NORTHERN IRELAND

Taxing Times

UK Summer Budget 2015

July 2015

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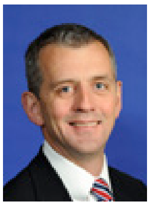
Foreword



Eamonn Donaghy
Partner and Head of Tax
KPMG in Belfast

The first majority Conservative budget for almost 20 years gave the government an opportunity to promote its economic direction of travel. While the business headlines in the days leading up to the Summer Budget have focussed on the Greek crisis, the main media outlets still managed to find space for some leaked announcements so there was already a reasonable amount of insight into what could be expected.

The Greek crisis gave the Chancellor another reason to drive home the need to continue reducing the deficit and show fiscal restraint. There was also the reasonably positive backdrop of steady growth at 2.4 per cent for the next four years and steady reduction of the percentage of government debt to GDP. Today's Budget announcements certainly pointed to a focus on balancing the books in the short term and there were also some surprises for business and individuals.

Further to the announcement in the Queen's speech in May, the government will legislate to ensure rates of income tax and Class 1 National Insurance contributions (NICs) will be 'locked' ie not rise above current levels for the duration of this Parliament; and that increases to the Upper Earnings Limit (UEL) will not exceed the Higher Rate Tax Threshold. It will also introduce legislation to ensure that the standard rate of VAT does not exceed 20 per cent and the reduced rate does not exceed 5 per cent.

The planned increase in the personal allowance which was announced in the March Budget has been brought forward by one year, so from April 2016 the personal allowance will increase to £11,000. This is also the case for the higher rate band which increases to £43,000 from April 2016. Rates of income tax remain unchanged.

One of the day's more surprising announcements has been the increase in the national minimum wage which will rise to £7.20 per hour in April 2016, with an aspiration to move to £9.00 per hour by 2020.

As expected, the Chancellor announced that from 2017 there will be a phasing in of a new £175,000 inheritance tax allowance (transferable) on homes left to children or grandchildren, allowing a £1 million home etc to be passed on inheritance tax free.

It is no real surprise that the beneficial tax status for non-domiciled individuals is to be watered down in a number of areas. Permanent non-dom status will be abolished from April 2017 which means that anyone who has been resident in the UK for 15 out of the last 20 years will be considered UK-domiciled for tax purposes.

In relation to corporation tax the Chancellor confirmed that the UK corporation tax rate for all companies would fall to 19 per cent in 2017 and 18 per cent in 2020.

Anti-avoidance measures were once again to the fore with the Chancellor committing £750 million of new resources to HMRC to target tax evaders and in the process raise £7 billion of extra tax. Additional anti-avoidance measures were also announced to dissuade serial tax avoiders.

More detail will be provided in the forthcoming Finance Bill and various consultation documents which will published during the next week. KPMG will issue another edition of Taxing Times once these documents have been published and analysed.

If you require further information, please do not hesitate to get in touch with me or your usual KPMG contact.

Income Tax


John Beattie
Director

Personal tax threshold and allowances: The income tax personal allowance is up from £10,600 in 2015/16 to £11,000 in 2016/17. The threshold at which higher rate tax is paid is up from £42,385 in 2015/16 to £43,000 in 2016/17.

Taxation of dividend income: From April 2016 a new Dividend Tax Allowance of £5,000 will be introduced. Dividend income received in the year over the allowance will be taxed at 7.5 per cent, 32.5 per cent or 38.1 per cent depending on the individual's marginal rate of tax.

Personal Savings Allowance: From April 2016 a personal savings allowance will be introduced to remove tax on up to £1,000 of savings income for basic rate taxpayers and up to £500 for higher rate taxpayers. Additional rate taxpayers will not receive an allowance.

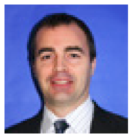
Taxation of pensions on death: From April 2016 a new measure will be introduced to reduce the rate of tax payable on taxable lump sum death benefits from 45 per cent to the recipient's marginal rate of income tax.

