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Chartered Accountants

# 2015
# Autumn Statement

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## George Osborne's first Autumn Statement of this Parliament put the spending review centre stage. It said little of tax changes but there were some surprises buried in the detail of the press releases.

The good news is that, having had two budgets this year, there were few additional immediate changes to taxation in the 25th November announcement, so any planning done based on the July budget will, for many, remain largely unchanged.

The Office of Budget Responsibility (OBR) has left its growth forecast largely unchanged for 2015-16 through to 2020-21, but is expecting higher tax receipts across the board. This has allowed the Chancellor to announce some large increases in public spending on house building, and road investment programmes, along with additional funding for the NHS, defence and education.

The most significant tax announcement likely to be of interest to our clients is the addition of an extra 3% stamp duty land tax on the purchase of second homes or buy to let properties from April 2016. Also, from 2019, capital gains tax due on the disposal of any residential property will be required to be paid within 30 days of completion.

There are a few areas where the government is now intending to review the current position, so on the horizon, we are expecting changes to pension reliefs, salary sacrifice, company distributions, digital tax accounts and the processes of paying tax.

Our summary highlights some of the key announcements, plans and measures announced in the Autumn statement and earlier in the year.

Please contact your usual WMT Partner or a member of our tax team if you would like to discuss any points in more detail.

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# Corporate tax

## Corporation tax rates

The main rate of corporation tax is currently 20% and this rate will continue for the financial year beginning on 1 April 2016. The main rate of corporation tax will then be reduced as follows:

- 19% for the financial years beginning on 1 April 2017, 1 April 2018 and 1 April 2019
- 18% for the financial year beginning on 1 April 2020.

## Corporation tax of 45% on restitution interest

The government has provided that a special 45% rate of corporation tax is to be applied to restitution interest. This measure was legislated for in Finance (No.2) Act 2015.

Restitution interest can arise when a company has made a claim to the courts in relation to tax paid under a 'mistake of law' where HMRC are the defendants. Any interest award that represents compensation for the time value of money is restitution interest.

If received on or after 21 October 2015, this interest will be charged at a special rate of 45%. This rate does not apply to any amounts which represent the repayment of overpaid tax or interest payments by HMRC under statutory provisions.

## Company distributions

Later this year the government will publish a consultation on the rules concerning company distributions. There will also be a targeted anti-avoidance Rule to prevent opportunities for income to be converted to capital in order to gain a tax advantage.

## Research and development (R&D)

The government has introduced a voluntary Advanced Assurance scheme for small businesses making their first R&D claim. The scheme commenced in November 2015 and provides successful applicants assurance that HMRC will allow their first three years of R&D tax relief claims without further enquiry. The government also intend to improve their communication and guidance for small companies seeking to claim R&D tax relief.

## Loans to trustees of charitable trusts

Under current legislation, loans made by close companies to trustees of charitable trusts which are participators, or associates of participators, in the company could be liable to a tax charge of 25% under 'loans to a participator' rules. Any such loans made on or after 25 November 2015 will now be exempt from this charge. The new rule only applies where the loan received by the trustee is applied wholly to the purposes of the charitable trust.

## Corporate debt and new accounting standards

The government will legislate to update the tax rules for company debt to ensure that they interact correctly with new accounting standards in three specific circumstances. Details of the circumstances will be contained in the draft Finance Bill 2016 clauses to be issued in early December.

*Comment: Company distributions*

The comment that the government "will publish a consultation on the rules concerning company distributions later in the year" is of concern to all those who utilise dividends to extract funds from their companies. Coming on top of the unexpected and unwelcome 7.5% surcharge on most dividends from next April, this sounds potentially ominous. We will be keeping a close watch on this area.

# Business taxes

## Annual Investment Allowance (AIA)

The AIA provides a 100% deduction for the cost of most plant and machinery (not cars) purchased by a business, up to an annual limit and is available to most businesses. Where businesses spend more than the annual limit, any additional qualifying expenditure generally attracts an annual writing down allowance of only 18% or 8%, depending on the type of asset.

The maximum amount of the AIA was temporarily increased to £500,000 from April 2014 until 31 December 2015. The level of the maximum AIA will now be set permanently at £200,000 for all qualifying investment in plant and machinery made on or after 1 January 2016.

