Taxing Times

UK Budget 2016

March 2016

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Foreword

Johnny Hanna
Partner and Head of Tax
KPMG in Northern Ireland

Given the uncertainty of the upcoming referendum on Brexit, and various global economic storm clouds gathering, this was a Budget where the Chancellor had to focus on ensuring that his plans to return a Budget surplus by 2020 remained on track while also reaffirming the Government's low tax policy commitments which have been so successful in dramatically improving the competitiveness of the UK in recent years.

Muted economic growth forecasts gave the Chancellor little new revenue to work with, and therefore it was no surprise that the headline policies were tax cuts all paid for by anti-avoidance measures targeted primarily at 'tax avoiders' and foreign corporations doing business in the UK and regarded as not paying "their fair share".

Existing UK based businesses (and potential new investors) will welcome the Business Tax Road Map published alongside the Budget, and the certainty provided. The appeal of the UK as an investment location was highlighted with the statistic that there has been a 100% increase in the number of jobs created from FDI projects over the last 5 years. Unexpectedly, the Chancellor announced a reduction in the main UK rate of corporation tax to 17% (rather than 18%) from 2020, and additional relaxation of long standing rules regarding the utilisation of corporate tax losses from 2017. This comes during a week when the First Minister and Deputy First Minister of Northern Ireland have been visiting the US to highlight the attractiveness of Northern Ireland as an investment location, and in particular the hoped for "game-changer" of a Northern Ireland 12.5% rate of corporation tax on certain trading activities from April 2018.

Companies will however need to consider the restriction of certain reliefs and other revenue raising measures announced by the Chancellor, in particular those limiting deductions for interest expense to 30% of a group's earnings (subject to certain exceptions) and limiting corporate tax loss relief to 50% once UK group profits exceed £5 million.

As expected the income tax measures announced by the Chancellor include increasing the amount people can earn before having to pay income tax with a personal allowance of £11,500 from April 2017 and increasing the starting level for the 40% income tax band from £42,385 to £45,000. The Budget does not contain any proposed changes to the existing pension tax relief regime (for now at least!)

The announcement of a reduction in the general rate of Capital Gains Tax from 28% to 20% (10% for basic-rate taxpayers) with an extension of Entrepreneurs' Relief (charging the first £10 million of gains from medium term investments in unlisted trading companies at 10%) to external investors will be welcome news for entrepreneurs and individual business owners and represents a further improvement of the UK's personal tax regime. Gains arising from the sale of residential property and carried interests will not benefit from this rate reduction.

Purchasers of additional properties and developers of UK land will incur a higher tax burden going forward due to the already announced increases in SDLT on additional residential properties, restriction in interest deductions on buy-to-let, the inability to access the newly announced lower rates of capital gains tax and measures to ensure profits of offshore developers of UK land fall within the UK tax net. The broad thrust of these and other measures is to incentivise UK residents to invest in start-up companies rather than buy-to-let property – with the consequent advantages for British Entrepreneurship and increased access to housing for first time buyers.

The Chancellor was clear that he viewed this as a progressive 'Budget for All' – but as ever there will be winners and losers, including those who just can't give up their favourite sugary drinks – now the subject of a progressive 'sin tax'.

If you have any queries on how today's budget measures will impact on you or your business please do not hesitate to give me or your usual KPMG contact a call.

Johnny Hanna
KPMG Northern Ireland

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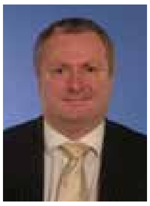
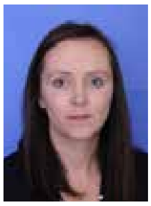
Personal Tax



Philip Caughey
Director



Kathy Blair
Manager

Savings, Property and Trading Income Allowances

From April 2016 a tax-free allowance of £1,000 for basic rate taxpayers and £500 for higher rate taxpayers will apply to an individual's savings income, as previously announced in the Draft Finance Bill 2016. The Government has now confirmed that from April 2017 it will also introduce a new £1,000 allowance for both an individual's property and trading income. As a result individuals with property income or trading income below £1,000 will no longer be required to pay tax on that income. Individuals with income above this allowance can either deduct their normal expenses or deduct the allowance.