Pension contributions and pension tax relief reform: From April 2016 the Lifetime Allowance for pension contributions will reduce from £1.25 million to £1 million. Transitional protection for pension funds already over £1 million will be introduced. The government will consult on a wider reform of pensions tax relief.

Rent-a-room relief: From 6 April 2016 the rent-a-room relief limit, which provides for tax-free income from renting out a room in an individual's only or main residential property, is up from £4,250 to £7,500.

Seed Enterprise Investment Scheme (SEIS), Enterprise Investment Scheme (EIS) & Venture Capitalist Trust Scheme (VCT): Amendments are being introduced which will affect both companies and individual investors using SEIS, EIS and VCT. More targeted relief will still be available for relevant subscriptions for shares.

Employment Tax


Eunan Ferguson
Director

Employment Allowance: With effect from 6 April 2016, the annual employment allowance will be increased to £3,000. From this date, the allowance will no longer be available to companies where the director is the sole employee.

Salary Sacrifice: The government will begin to monitor the use of salary sacrifice schemes to review their effect on low receipts.

Benefits & Expenses: A discussion paper will be issued later in the summer outlining a framework for the simplification of the taxation of travel and subsistence expenses.

Voluntary payrolling of benefits: The new regime regarding the payrolling of benefits has been extended to cover most benefits in kind. Additional reporting requirements where employers payroll company cars will be introduced from April 2017.

Termination Payments: Consultation will take place on the taxation and National Insurance contribution treatment of termination payments.

Employment Intermediaries: Changes which will restrict tax relief for travel and subsistence paid to workers, engaged through employment intermediaries will take effect from April 2016.

"IR35": A discussion document aimed at reforming and improving the effectiveness of the 'IR35' legislation will be published later in the summer.

National Insurance: In autumn 2015 a consultation on abolishing Class 2 NICs and reforming Class 4 NICs will be published.

"No major changes to employment taxes. The commissioning of consultative documents and discussion papers should see more changes over the next couple of years."

Capital Taxes

Philip Caughey
Director

Inheritance Tax (IHT) Nil-Rate Band: The nil-rate band for inheritance tax will remain frozen at £325,000 until April 2021 at least.

Additional Inheritance Tax Allowance: An additional nil-rate band will be introduced on a phased basis (up to £175,000 in 2021, then increasing with CPI) when a main residence is passed on death. The new threshold will be withdrawn on a tapered basis for estates valued over £2 million.

IHT on Trusts: New rules will be introduced to target individuals utilising multiple trust structures to avoid inheritance tax.

Abolishing "Non-Dom" Status: From April 2017, individuals that have been resident in the UK in 15 of the last 20 tax years will be deemed to be domiciled in the UK for tax. The remittance basis is not available and they will become subject to inheritance tax on worldwide personal assets.

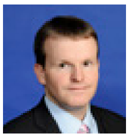
Inheritance Tax on Residential Property: From April 2017 inheritance tax will apply to UK residential property owned (even in trust or in offshore companies) by non-doms regardless of their residence.

Reduced Access to Non-Dom Status: Individuals with UK domicile of origin at birth will not be able to access the remittance basis or avoid inheritance tax if they leave the UK, become legally non-domiciled and subsequently return to the UK. The individual will be UK domiciled when they are resident in the UK.

Minimum Claim Period: Following consultation, the government has decided not to introduce the proposed minimum claim period for the remittance basis charge.

"The government provides additional relief from inheritance tax when a main residence passes to family beneficiaries and the concerted attack on non-dom status continues as long-term residents look set to lose their privileges.

Corporation Tax



Des Gilmore
Director

Corporation Tax rates: In a surprise announcement, the current UK corporation tax rate will reduce from 20 per cent to 19 per cent on 1 April 2017 and to 18 per cent on 1 April 2020.

Corporation tax payment dates: Draft legislation will introduce new payment dates for companies with annual taxable profits of £20 million or more from 1 April 2017. Affected companies will pay corporation tax in quarterly instalments in the third, sixth, ninth and twelfth months of their accounting period.