Where a business has a chargeable period which spans 1 January 2016 there are transitional rules for calculating the maximum AIA for that period.

As the AIA is being substantially reduced, any business with significant capital expenditure planned would be well advised to review the timing very carefully to capture maximum relief in 2015.

## Extending averaging for farmers

The averaging period for self-employed farmers will be extended from two years to five years as of April 2016, with farmers having the option of using either averaging period.

If your year end does straddle the period after 31 December 2015 you will need to consider the impact of this thoroughly as the rate is time apportioned. It may be worth considering changing the year end if you envisage high capital expenditure in the period post 1 January 2016.

## Eligible investments for venture capital schemes

The government is looking to continue tax reliefs to encourage investment in business. It announced it will consult on how to change the Business Investment Relief Rules to encourage greater investment.

With effect from 30 November 2015, the provision of reserve energy generating capacity and the generation of renewable energy benefiting from other government support by community energy organisations will no longer be qualifying activities for the Enterprise Investment Scheme (EIS), Venture Capital Trusts (VCT), the Seed Enterprise Investment Scheme and enlarged Social Investment Tax Relief (SITR). The government will exclude all remaining energy generation activities from the schemes from 6 April 2016 as well as from the enlarged SITR. The government will also continue to explore options to introduce increased flexibility for replacement capital within the schemes.

*Comment: Annual Investment Allowance (AIA)*

The timing of the expenditure around 1 January 2016 is critical for businesses with a chargeable period which straddles this date. For example a company with a 31 March year end has an AIA limit for the year to 31 March 2016 as follows:

April 2015 – December 2015
9/12 x £500,000 = £375,000

January 2016 – March 2016
3/12 x £200,000 = £50,000

Total: £425,000

Any AIA available on expenditure in the second period would be limited to the time apportioned maximum in that period. So, for expenditure incurred on or after 1 January until 31 March 2016, the maximum amount of relief will only be £50,000.

*Comment: Extending averaging for farmers*

Farmers typically have volatile profits due to factors such as the weather, disease outbreaks or fluctuating global product prices. Averaging assists farmers by allowing them to spread profits over consecutive years to offset the effects of volatility on profits. Increasing the period over which farmers can average their profits will provide them with additional assistance in managing the volatility they face.

# Business taxes

## Making tax digital

The government will publish 'plans to transform the tax system' and will consult on the details in 2016. With the digital system starting in 2016/17, it is expected that by 2020 most businesses, self-employed people and landlords will be required to keep track of their tax affairs digitally and update HMRC at least quarterly via their digital tax account. This will not apply to individuals in employment, or pensioners, unless they have secondary incomes of more than £10,000 per year. The government will invest £1.3 billion to 'transform HMRC into one of the most digitally advanced tax administrations in the world and aiming to remove the need fro annual tax returns.

There will also be consultation on options to simplify the payment of tax, including aligning payment dates to bring them closer to when profits arise. The announcements on the planned changes to date of payment for gains on residential properties gives a flavour of the changes to expect and is clearly linked to the Digital Plans.

*Comment: Making tax digital*

This is part of the government drive to collect taxes more quickly. A digital tax account will enable a taxpayer to get a real-time view of their tax affairs and see how their tax is calculated.

Businesses which pay more than one tax (such as income tax, VAT and PAYE) will be able to view their total liabilities across all taxes.

It is difficult to see how this can work seamlessly when tax is paid on "profits" and not on the income directly received. We will watch the developments on this with interest.

# Property letting businesses

## Stamp duty land tax (SDLT): additional properties

Higher rates of SDLT will be charged on purchases of additional residential properties (above £40,000), such as buy to let properties and second homes, from 1 April 2016. The higher rates will be three percentage points above the current SDLT rates.

The higher rates will not apply to purchases of caravans, mobile homes or houseboats, or to corporates or funds owning significant investments in residential property. The government will consult on the policy detail, including on whether an exemption for corporates and funds owning more than 15 residential properties is appropriate.

## SDLT: changes to the filing and payment process

The government will consult in 2016 on changes to the SDLT filing and payment process, including a reduction in the filing and payment window from 30 days to 14 days. These changes will come into effect in 2017/18.

## Capital gains tax (CGT): payment window

From April 2019, a payment on account of any CGT due on the disposal of residential property will be required to 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 Private Residence Relief.