Dividends Tax

From April 2016, the dividend tax credit will be abolished and a tax free dividend allowance of £5,000 will be introduced. Legislation confirms dividend income, both UK and non-UK source, received in excess of the allowance will be taxed at 7.5 percent where the income falls within the basic rate income tax band, 32.5 percent in the higher rate band, and 38.1 percent in the additional rate band.

Lifetime Individual Savings Account (ISA)

From April 2017, an individual under the age of 40 may open a Lifetime ISA contributing up to £4,000 per tax year. The Government has confirmed it will provide a 25 percent bonus on the contributions made i.e. a maximum annual bonus of £1,000 per year. The bonus will be paid into the Lifetime ISA at the end of each tax year. The total amount an individual can save each year into all ISAs will also be increased from £15,240 to £20,000 from April 2017.

Farmers Averaging

The Government has confirmed an extension to the period over which an individual carrying on a qualifying trade of farming or intensive rearing of livestock or fish can average their fluctuating trading profits. From April 2016 they will be able to claim to average trading profits for income tax purposes over two or five consecutive tax years.

Landlords - Wear and Tear Allowance and Finance Costs

The 10 percent wear and tear allowance currently available to landlords of residential property will be replaced by a deduction for the replacement of furniture from 6 April 2016. Relief will not be given for the initial costs of furnishing a property, only on replacement costs. The relief will cover the replacement cost of furnishings, appliances, kitchenware and similar items provided for the tenant's use and is only available for similar replacement items and not any element of improvement.

Owners of residential property are currently able to deduct the full interest costs from borrowings in respect of their property business. From April 2017 legislation introduces a restriction on the deduction of finance costs related to let residential properties and provides for a tax reduction for such costs by reference to the basic rate of income tax. The restriction will be phased in over three tax years and will impact all relevant interest payments from 6 April 2020.

National Insurance Contributions (NIC) – Class 2

Class 2 NIC will be abolished from April 2018. Self-employed individuals will pay only Class 4 NIC from this date and a reform of Class 4 NIC will be undertaken to ensure the self-employed can continue to access contributory benefits through the NIC system.

Employment Tax

Eunan Ferguson
Director

The Chancellor's Budget contains a number of significant measures that seek to increase the scope of what may be considered employment income:

- Further measures are introduced under Disguised Remuneration to address "interminable loans" which includes a new charge on loans that have not already been caught under these rules, such as existing loans pre-dating the introduction of Disguised Remuneration and remain outstanding on 5 April 2019.

- The Treasury is also concerned in relation to the perceived extension in the use of salary sacrifice arrangements and is considering limiting the range of benefits that will continue to benefit from income tax and NIC advantages when provided as part of a salary sacrifice scheme.

- From April 2018, the Government plans to introduce employer NIC on termination payments in excess of the £30,000 exemption however the full payment will remain outside the scope of employee NIC. In addition, it is considering a range of wider changes in relation to termination payments that includes taxing all payments in lieu of notice, contractual or otherwise, abolishing the foreign earnings exemption when the individual has worked overseas and rules to prevent any re-categorisation of existing contractual termination payments as damages to avoid income tax and NIC.

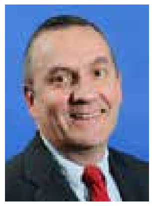
- In a surprise move, the Chancellor confirmed that from April 2017, the public sector must be responsible for deducting income tax and NIC from individuals engaged within the public sector via their own personal service company (PSC). In a move that may indicate the Treasury's preferred direction of travel within the private sector, the PSC will no longer be responsible for deciding whether the intermediaries legislation applies to it and instead the PSC's engager will make all relevant deductions at source. In addition, legislation will also be introduced within Finance Bill 2016 to restrict tax relief for home to work travel and subsistence expenses for workers engaged via such employment intermediaries.