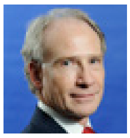
Restriction of corporation tax relief for business goodwill amortisation: Corporation tax relief for a company for the cost of 'goodwill' for acquisitions and disposals on or after 8 July 2015 will be abolished. HMRC say this should level the playing field for merger and acquisition transactions as there is no equivalent relief for the purchase of shares in a company, compared to its assets.

Modernisation of the taxation of corporate debt and derivative contracts: Following previous announcements HMRC will modernise the corporation tax rules governing the taxation of corporate debt 'loan relationships' and derivative contracts. The changes are wide ranging, and include clarifying the relationship between tax and accounting.

Disposal of stock other than in trade: A new measure will clarify the tax treatment of transfers between connected parties of trading stock and of intangible fixed assets so that transactions already within the ambit of 'transfer pricing', can remain subject to further adjustment under the corporate tax and income tax 'market value' rules.

Consortium link company: The government has from 10 December 2014 removed all requirements relating to the location of link companies for consortium group relief claims, so that group relief claims will now be possible regardless of the location of the link company. Previously, the link company must have be located in the UK or the European Economic Area.

Business Tax



Tom Alexander
Partner

National Living Wage [NLW]: Government's intention is to increase the NLW for over 25's to £7.20 in April 2016 and has the ambition to reach £9.00 by 2020. This additional cost to business will be partially offset by the lower corporation tax rates announced.

Capital Allowances - Annual Investment Allowance [AIA]: The AIA, which is a 100 per cent first year allowance, will increase to £200,000 for all expenditure on qualifying plant and machinery made on or after 1 January 2016. Prior to the Budget, it was due to drop to £25,000 per annum.

Tax Simplification for Small Companies: Government will commission the Office of Tax Simplification to review the taxation of small companies. Conversely, in keeping with a clear anti-avoidance theme in the Budget, large businesses compliance and tax strategies will continue to be under HMRC scrutiny.

Buy To Let Properties: To align the taxation of "buy to let" owners with own home owners, the Chancellor announced that from April 2017 interest relief on borrowing taken out for buy to let properties will be reduced on a phased basis, to restrict it to basic rate relief.

Wear & Tear Allowance: From April 2016 the Wear & Tear allowance will be replaced by a new relief for residential landlords to deduct actual cost of replacement furnishings. A technical consultation on this measure will be published shortly.

Peer To Peer (P2P): Bad debt relief on P2P loans, as announced in Autumn 2014, will go ahead from April 2015 and the proposed new rules on withholding tax on P2P loans will be consulted upon.

Anti-Avoidance Measures

Mark Hood
Director

Direct Recovery of Debts: Legislation will be introduced to modernise and strengthen HMRC's power to recover tax debts directly from debtors, banks and building society accounts.

Increased funding for criminal investigations: There will be increased funding to HMRC by a total of more than £60 million by 2021 to allow HMRC to step up criminal investigations into serious tax crime, particularly focussing on wealthy individuals and corporates.

General Anti Abuse Rule [GAAR] Penalty: Government will publish a consultation later this year to consider the detail of introducing a GAAR penalty as well as considering new measures to strengthen the existing GAAR further.

Non Compliance by Wealthy Individuals: Additional resources will be provided to HMRC to allow it to identify and tackle tax evasion and other non-compliance among wealthy individuals, particularly targeting those individuals with net wealth between £10 million - £20 million.

Action against Marketed Avoidance Schemes: Government will consult, in advance of legislation to be introduced in 2016, to further strengthen sanctions against serial avoiders who persistently enter into tax avoidance schemes which are defeated. This will include special reporting requirements and the development of further measures to name serial avoiders.

Closure Rules re Tax Enquiries: HMRC will respond to consultation regarding the proposal to reduce new powers enabling it to achieve early resolution and closure of one or more aspects of a tax enquiry while at the same time leaving other aspects open.

"The Chancellor gave a clear message that there is a lot more work to do on anti-avoidance matters, and the measures being proposed are expected to yield an additional net £5 billion for the Revenue."

Financial Services


Mark Hood
Director

Bank Corporation Tax Surcharge: A surcharge of 8 per cent will be levied in the profits of large banking companies arising in the accounting periods beginning on or after 1 January 2016. The profits subject to surcharge will exclude any relief for brought forward losses.