Currently, CGT is not payable on a disposal of an asset until 31 January following the tax year in which a disposal is made. So a disposal made on the 6 April 2016 will not result in a tax bill until 31 January 2018.

*Comment: General*

Several measures here will impact the sector. Obviously an attempt to dampen the sector – time will tell if that has an impact on the growth of buy to let investment, housing values or the number of transactions. Interestingly, the OBR lowered its stamp duty forecasts on the assumption housing transactions will drop

*Comment: CGT payment window*

This measure is another blow for buy to let landlords and for some, this will be complex, as the rate of CGT at present can depend on disposal of other assets in the year and other income earned, which may not be fully known until after this date. As is often the case, it appears to be an idea that will be more challenging to administer than it first sounds!

# Property letting businesses

## Other previously announced changes to property taxation

From April 2016 the government will:

- replace the Wear and Tear Allowance with a new relief that allows all residential landlords to deduct the actual costs of replacing furnishings. Capital allowances will continue to apply for landlords of furnished holiday lets
- increase the level of Rent-a-Room relief from £4,250 to £7,500 per annum.

## Restricting loan interest relief for 'buy to let' landlords

As previously announced the government will restrict the amount of income tax relief landlords can get on residential property finance costs to the basic rate of income tax. Finance costs include mortgage interest, interest on loans to buy furnishings and fees incurred when taking out or repaying mortgages or loans. No relief is available for capital repayments of a mortgage or loan.

Landlords will no longer be able to deduct all of their finance costs from their property income. They will instead receive a basic rate reduction from their income tax liability for their finance costs. To give landlords time to adjust, the government will introduce this change gradually over four years from April 2017.

The restriction in the relief will be phased in as follows:

- in 2017/18, the deduction from property income will be restricted to 75% of finance costs, with the remaining 25% being available as a basic rate tax reduction
- in 2018/19, 50% of finance costs deduction and 50% given as a basic rate tax reduction
- in 2019/20, 25% of finance costs deduction and 75% given as a basic rate tax reduction
- from 2020/21, all financing costs incurred by a landlord will be given as a basic rate tax reduction.

This restriction will not apply to landlords of furnished holiday lettings.

# Employment taxes

## Employer provided cars

The scale of charges for working out the taxable benefit for an employee who has use of an employer provided car is now announced well in advance. Cars are taxed by reference to bands of $CO^2$ emissions. From 6 April 2015 the percentage applied by each band went up by 2% and the maximum charge is capped at 37% of the list price of the car.

From 6 April 2016 there will be a further 2% increase in the percentage applied by each band with similar increases in 2017/18 and 2018/19. For 2019/20 the rate will increase by a further 3%. It had been expected that the 3% diesel supplement would be removed from 6 April 2016, however this 3% differential will now be retained until April 2021.

## National insurance contributions (NIC) for apprentices under 25

The government will abolish employer NIC up to the upper earnings limit for apprentices aged under 25. This will come into effect from 6 April 2016. Draft regulations have been issued to define a relevant apprentice. An apprentice needs to:

- be working towards a government recognised apprenticeship in the UK which follows a government approved framework/standard
- have a written agreement, giving the government recognised apprentice framework/standard, with a start and expected completion date.

## Apprenticeship levy

The government will introduce the apprenticeship levy in April 2017. It will be set at a rate of 0.5% of an employer's paybill, which is broadly total employee earnings excluding benefits in kind, and will be paid through PAYE. Each employer will receive an allowance of £15,000 to offset against their levy payment. This means that the levy will only be paid on any paybill in excess of £3 million.

## National Living Wage (NLW)

The government will introduce a new (NLW) for workers aged 25 and above, by introducing a premium on top of the National Minimum Wage (NMW). From April 2016, the NLW will be set at £7.20 an hour. This rate is 50p higher than the current NMW rate.

Legislation and guidance has yet to be published to confirm how the new NLW will apply to certain business sectors, such as hospitality.

## NIC Employment Allowance

The NIC Employment Allowance was introduced from 6 April 2014. It is an annual allowance which is available to many employers and can be offset against their employer NIC liability.

From April 2016, the government will increase the NIC Employment Allowance from £2,000 to £3,000 a year. The increase will mean that businesses will be able to employ four workers full time on the new NLW without paying any NIC.