- In measures expected to reduce the administrative burden associated employment benefits and expenses, the Government will;

    1. amend the PAYE regulations to extend voluntary payrolling to non-cash vouchers and credit tokens from April 2017
    2. consult on proposals to simplify the PAYE Settlement Agreement process
    3. provide additional clarity as to when an employee can "make good" on any benefit-in-kind via payments to the employer
    4. Legislate to ensure that where there is a specific statutory provision for calculating benefits-in-kind this must be used.

- The Government will also legislate to increase income tax and NIC relief for employer arranged pension advice from the existing threshold of £150 to £500 from April 2017, and finally, as previously announced, it was confirmed that the statutory exemption for trivial benefits costing £50 or less will be introduced with effect from 6 April 2016.

Capital Taxes



Kevin Bell
Partner

The Chancellor has announced significant changes to the Capital Gains Tax regime including an unexpected rate reduction and various extensions to the scope of Entrepreneurs' Relief.

The policy objective is obviously to stimulate greater levels of investment into unquoted trading business by enhancing the reliefs available on exit.

The key changes in capital taxes are as follows:

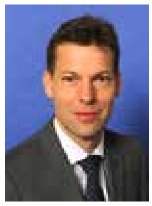
Capital Gains Tax (CGT)

- The higher rate of CGT is to reduce from 28 percent to 20 percent and the basic rate from currently 18 percent to 10 percent. The reduced rates will have effect for disposals on or after 6 April 2016. The existing rates of 28 percent and 10 percent will remain for certain gains including carried interest gains principally in the private equity sector and for gains on residential property.
- Entrepreneurs' Relief and access to a 10 percent CGT rate is to be extended to external investors in unlisted trading companies. This new relief will be for non-employees and will not be subject to minimum shareholding criteria. To qualify, the new shares must be acquired by the claimant by means of subscription and held for a minimum period of three years. Each individual will have a £10 million lifetime allowance for gains qualifying for the 10 percent rate.
- Entrepreneurs' Relief will be extended to gains on disposal of privately held assets where the accompanying disposal of the shares (or business) is to a family member. This is to enhance access to the 10 percent rate on retirements where the business is being transferred within the family.
- The 10 percent Entrepreneurs' Relief is to be preserved for gains on goodwill arising on an incorporation when the business is transferred to a company controlled either by the directors or by five or fewer persons. This is a modest relaxation of a recent change which prevented incorporation gains on goodwill qualifying for Entrepreneurs' Relief. The relief only applies, however, where the claimant holds less than 5 percent of the shares and voting power in the acquiring company.
- The definition of 'trading company' in Entrepreneurs' Relief legislation is to be reviewed. We are told this is to 'prevent abuses' and to 'improve fairness'. We can expect certain gains which would currently qualify for the relief not to meet the conditions after the planned review is completed.
- A lifetime limit of £100,000 is to be introduced for gains eligible for CGT exemption through Employee Shareholder Status. This would appear to be a response to perceived abuses of this relief in significant private equity transactions.

Inheritance Tax (IHT)

- Legislation will be introduced to ensure a charge to IHT will not arise when a pension scheme member designates funds for draw down but does not draw down all of the funds before death. This relief is to be back dated to deaths on or after 6 April 2011.

Large Business Tax



Mathew Scott
Partner

Today, the Business tax road map was published which, as expected, sets out the plan to implement the OECD's recommendations to tackle base erosion and profit shifting ("BEPS") and other measures that will affect large businesses. Plenty of anti-avoidance measures with snippets of good news.

BEPS

The Chancellor confirmed that the UK will be one of the first adopters of the BEPS recommendations. The Government has already acted to introduce the Country by Country reporting rules. There are no changes to these rules highlighted but the Government will be pushing to extend the rules and in particular to make the reporting public. This follows their strategy that public disclosure and pressure will change taxpayer behaviour. This theme is continued outside of the BEPS implementation with the announcement of a consultation over the summer on the requirement that large businesses will have to publish their tax strategies.

