, 5 November 2015.)

Disguised Remuneration

It was announced that "the government intends to take action against those who have used or continue to use disguised remuneration schemes and who have not yet paid their fair share of tax."[4] The government is also considering introducing further legislation in order to prevent the introduction of any new schemes intended "to avoid tax on earned income" to take effect, where necessary, from 25 November 2015.

KPMG LLP (U.K.) Note

It is rare for the government to threaten retroactive legislation and it appears to be issuing a warning that it is losing patience with those implementing so-called disguised remuneration schemes.

Office of Tax Simplification (OTS) – Taxation of Accommodation Benefits

In 2014, the OTS published a report on the simplification of the taxation of employee benefits and expenses. Building on this, in the Autumn Statement, the government said it will issue a call for evidence on the current tax treatment of employer-provided living accommodation. This will be the first step in the consultation process on proposed changes.

Digitising the Tax System

The government is investing heavily in the U.K. tax system with the aim of transforming "HMRC into one of the most digitally advanced tax administrations in the world."[5] All taxpayers will be given a digital tax account and this will become the way that taxpayers interact with HMRC – many taxpayers including businesses and landlords (although not necessarily employees, unless they have a minimum level of secondary income) will be required to access and update their accounts on a quarterly basis. Software that links securely with HMRC's technology will be made available by HMRC.

The government has also said that legislation will be published to enable "a new, simpler process for paying tax."[6] Taxpayers who are already within self-assessment who have "simple" tax affairs will be sent a tax calculation by HMRC that will also serve as a legally enforceable demand for payment of any outstanding tax due. This will be subject to a right of appeal. These calculations will be issued starting from the 2016/17 tax year.

KPMG LLP (U.K.) Note

These proposals for digitising the tax system could have a significant effect on mobile employees and the way they interact with HMRC (or the way agents interact on their behalf). More details are expected shortly and a consultation will be issued in 2016 on the way forward. We will endeavour to apprise readers further as soon as more information is available.

Footnotes:

1 See HM Treasury, "Spending Review and Autumn Statement 2015" at:: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479745/HM_Blue_Book_Complete.pdf .

2 See HM Treasury, "Tax and Tax Credit Rates and Thresholds for 2016-17" at: https://www.gov.uk/government/publications/tax-and-tax-credit-rates-and-thresholds-for-2016-17/tax-and-tax-credit-rates-and-thresholds-for-2016-17 .

3 From HM Treasury "Spending Review and Autumn Statement 2015" (see footnote 1).

Footnotes (cont'd):

4 Ibid.
5 Ibid.
6 Ibid.

The information contained in this newsletter was submitted by the KPMG International member firm in the United Kingdom.

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