To ensure that the NIC Employment Allowance is focussed on businesses and charities that support employment, from April 2016, companies where the director is the sole employee will no longer be able to claim the Employment Allowance.

*Comment: Apprenticeship levy*

There are increasing changes for Employers to deal with. Large businesses might be forgiven for seeing the employment levy as equivalent to a rise in employer's National Insurance Contributions, which of course could not have been made by the Chancellor due to the "tax lock" enacted in law this year. This measure alone is expected to yield £2.5bn next year rising to over £3bn in 2020/21. Coming alongside the introduction of the National Living Wage and pensions auto enrolment this adds significantly to the costs associated with employing staff.

# Employment taxes

## Review of employee benefits

From 6 April 2016 a number of changes are introduced relating to the tax treatment of employee benefits in kind and expenses:

- The £8,500 threshold below which employees do not pay income tax on certain benefits in kind will be removed. There will be new exemptions for carers and ministers of religion.
- There will be a statutory exemption for certain expenses reimbursed to an employee. This will replace the current system where employers have to apply for a dispensation to avoid having to report non-taxable expenses (on P11D forms).
- HMRC will be able to issue regulations to allow employers to include taxable benefits in pay and thus account for PAYE on the benefits. Employers will therefore not have to include these items on P11D forms.

## Review of employment status

The government has responded to the final report of the Office of Tax Simplification (OTS) review of employment status and is taking forward the majority of recommendations.

## Taxation of accommodation benefits

Following recommendations from the 2014 OTS report on simplifying the administration of employee benefits and expenses, the government will publish a call for evidence on the current tax treatment of employer provided living accommodation.

## Salary sacrifice

The government remains concerned about the growth of salary sacrifice arrangements and is considering what action, if any, is necessary. The government will gather further evidence, including evidence from employers, on salary sacrifice arrangements to inform its approach.

## Tax relief for intermediaries on travel and subsistence

The government will legislate to restrict tax relief for travel and subsistence expenses for workers engaged through an employment intermediary, such as an umbrella company or a personal service company. Following consultation, relief will be restricted for individuals working through personal service companies where the intermediaries legislation applies. This change will take effect from 6 April 2016.

This has been a long-standing target for reform by HMRC who have been concerned for some while about the growth in so-called "umbrella" companies, which has not been checked by the introduction of the Onshore Intermediaries legislation.

Detailed legislation has yet to be published, so it is unclear if only those caught by the IR35 legislation will see tax relief lost or if it will apply to anyone caught by the agency legislation. If so, that could affect many genuine temps and agency staff who are not the intended target of the new rules.

*Comment:*
*Review of employee benefits*

The statutory exemption for reimbursed expenses will mean that all employees will automatically get the tax relief they are due on qualifying expenses payments.

If an employer wants to pay a set rate to employees for certain expenses, the employer will be able to apply to HMRC for approval to pay or reimburse expenses at a rate set out in the application. HMRC can agree (an approval notice) if they are happy that the payment is a reasonable estimate of the amount of expenses actually incurred.

# Employment taxes

## Pensions auto enrolment minimum contribution rates

Pensions auto enrolment introduced a statutory obligation on employers to automatically enrol eligible employees in a pension scheme and pay pension contributions for the employees from the employer's staging date. The contributions are being phased in with total minimum contribution rates initially set at 2% of qualifying earnings of which the minimum employer contribution is 1%. The contribution rates were set to increase from October 2017 to 5% (2% employer minimum) and 8% (3% employer minimum) from October 2018.

The government has announced that they will delay these two scheduled increases in automatic enrolment minimum contribution rates by six months each, to align these changes with the start of the tax year.

## Real Time Information (RTI) 'on or before' reporting

The two year temporary relaxation, allowing existing micro-employers to report all payments they make in a tax month on or before the last payday in the tax month rather than on or before each and every payday, will end as planned on 5 April 2016.

This will align the treatment for existing micro-employers with all other employers.

## Employee share schemes

The Government will introduce a number of technical changes to streamline and simplify aspects of the tax rules for tax-advantaged and non-tax-advantaged employee share schemes. These changes will provide more consistency, including putting beyond doubt the tax treatment for internationally mobile employees of certain employment-related-securities (ERS) and ERS options. Any charge to tax will arise under the rules that deal with ERS options, rather than earnings.