The road map also confirms the implementation of the hybrid mismatch rules, applicable from 1 January 2017. These rules aim to stop the exploitation of mismatches in the way different countries tax certain entities or instruments to obtain a double deduction or avoid paying tax in either country. Draft legislation has already been published to implement the rules but the Government has announced that these will be extended to eliminate mismatches arising from the use of permanent establishments.

One of the most keenly awaited announcements was the likely direction the UK would go in implementation of BEPS Action 4. Action 4 seeks to restrict interest deductions and could have a significant impact on many different businesses. The Chancellor confirmed that net interest deductions, from April 2017, would be restricted to 30 percent of UK EBITDA. In order to maintain the UK's competitiveness and avoid impacting small businesses, the following measures have also been confirmed:

- a group ratio rule which may increase interest deductibility above 30 percent if same ratio on a worldwide basis is higher (this will help groups with high external gearing);
- a de minimis threshold of £2 million net UK interest expense;
- an exemption for certain public infrastructure projects;
- measures to address volatility in earnings and interest; and
- the worldwide debt cap rules will be repealed (but a rule will be introduced to ensure the UK net interest expense does not exceed the worldwide net interest expense).

These measures are welcomed but we will need to see the final legislation to assess how this operates in practice and what impact it may have on commercial funding structures and inward investment.

As expected, the road map also confirms that the link between the UK transfer pricing legislation and the BEPS recommendations on transfer pricing will be maintained. This will require businesses to revisit their transfer pricing policies to ensure they are compatible with the post-BEPS tax environment.

Tax rates and payment dates

The Chancellor provided some good news with regard to tax payments. Firstly, from April 2020 the corporation tax rate will be 17 percent rather than the previously announced reduction to 18 percent. This will ensure the UK has the lowest tax rate of the major advanced nations. Secondly, last year the Government legislated to accelerate the tax payments for companies with more than £20 million of taxable profits. This was to apply from 1 April 2017 but has now been postponed until 1 April 2019.

Loss relief

A further surprise measure announced by the Chancellor is that there will be significant changes to the rules on utilisation of losses. For companies with more than £5 million of profits, the amount of brought forward loss that can be utilised will be restricted to 50 percent of the taxable profits. On the flip side, there will be more flexibility to utilise losses so, for example, carry forward trade losses can be set against non-trading income which is not currently possible. The flexibility on using losses only applies to losses arising after 1 April 2017 but the 50 percent restriction applies from 1 April 2017. Banks already have a 50 percent restriction on the use of pre 2015 losses but this is going to be further restricted to 25 percent from 1 April 2016.

Withholding tax on royalty payments

To further clamp down on international tax avoidance, the Chancellor announced changes to the way withholding tax operates on royalty payments. There are three key changes:

- Withholding tax is extended to other types of royalty (including trademark and brand royalties) in line with the internationally recognised definition of royalties;
- A royalty connected with a UK permanent establishment (or an avoided permanent establishment under the diverted profits tax legislation) will be treated as having a UK source so withholding tax will apply; and
- Treaty benefits reducing withholding tax rates on connected party payments will be denied by domestic law where there has been "treaty shopping".

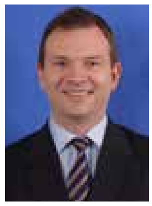
The changes will take effect from Royal Assent of the Finance Bill 2016 except where treaty benefits are denied which will take effect for payments on or after 17 March 2017. All connected party royalty payments should be reviewed to assess the impact of the draft legislation.

Future measures

The Government will be consulting and updating the corporate debt and leasing rules to take account the development of the relevant accounting standards which is welcome given the substantial changes in these areas.

There will also be a consultation on the possible reform of the Substantial Shareholdings Exemption although it would seem unlikely that this would lead to a restriction in the availability of the exemption given the Government's desire for the UK to remain competitive.

Small Business Tax



David Nelson
Partner

The Chancellor stated that his objectives for small businesses and entrepreneurs were to lower taxes, while also modernising the tax system and taking steps to ensure that taxes are fair and are paid.