Bank Levy Reform: The Bank Levy rate of 0.21 per cent will be reduced to 0.18 per cent in 2016 and further on a graduated basis to 0.10 per cent in 2021.

Tax Treatment of Banks Compensation Payments: Legislation will be introduced to make compensation costs paid by banks in respect of misconduct and mis-selling to be treated as non-deductible for corporation tax purposes.

Taxation of carried interest for Investment Fund Managers: From 8 July 2015, changes will ensure that sums arising to Investment Fund Managers by way of carried interest are charged to the full rate of capital gains tax, with only limited deductions permitted.

Taxation of Collective Investment Schemes: The government will launch a consultation to better understand the activities of collective investment schemes, to determine when performance returns should be taxed as a capital gain.

Updating Bank Definitions: The government will change how banking companies are defined within the bank levy and bank loss relief restriction legislation to ensure that the definition is aligned with current regulatory standards.

Indirect Taxes


Frankie Devlin
Partner

Insurance Premium Tax (IPT): From 1 November 2015, the standard rate of IPT will be increased by 3.5 per cent to 9.5 per cent.

Vehicle Excise Duty (VED): There will be a reform of VED rates and bands for post 2017 cars, with first year rates varying according to CO2 emissions. A flat standard rate of £140 will apply to all subsequent years, except for zero-emission cars, which will be £0.

Climate Change Levy (CCL): The CCL exemption for renewably sourced electricity will be removed from 1 August 2015.

VAT on services used in the UK: All UK repairs made under UK insurance contracts will be subject to VAT in the UK. It is intended to introduce additional use and enjoyment measures for further services after a review of off-shore based avoidance in VAT exempt sectors, in the following year.

Horserace Betting Right: The Horserace Betting Right is expected to be completed later this year, which is intended to replace the current levy system and create a level playing field for British based and offshore gambling operators.

Business Energy Tax Reform: A consultation will be launched in the autumn to review the business energy efficiency tax landscape and consider measures to simplify and improve the effectiveness of the regime.

"A number of minor changes for indirect taxes, with no significant changes to VAT."

Rates, Reliefs and Allowances

Budget 2015

Rates Reliefs and Allowances

The following information is based on proposals set out by the Chancellor in his Budget of 18 March 2015 and any updates made in his Summer Budget of 8 July 2015 but is subject to amendment in the Finance Act.

Income tax

Rates

	%	2015/16	%	2016/17
Starting	10	N/A	10	N/A
Basic	20	£0 - £31,785	20	£0 - £31,900
Higher	40	£31,786 - £150,000	40	£31,901 - £150,000
Additional	45	Above £150,000	45	Above £150,000

From 6 April 2015, the starting rate of tax for savings income will be reduced to Nil, and the income limit for this starting rate will increase to £5,000.

For basic rate taxpayers, tax on UK dividends is charged at 10%, which is discharged by the tax credit. For non-taxpayers, the dividend tax credit is not refundable. Higher rate taxpayers have to pay further income tax equal to 25% of the cash dividend. Additional rate taxpayers have to pay further income tax equal to 31% of the cash dividend.

Reliefs

	2015/16	2016/17
Payment on loss of office	£30,000	£30,000
Enterprise Investment Scheme*	£1M	£1M
Venture Capital Trust**	£200,000	£200,000
SEED Enterprise Investment Scheme***	£100,000	£100,000

* Relief available up to 30%
** Relief available up to 30%
*** Relief available up to 50%

Allowances

	2015/16	2016/17
Personal allowance		
Aged up to 64	£10,600	£11,000
Aged 65 to 74	£10,600	£10,800
Aged 75 or over	£10,660	£10,800

The higher personal allowance for those born before 6 April 1938 will be removed with effect from 2016/17 so that everyone, regardless of their age, is entitled to the same personal allowance. The income tax personal allowance is restricted for those with income over £100,000, tapering down to zero.