# Personal tax

## The personal allowance

For those born after 5 April 1938 the personal allowance is currently £10,600. The Chancellor announced in the Summer Budget that the personal allowance will be increased to £11,000 for 2016/17 and to £11,200 in 2017/18.

The government has an objective to raise the personal allowance to £12,500 by the end of this Parliament.

Not everyone has the benefit of the full personal allowance. There is a reduction in the personal allowance for those with 'adjusted net income' over £100,000 which is £1 for every £2 of income above £100,000. So for 2015/16 there is no personal allowance where adjusted net income exceeds £121,200.

## Tax bands and rates

The current rates and bandings are as follows:

| Tax Rate | Income Levels | |
|---|---|---|
| 20% | 0 - 31, 785 | excluding personal allowance |
| 40% | 31,875 - 150,000 | |
| 45% | over £150,000 | |

For those entitled to the full personal allowance the basic rate level extends to £42,385.

The Chancellor has previously announced that the basic rate limit will be increased to £32,000 for 2016/17 and to £32,400 for 2017/18.

The higher rate threshold will therefore rise to £43,000 in 2016/17 and £43,600 in 2017/18 for those entitled to the full personal allowance.

The additional rate of tax of 45% remains payable on taxable income above £150,000.

## Taxation of savings income

Currently, some individuals qualify for a 0% starting rate of tax on savings income up to £5,000. The government has confirmed that the £5,000 band will be kept at the same level for 2016/17. The rate is not available if taxable non-savings income (broadly earnings, pensions, trading profits and property income) exceeds the starting rate limit. The current 0% starting rate may not apply to many people as it will only apply where income, such as a salary, and other income do not exceed the total of the personal allowance (£10,600) and the starting rate limit of £5,000.

The Chancellor announced in the March Budget that a Personal Savings Allowance would be introduced for income such as bank and building society interest from 6 April 2016.

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.

*Comment: General*

No changes were announced to the personal allowance or tax rates and bandings for current year-the rates remaining at 20%, 40% or 45% depending on your level of income though of course there is still a Budget to come in the Spring.

*Comment: Taxation of savings income*

Although there is no change to current year position. It was previously announced that from 6 April 2016 some tax payers will enjoy some savings tax free. The Personal Savings Allowance will be of benefit to all basic (20%) and higher rate (40%) taxpayers. Those with income in the 45% banding will not enjoy this benefit. The government estimates that around 95% of taxpayers will not pay any tax on interest received.

# Personal tax

## Taxation of dividend income

Currently, when a dividend is paid to an individual, it is subject to different tax rates compared to other income due to a 10% notional tax credit being added to the dividend. So for an individual who has dividend income which falls into the basic rate band, the effective tax rate is nil as the 10% tax credit covers the 10% tax liability. For higher rate (40%) and additional rate (45%) taxpayers, the effective tax rates on a dividend receipt are 25% and 30.6% respectively.

To determine which tax band dividends fall into, dividends are treated as the last type of income to be taxed.

From 6 April 2016:

- the 10% dividend tax credit is abolished with the result that the cash dividend received will be the gross amount potentially subject to tax
- a new Dividend Tax Allowance charges the first £5,000 of dividends received in a tax year at 0%
- for dividends above £5,000, new rates of tax on dividend income will be 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

*Comment: Taxation of dividend income*

The dividend income changes will apply from 6 April 2016. There were no further changes announced in the Autumn statement.

There are winner and losers in this area. The situation is complex and an individual review of circumstances is required to see how the changes will affect you.

Many individuals do not have £5,000 of dividend income so are potential winners in the new regime. The removal of any tax on dividends up to £5,000 increases the attractiveness of holding some investments which provide dividend returns rather than interest receipts. Use can then also be made of the CGT annual exemption by selective selling of investments.

Basic rate taxpayers need to appreciate that all dividends received still form part of the total income of an individual. If dividends above £5,000 are received, the first £5,000 will use up some or all of the basic rate band available. The element of dividends above £5,000 which are taxable may therefore be taxed at 32.5%.

Some will benefit from no longer having tax credit added to dividends as more of their other income may fall into lower bands This ma keep some income out of higher rates, or help in saving loss of personal allowance.