The main announcements impacting smaller businesses included:

- reducing the rate of corporation tax to 17 percent in 2020, benefiting over one million companies, large and small. The proposed reduced rate of corporation of 12.5 percent for Northern Ireland from April 2018 was also highlighted (subject to agreement of a balanced NI budget)
- reducing the higher rate of Capital Gains Tax from 28 percent to 20 percent and the basic rate from 18 percent to 10 percent from April 2016 (with minor exceptions), and
- abolishing Class 2 National Insurance for 3.4 million self-employed people.

In one unexpected change, the Chancellor is modernising the corporation tax rules on losses, making the system more flexible for businesses. Budget press releases suggest that corporate losses after April 2017 which are carried forward will be able to be used against other income streams in future periods in the same company (i.e. not just against profits of the same type) or indeed 'group relieved' in such future periods against profits in other companies in a group. This would be a significant relaxation of current rules which provide for loss 'streaming' by type and prevent carried forward losses being group relieved. It will be interesting to see the detail when the legislation is published.

Some changes will also be made to entrepreneurs' relief by extending a separate £10 million lifetime limit to gains earned by long term investors on shares held in unlisted trading companies. This rule will apply for shares issued after 17 March 2016 for new consideration and held for three years. Other changes to entrepreneurs' relief will allow the relief to be claimed by amending the rules for associated disposals, goodwill on incorporation and disposals of joint ventures and partnership interests. There will also be a review of the definition of a trading company; details are not yet available.

As part of the Business tax road map published with the Budget documents, the Government has also announced a review of the existing 'substantial shareholding exemption' (SSE) rules which currently apply when companies dispose of qualifying shareholdings in other companies. A consultation document will be published shortly.

A further consultation document will be issued to review the system of taxing partnerships as recommended by the Office of Tax Simplification. At the same time, a new anti-avoidance rule will ensure that partnerships cannot be used to obtain tax relief for corporate members in intangible assets in a way contrary to the intention of the intangible assets tax regime.

The Government is to extend the 100 percent first year allowance regime for businesses purchasing low emission cars for a further three years to April 2021 but will reduce the qualifying threshold to 50g/kilometre. The threshold for cars qualifying for the 18 percent rate of capital allowances will reduce from 130g/kilometre to 110g/kilometre. In addition, the 3 percent company car tax rate differential on benefit in kind charges between diesel and petrol cars is to be retained until 2021 and new CO2 thresholds were announced incorporating this differential for periods up to 2019/20.

The Chancellor noted that changes will be made to the SME R&D regime to ensure that, despite the fact that the Large Company relief has changed, SMEs will continue to get the same benefit from the old rule which allowed notified state aid to be ignored in the cap calculation which is required by statute. Without these changes that benefit would not apply for SME claims covering the period after 1 April 2016.

As announced in the Autumn Statement, the Chancellor is pressing ahead with his reform to company distributions by amending existing anti-avoidance rules and introducing a new targeted anti-avoidance rule (TAAR). It is expected that the new TAAR will apply in certain circumstances to tax capital distributions from companies in liquidation, which would otherwise be subject to capital gains tax, as income and thus subject to income tax rates. Further detail is expected in March.

The existing tax rate applying to loans made by close companies to 'participators' is set to increase from 25 percent to 32.5 percent as from 6 April 2016; a change designed to keep the rate in line with the higher rate of tax charged on dividends.

In a welcome development, in response to the consultation on 'Making Tax Digital' which aims to reduce the need for millions of businesses to submit a tax return and instead replace the regime with a personalised online digital service, the Chancellor has announced that from 2018 self-employed individuals and landlords who sign up for the digital records system will be able to voluntarily adopt 'pay as you go' tax payments and choose a payment pattern through a year that suits their cash flow. There is no suggestion that this flexibility will allow late payments past due dates.