Individual Savings Accounts (ISA's)

The total ISA (i.e. cash plus stocks/shares) overall subscription limit increased to £15,000 from 1 July 2014, and the restrictions regarding allocation between cash and stocks/shares have been removed. From April 2015 this annual investment limit will increase to £15,240.

Personal Savings Allowance

The Personal Savings Allowance will apply for up to £1,000 of a basic rate taxpayer's savings income, and up to £500 of a higher rate taxpayer's savings income each year. The Personal Savings Allowance will not be available for additional rate taxpayers. These changes will take effect from 6 April 2016.

Dividend Allowance

From April 2016 the dividend tax credit will be abolished and replaced with a tax-free dividend allowance of £5,000 for all taxpayers.

Car and Car Fuel Benefits

Cars

From April 2015 the taxable benefit in respect of a car provided by an employer will vary between 5% and 37% of the list price, depending on the car's CO2 emission rating, with the scale charge varying. The zero percent rate for zero CO2 emission vehicles will end in April 2015. There is a supplementary charge of 3% for diesel cars (although the maximum charge remains at 37%). This supplement is set to be removed from April 2016.

Car fuel

The taxable benefit in respect of fuel provided by an employer is the 'appropriate percentage' of £22,100 (2014/15 £21,700) where the appropriate percentage is the figure (from 5% to 37%) used to determine the taxable benefit in respect of the provision of the car.

Inheritance tax

Rates

	From 6 April 2015	From 6 April 2016
0%	Up to £325,000	Up to £325,000
40%	Above £325,000	Above £325,000

Tapering relief is given in respect of gifts made between three and seven years before death.

Where tax is payable on lifetime gifts (other than those taxable only because they are made within seven years of death), tax is charged at 20%.

Where one party to a marriage or civil partnership dies and does not use their nil rate band to make tax free bequests to other members of the family, the unused amount can be transferred and used by the survivor's estate on their death.

National Insurance Contributions

Rates

	2014/15	2015/16
Class 1 (earnings related)		
Lower earnings limit (LEL) (per week)	£111	£112
Upper earnings limit (UEL) (per week – employees only)	£805	£815
Earnings threshold (per week) for employees	£153	£155
Earnings threshold (per week) for employers	£153	£156
Employee rate		
- on earnings between earnings threshold and UEL	12%	12%
- on earnings above UEL	2%	2%
Employer rate	13.8%	13.8%
Class 2 (self-employed flat rate) per week	£2.75	£2.80
Small earnings exemption (per year)	£5,885	£5,965
Class 3 (voluntary): per week	£13.90	£14.10
Class 4 (self-employed)		
Lower profits limit (per year)	£7,956	£8,060
Upper profits limit (per year)	£41,865	£42,385
Rate		
- on earnings between lower and upper profits limit	9%	9%
- on earnings above upper profits limit	2%	2%

The rates of contributions on earnings below the UEL are reduced where the employee is contracted out. The reduction for employees is 1.4% (2014/15: 1.4%). The reduction for employers is 3.4% for salary-related schemes (2014/15: 3.4%).

Employers were entitled to an annual "employment allowance" of £2,000 per year per employer to reduce their liability for Employers NICs in 2014/15. Employers will also be entitled to this allowance in 2015/16. However, from April 2016 the Employment Allowance will increase to £3,000.

From April 2016, companies where the director is the sole employee will no longer be eligible for the Employment Allowance.

Stamp Taxes

Stamp Duty reforms were introduced in relation to residential property to take effect on 4 December 2014. Under the old rules you would have paid tax at a single rate on the entire property price. The new rules introduce a banded system whereby you only pay tax on the part of the property price within each tax band.

Residential		Non- residential or mixed	
Consideration	Rate on consideration	Consideration	Rate on consideration
£0-£125k	Nil	£0-£150k	Nil
£125k-£250k	2%	£150k-£250k	1%
£250k-£925k	5%	£250k-£500k	3%
£925k-£1.5m	10%	Above £500k	4%
Above £1.5m	12%	N/A	N/A

* Special rules apply to lease rentals.
Stamp duty on transfer of shares remains at 0.5%.