# Personal tax

## Individual Savings Accounts (ISAs)

In 2015/16 the overall ISA savings limit is £15,240 and this level will be maintained for 2016/17.

Two changes are proposed with effect from 6 April 2016.

- Changes will be made to the existing ISA Regulations to establish a new flexibility within ISAs which allows savers to replace cash they have withdrawn from their account earlier in a tax year, without this replacement counting towards the annual ISA limit for that year. This flexibility will be available in relation to both current year and earlier years' ISA savings where provided for in the terms and conditions of a 'flexible ISA'.
- The government will introduce a third ISA, the Innovative Finance ISA, for loans arranged via a peer to peer (P2P) platform.

Following a public consultation, the list of ISA eligible investments will be extended in autumn 2016 to include debt securities offered via crowdfunding platforms. This will form part of the Innovative Finance ISA. The government will also explore the case for extending the list to include equity crowdfunding.

Lastly, where a deceased person's estate includes ISAs, the government will legislate to allow the tax advantages to continue whilst the estate is in administration.

## Help to Buy ISA

The government announced the introduction of the Help to Buy ISA in the March Budget. The scheme will provide a government bonus to each person who has saved into a Help to Buy ISA at the point they use their savings to purchase their first home. 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.

Help to Buy ISAs will be available for first time buyers to start saving into from 1 December 2015. First time buyers will be able to open their Help to Buy ISA accounts with an additional one off deposit of £1,000.

## Simple assessment

The government will publish draft legislation that will enable a new process for paying tax. This will be used for taxpayers in self assessment who have simple tax affairs where HMRC already holds all the data it needs to calculate the tax liability, and where existing payment processes are not available. Taxpayers will be sent a calculation which will be a legally enforceable demand for payment, and taxpayers will be able to challenge and appeal these calculations. This process will come into effect in the 2016/17 tax year.

*Comment: Individual Savings Accounts (ISAs)*

All welcome changes here – though the investment level will be frozen into the next tax year, rather than having any inflationary increase. A few tweaks here that add improvements to current rules, as well as including extensions of the scheme to crowdfunding and peer to peer loans. There are also tweaks for ISA tax reliefs to continue through a period of estate administration.

*Comment: Simple assessment*

This appears to be a return to a tax assessment system and an appeals process again – which disappeared nearly 20 years ago with the introduction of self assessment. Although it appears as if a tax return is no longer required for some – it will definitely not be "SIMPLE".

# Pensions

## Restriction on tax relief

In the Summer Budget, further restrictions were announced to the pension contributions annual allowance that would be available to individuals. The annual allowance provides an annual limit on tax relieved pension savings. It is currently £40,000 (although some individuals may be entitled to a higher figure due to transitional provisions). From 6 April 2016 the government has introduced a taper to the annual allowance for those with adjusted annual incomes, including their own and employer's pension contributions, over £150,000. For every £2 of adjusted income over £150,000, an individual's annual allowance will be reduced by £1, down to a minimum of £10,000.

The government also wants to make sure that the right incentives are in place to encourage saving into pensions in the longer term. The government therefore launched a consultation in July 2015 on whether there is a case for reforming pensions tax relief. The government is considering the responses received and will publish a response at Budget 2016.

## Secondary market for annuities

The government will remove the barriers to creating a secondary market for annuities, allowing individuals to sell their annuity income stream. The government will set out further details on this measure, including the framework for the consumer protection package, in its consultation response this December.

## State pension

The state pension will rise in April 2016 by £3.35 to £119.30 per week. In addition the 'triple lock', which ensures that the state pension rises in line with the highest of the growth in prices, average earnings or 2.5%, will be maintained.

The new single-tier state pension will be set at £155.65 per week from April 2016.

## Undrawn pension funds and inheritance tax (IHT)

The government will legislate to ensure a charge to IHT will not arise when a pension scheme member designates funds for drawdown but does not draw all of the funds before death. This will be enacted in the Finance Bill 2016 and backdated to apply to deaths on or after 6 April 2011.

*Comment: Pensions - restriction on tax relief*

It was previously announced that Pensions Relief was going to undergo yet another "reform". No details yet, and more details expected in the Spring.