And of local interest, the Chancellor announced that the Northern Ireland Executive has set the boundaries of a pilot Enterprise Zone near Coleraine. The Government is expected to legislate to ensure that 100 percent Enhanced Capital Allowances can be offered within the Enterprise Zone, with the first investors expected on site later in 2016.

Property Tax

Phillip McMaw
Partner

Mark Hood
Director

The Government is continuing its efforts to clamp down on perceived tax avoidance by the use of offshore structures to develop UK land, while simultaneously raising the Stamp Duty Land Tax [SDLT] costs of commercial property for the first time in several years.

Trading in property in the UK

In 2015, the Government introduced Diverted Profits Tax [DPT] in order to tax profits which have been "diverted" from the UK through arrangements to avoid a UK taxable presence or transactions which lack economic substance. Although it was not specifically aimed at property development activities, the DPT charge can potentially apply to such activities carried on by offshore companies.

In Budget 2016, the Government is proposing to go a step further with new legislation aimed directly at property developers who use offshore structures to avoid UK tax on profits from trading in property in the UK. The main aim of this is to level the playing field between UK and offshore property developers by ensuring that an offshore developer of UK land is taxed in the same way as a UK developer and cannot benefit from a more favourable treatment.

Under existing rules, for a property developer to be subject to UK taxation, it usually had to be either resident in the UK for tax purposes or be carrying on a trade through a permanent establishment in the UK. The new rules to be introduced in Finance Bill 2016 will remove the territorial restriction in UK legislation, such that profits of a trade carried on by a company will be subject to UK corporation tax where the trade comprises dealing in UK land or developing UK land with a view to disposing of it, regardless of (i) the residence of the company carrying on the trade, (ii) where the trade is carried on and (iii) whether or not the trade is carried on through a permanent establishment. The legislation therefore extends the circumstances in which non-resident companies can be charged to UK corporation tax in respect of a property trade, and ensure that the full amount of profits is taxable in accordance with normal corporation tax rules rather than current rules for attribution of profits to a PE.

The new charge will apply to disposals that occur on or after the date the legislation is introduced in Parliament at Report Stage, which is expected to be in June 2016. However, anti-avoidance rules will be put in place to take effect from Budget Day (16 March 2016) to counteract any arrangements put in place between then and the date the new legislation is introduced that are designed to get around the charge.

Commercial property – SDLT changes

The SDLT rates on non-residential and mixed use property are being changed from the existing "slab" system (a single percentage which is dependent on a rate band within which the purchase price falls) to a new "slice" system where SDLT is charged at different rates on the portion of the purchase price which falls within each rate band.

Prior to Budget 2016, the highest SDLT rate applicable to such acquisitions was 4 percent. The new rates and thresholds for freehold purchases and lease premiums are:

Transaction value band	Rate
£0 - £150,000	0%
£150,001 - £250,000	2%
£250,000 +	5%

For new leasehold transactions (i.e. the grant of a new lease), prior to Budget 2016 SDLT was charged at 1 percent of the net present value of the rent payable under the lease. On or after 17 March 2016, SDLT will also be charged on a "slice" system at different rates on the portion of the net present value which falls within each band, as follows:

Net present value of rent	Rate
£0 - £150,000	0%
£150,001 - £5 million	1%
£5 million+	2%

As the higher rate for both freehold purchases and new lease grants is increasing by 1 percent, the overall SDLT charge arising on significant-value commercial property acquisitions is likely to increase.

Indirect Taxes

Frankie Devlin
Partner

It is clear that indirect taxes continue to be a lucrative tax raising area for the UK Government, which is consistent with other governments across the EU and globally in recent years.

In this budget, the Chancellor has announced a number of measures aimed at combatting VAT avoidance and this has been a theme over numerous years. In particular this year a challenge has been set down for non-UK businesses that are not complying with UK rules and paying their fair share of tax. The main changes announced are set out below.