Capital Gains Tax

Rates

Companies pay corporation tax on capital gains at their normal rate. Gains and losses on sales by trading companies or members of trading groups of shareholdings of 10% or more in trading companies or trading groups are exempt, subject to certain exclusions.

For individuals the following Capital Gains Tax rates apply:

- 18% for individuals who are basic rate taxpayers up to their basic rate band being fully utilised.
- 28% for higher and additional rate taxpayers, and for those basic rate taxpayers who have used their basic rate band with capital gains.

Entrepreneur's Relief

This provides a special tax rate of 10% on the sale of businesses, or interests in a business, up to a lifetime limit of £10m. Capital gains over the £10m limit will be charged at the Capital Gains Tax rates of 18% or 28% if appropriate.

Reliefs

	2015/16
Annual gains exemption for individuals	£11,100
Chattels proceeds	£6,000
Enterprise Investment Scheme*	100%
Venture Capital Trust *	100%
Principal private residence	100%

* Subject to conditions

Pensions

Contribution

For the year commencing 6 April 2015, the amount of the annual allowance will be £40,000. The annual allowance is the maximum amount of pension savings that is made by either you or your employer which benefits from tax relief. There is a three year carry forward rule which allows unused annual allowances (capped at £40,000) from the last three years to be carried forward if you have made pension contributions in those years.

From April 2016, a restriction on the tax relief on annual pension contributions by individuals with income over £150,000 will be introduced. This will be done by tapering the annual allowance down to a minimum of £10,000.

If contributions exceed the annual allowance a tax charge will arise on the amount of the premium exceeding the annual allowance.

As announced on 21 July 2014, the government will introduce a reduced annual allowance of £10,000 for money purchase pension contributions for individuals who have flexibly accessed a pension from 6 April 2015.

Benefits

A single lifetime allowance restricts the amount of pension savings that can benefit from tax relief. For 2015/16 the lifetime allowance is £1.25m

Legislation will be introduced in the new Finance Bill to reduce the pension lifetime allowance from £1.25m to £1m. This will take effect from 6 April 2016. Fixed and individual protection regimes will be introduced alongside the reduction to protect savers who think they may be affected by this change.

Value Added Tax

Standard rate 20%. Registration threshold from 1 April 2015: annual turnover £82,000 (previously £81,000). Deregistration threshold increased from £79,000 to £80,000.

Intangible Assets

Companies receive a deduction for expenditure on an accounts basis. Allowances at 4% per annum are available by election.

Research and Development (R&D) Relief

Qualifying revenue expenditure on R&D attracts an additional deduction equal to 30% or 125% of the expenditure where it is incurred on or after 1 April 2012.

The rate of 125% applies to small or medium sized entities (SMEs). The 30% rate applies to companies that are not SMEs. SMEs which make losses can surrender the deduction in exchange for a payment.

The rate of relief for SMEs has been increased to 130% from 1 April 2015.

A taxable 'above the line' R&D tax credit of 10% will be available for large company research and development expenditure incurred on or after 1 April 2013. The credit will be payable to companies with no corporation tax liability if certain steps are undertaken. The 'above the line' treatment is optional from 1 April 2013 but will become compulsory from 1 April 2016.

The rate of the RDEC has been increased to 11% from 1 April 2015.

Corporation Tax

	From Financial Year	From Financial Year	From Financial Year
	2015/16	2017/18	2020/21
Main Rate	20%	19%	18%

The main rate will reduce to 20% for the financial year commencing 1 April 2015 and will reduce by a further 2% during the current parliament. The main rate and small profits rate are harmonized from 1 April 2015.

Patent Box

Companies can elect to apply an effective 10% rate of corporation tax to profits earned after 1 April 2013 from qualifying patents. The full benefit of the regime will be phased in over four years, with 60% of the benefit being available from April 2013, increasing to 100% by April 2017.

Diverted Profits Tax (DPT)

Legislation has been introduced to effectively tax profits which have been "diverted" from the UK through arrangements to avoid a UK taxable presence or to implement transactions which lack economic substance. DPT is levied at a rate of 25%.

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