Contribution restrictions start on 6 April 2016 - so act now.

# Capital gains tax

## Capital gains tax (CGT) rates and annual exemption

No changes have been announced in respect of CGT rates or the annual exemption. The CGT annual exemption for 2015/2016 is £11,100.

The current rates of CGT are 18% (to the extent that any income tax basic rate band is available) and 28% thereafter. The rate for disposals qualifying for Entrepreneurs' Relief is 10% with a lifetime limit of £10 million for each individual.

With respect to Entrepreneurs' Relief, the government has announced it will "consider bringing forward amendments to remove restrictions for genuine commercial transactions caught" by the rules introduced in Finance Act 2015. We believe this means in relation to joint venture and partnership arrangements which was legislated in the year – so will impact companies operating commercial joint venture arrangements, meaning access to this relief is back on the agenda.

## CGT: payment window

From April 2019, a payment on account of any CGT due on the disposal of residential property will be required to 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 Private Residence Relief.

Currently, CGT is not payable on a disposal of an asset until 31 January following the tax year in which a disposal is made. So a disposal made on the 6 April 2016 will not result in a tax bill until 31 January 2018. This measure is another blow for buy to let landlords.

*Comment: Capital gains tax (CGT) rates and annual exemption*

A reduction in limits on Entrepreneurs' Relief was widely trailed in the press – but did not materialise (yet!) – this is a valuable relief which those in business would wish to see retained.

# Inheritance tax

## Inheritance tax (IHT) nil rate band

The IHT nil rate band is currently frozen at £325,000 and will remain at this figure until April 2021.

## IHT residence nil rate band

An additional nil rate band has been introduced where a residence is passed on death to direct descendants such as a child or a grandchild. In addition, the property can pass to a current or surviving spouse or civil partner of a direct descendant. The band is not available for deaths before 6 April 2017. The band will initially be £100,000 in 2017/18, rising in stages to £175,000 by 2020/21.

The residence nil rate band can only be used in respect of one residential property which has, at some point, been a residence of the deceased. There is a tapered withdrawal of the residence nil rate band for estates with a net value (after deducting any liabilities but before reliefs and exemptions) of more than £2 million. This will be at a withdrawal rate of £1 for every £2 over this threshold. This effectively means that if the estate is at £2 million or less it may benefit from this additional allowance, once it goes over the value of the allowance will be withdrawn until e.g. in 2020/21 the value of the allowance is worth £350,000 to a couple. If their estate exceeds £2.7 million they would not be entitled to it.

The residence nil rate band cannot be greater than the value of the property at the date of death.

## Increasing the residence nil rate band for surviving spouses

A surviving spouse may be entitled to an increase in the residence nil rate band if the spouse who died has not used, or was not entitled to use, their full residence nil rate band. The increase applies even if the earlier death was before 6 April 2017.

The calculations involved are potentially complex but the increase will often result in a doubling of the residence nil rate band for the surviving spouse.

### Example

*Joe and Jill were married. Joe died in 2010 and his total estate was under £2 million. Jill dies in May 2017 and her house is bequeathed to her children. If her total estate is under £2 million the potential residence nil rate band is £200,000 (2 X £100,000). If the value of the property is less than £200,000, the increase in the nil rate band is limited to the value of the property.*

# Inheritance tax

## Proposed relief for downsizing

Proposals will be introduced in the Finance Bill 2016 to provide an increase in the residence nil rate band where the value of the property into which a person has downsized limits the amount of the residence nil rate band available on death. The proposals will also provide a residence nil rate band where a person has ceased to own a home, for example, by moving into a care home. It will be available when a person downsizes or ceases to own a home on or after 8 July 2015 and assets of an equivalent value, up to the value of the residence nil rate band, are passed on death to direct descendants.

## Undrawn pension funds and IHT

The government will legislate to ensure a charge to IHT will not arise when a pension scheme member designates funds for drawdown but does not draw all of the funds before death. This will be backdated to apply to deaths on or after 6 April 2011. To be enacted in the Finance Bill 2016

## Deeds of variation

Following the review announced at March Budget 2015, the government will not introduce new restrictions on how deeds of variation can be used for tax purposes but will continue to monitor their use.