VAT: tackling online fraud in goods

The Government will legislate to provide HMRC with strengthened powers for directing the appointment of a VAT representative and greater flexibility in respect of seeking a security. This measure is aimed mainly at overseas businesses that supply goods to UK consumers online but who are currently not paying the right amount of VAT or customs duty on these goods. HMRC also intend to introduce a further measure which will allow them to hold an online marketplace (through which the goods are sold) as jointly and severally liable for any unpaid VAT of the overseas business that sells goods in the UK via the online marketplace website.

HMRC intend to introduce this change which will take effect from Royal Assent to Finance Bill 2016. It is estimated that the amount of VAT lost to the UK exchequer through avoidance in this area was £1 to £1.5 billion in 2015 to 2016.

VAT: reverse charge on "airtime" services

As previously announced, with effect from 1 February 2016, the Government introduced an anti-fraud measure to prevent Missing Trader Intra-Community Fraud on wholesale supplies of electronic communication services. This measure requires the recipient of these services to apply a reverse charge and is now fully operational.

Insurance Premium Tax (IPT)

The Government has announced that the standard rate of IPT will be increased from 9.5 percent to 10 percent with effect from 1 October 2016.

Soft Drinks Industry Levy

The Government will introduce a new soft drinks industry levy to be paid by producers and importers of soft drinks that contain added sugar. The levy will be charged on volumes according to total sugar content, with a main rate charge for drinks above 5 grams of sugar per 100 millilitres and a higher rate for drinks with more than 8 grams of sugar per 100 millilitres. There will be an exclusion for small operators and the detail will be consulted on over the summer.

Excise duties

The duty rates on beer, spirits and most ciders will be frozen this year. The duty rates on most wines and higher strength sparkling cider will increase by RPI from 21 March 2016.

Duty rates on all tobacco products will increase by 2 percent above RPI inflation. Duty on hand-rolling tobacco will also increase by an additional 3 percent above this rate to 5 percent above RPI.

Rates Reliefs and Allowances

Budget 2016

The following information is based on proposals set out by the Chancellor in his budget of 16 March 2016 but is subject to amendment in the Finance Bill.

Income tax

Rates

	%	2016/17	%	2017/18
Starting	10	N/A	10	N/A
Basic	20	£0 - £32,000	20	£0 - £33,500
Higher	40	£32,001 - £150,000	40	£33,501 - £150,000
Additional	45	Above £150,000	45	Above £150,000

From April 2016 the dividend tax credit will be abolished and replaced with a tax-free dividend allowance of £5,000 for all taxpayers. The new rates of tax on dividend income above the allowance will be 7.5% for basic rate, 32.5% for higher rate and 38.1% for additional rate taxpayers.

Reliefs

	2016/17	2017/18
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

	2016/17	2017/18
Personal allowance	£11,000	£11,500

The higher personal allowance for those born before 6 April 1938 was 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 will increase to £20,000 from April 2017.

A new Lifetime ISA will be available from April 2017 for adults under the age of 40. They will be able to contribute up to £4,000 per year and receive a 25% bonus from the Government. Funds, including the government bonus, from the Lifetime ISA can be used to buy a first home at any time from 12 months after the account opening and be withdrawn from age 60.

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.

Car and Car Fuel Benefits

Cars

From April 2016 the taxable benefit in respect of a car provided by an employer will vary between 7% 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 ended 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 2021.

Car fuel

The taxable benefit in respect of fuel provided by an employer is the 'appropriate percentage' of £22,200 in 2016/17 (2015/16 £22,100) where the appropriate percentage is the figure (from 7% to 37% in 2016/17 and from 5% to 37% in 2015/16) used to determine the taxable benefit in respect of the provision of the car.

Property Income

From April 2017, individuals with property income (or trading income) below £1,000 will no longer need to declare or pay tax on that income.

From April 2016 the Wear and Tear allowance will be replaced with a new relief allowing taxpayers to deduct the actual costs of replacing furnishings.

Inheritance tax

Rates

	From 6 April 2016	From 6 April 2017
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

	2015/16	2016/17
Class 1 (earnings related)		
Lower earnings limit (LEL) (per week)	£112	£112
Upper earnings limit (UEL) (per week – employees only)	£815	£827
Earnings threshold (per week) for employees	£155	£155
Earnings threshold (per week) for employers	£156	£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	£2.80	£2.80
Small earnings exemption (per year)	£5,965	£5,965
Class 3 (voluntary): per week	£14.10	£14.10
Class 4 (self-employed)		
Lower profits limit (per year)	£8,060	£8,060
Upper profits limit (per year)	£42,385	£43,000
Rates		
- 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% (2015/16: 1.4%). The reduction for employers is 3.4% for salary-related schemes (2015/16: 3.4%).

From April 2016 Employers were entitled to an annual "employment allowance" of £3,000 per year per employer to reduce their liability for Employers NIC.

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

From April 2018, self-employed individuals will no longer be required to pay Class 2 National Insurance.

From April 2018 where an Employer makes a termination payment which is exempt from income tax on the first £30,000, Employers NIC will be payable on any amount exceeding £30,000.

Stamp Taxes

Stamp Duty applies using 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	2%
£250k-£925k	5%	£250k-£500k	5%
£925k-£1.5m	10%	-	-
Above £1.5m	12%	-	-

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

From 1 April 2016, higher rates of Stamp Duty Land Tax will be charged on purchases of additional residential properties (above £40,000), such as buy to let properties and second homes.

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 (CGT) rates apply from April 2016:

- CGT for individuals will be chargeable at 10% (2015/16 18%) for basic rate taxpayers up to their basic rate band being fully utilised.
- For higher and additional rate taxpayers, CGT will be chargeable at 20% (2015/16 28%) and for those basic rate taxpayers who have used their basic rate band with capital gains.
- Capital Gains Tax on residential properties will still be taxed at the higher rates of 18%and 28% (this does not apply to the main residential home).

Entrepreneurs' 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 appropriate Capital Gains Tax rate.

Reliefs

	2016/17
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 2016, 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.

Benefits

A single lifetime allowance restricts the amount of pension savings that can benefit from tax relief. For 2016/17 the lifetime allowance is £1m (2015/16 £1.25m).

Fixed and individual protection regimes will be introduced alongside to protect savers who think they may be affected by this change.

Capital Allowances

The annual investment allowance will increase to £200,000 from January 2016.

Value Added Tax

Standard rate 20%. Registration threshold from 1 April 2016: annual turnover £83,000 (previously £82,000). Deregistration threshold increased from £80,000 to £81,000.

Intangible Assets

Companies receive a deduction for expenditure on an accounts basis. Allowances at 4% per annum are available by election. Allowances at 4% per annum are available by election. Amortisation of goodwill and customer-related intangibles acquired on or after 8 July 2015 are not deductible for corporation tax purposes.

Research and Development (R&D) Relief

Qualifying revenue expenditure on R&D attracts an additional deduction equal to 130% or 30% of the qualifying expenditure.

The rate of 130% 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.

A taxable 'above the line' R&D tax credit ('RDEC'), initially set at 10%, is available for large company research and development expenditure incurred on or after 1 April 2013. The credit is 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 becomes compulsory from 1 April 2016.

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

Loans to close company participator(s)

The rate of corporation tax chargeable under the loans to participator rules will increase from 25% to 32.5% for loans made and benefits conferred by close companies on or after 6 April 2016.

Corporation Tax

	From Financial Year	From Financial Year	From Financial Year
	2015/16	2017/18	2020/21
Main Rate	20%	19%	17%

The main rate reduced to 20% for the financial year commencing 1 April 2015 and will reduce by a further 3% during the current parliament. The main rate and small profits rate harmonised 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 is phased in over four years, with 60% of the benefit being available from April 2013, increasing to 100% by April 2017.

The Patent Box rules will be modified with effect from 1 July 2016 to make the lower tax rate dependent on and proportional to, the extent of the claimant company's R&D expenditure.

Diverted Profits Tax (DPT)

Legislation was introduced with effect from 1 April 2015 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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