*Comment:*
*Proposed relief for downsizing*

The potential increase in the nil rate band is to be welcomed but the increase has introduced considerable complexity to IHT. From April 2017 we have three nil rate bands to consider. The standard nil rate band has been a part of the legislation from the start of IHT in 1986. In 2007 the ability to utilize the unused nil rate band of deceased spouse was introduced enabling surviving spouses to have a nil rate band of up to £650,000. By 6 April 2020 some surviving spouses will be able to add £350,000 in respect of the residence nil rate band to arrive at a total nil rate band of £1 million. However this will only be achieved by careful planning and, in some cases, it may be better for the first deceased spouse to have given some assets to the next generation to use up some or all of the available nil rate bands.

*Comment: Deeds of variation*

Deeds can be very effective at changing tax liabilities.

A deed of variation allows a beneficiary under a will or an intestacy to re-direct part or all of the estate they have received to another person.

Subject to meeting certain conditions, the parties to a deed can choose that the terms of the deed will be treated for IHT and/or CGT purposes as if they were part of the deceased's will.

# Non residence and non domicile

## Remittance basis and UK investment

The government is reviewing the position in relation to business investment relief to encourage greater take up. This relief allows remittance basis users to remit income or gains tax-free to invest in UK businesses, and the government is looking for ways to enhance this existing relief.

## CGT - non-residents and UK residential property

Following consultation the government has confirmed that from 6 April 2015 non-UK resident individuals, trusts, personal representatives and narrowly controlled companies will be subject to CGT on gains accruing on the disposal of UK residential property on or after that date. Non-resident individuals will be subject to tax at the same rates as UK taxpayers (28% or 18% on gains above the annual exemption). Non-resident companies will be subject to tax at the same rates as UK corporates (20%). The gain is calculated using the market value of the property on that date or alternatively the gain can be calculated using actual purchase and sale values which is then time apportioned over the whole period of ownership. Whichever method produces the lower figure can be used.

## CGT - Principal Private Residence Relief (PPR)

The government has decided that some changes are required to the rules determining the circumstances when a property can benefit from PPR. The changes will apply to both a UK resident disposing of a residence in another country and a non-resident disposing of a UK residence.

From 6 April 2015 a person's residence will not be eligible for PPR for a tax year unless either:

- the person making the disposal was resident in the same country as the property for that tax year, or
- the person spent at least 90 midnights in that property.

The main point of the changes to the PPR rules is to remove the ability of an individual who is resident in, say, France with a property in the UK as well as France to nominate the UK property as having the benefit of PPR. Any gain on the French property is not subject to UK tax anyway and currently, without changes to the PPR rules, the gain on the UK property could be removed by making a PPR election.

The good news is that the latest proposals retain the ability of a UK resident with two UK residences to nominate which of those properties has the benefit of PPR.

*Comment: General*

Non domiciled individuals have been the target of much government anti-avoidance recently. The planned changes to enhance remittances for UK investments, appears to give some relaxation. There have been other significant changes that are starting to impact from the current year, many of these, repeated here, were previously announced.

# Stamp duty land tax

## Stamp duty land tax (SDLT): additional properties

Higher rates of SDLT will be charged on purchases of additional residential properties (above £40,000), such as buy to let properties and second homes, from 1 April 2016. The higher rates will be three percentage points above the current SDLT rates.

The higher rates will not apply to purchases of caravans, mobile homes or houseboats, or to corporates or funds making significant investments in residential property. The government will consult on the policy detail, including on whether an exemption for corporates and funds owning more than 15 residential properties is appropriate.

## SDLT: changes to the filing and payment process

The government will consult in 2016 on changes to the SDLT filing and payment process, including a reduction in the filing and payment window from 30 days to 14 days. These changes will come into effect in 2017/18.

*Comment: Stamp duty land tax (SDLT): additional properties*

This will be unpopular with many and will make property investment decisions more complex. The Chancellor stated that 'more and more homes are being bought as buy to lets or second homes' and 'frankly, people buying a home to let should not be squeezing out families who can't afford a home to buy'.

# VAT

## VAT reduced rate on energy saving materials

The government will consult on legislation for Finance Bill 2016 to ensure the reduced rate of VAT on energy saving materials is maintained in line with EU Law.

## VAT on sanitary products

The government has set up a new fund that will make available £15 million a year, equivalent to the annual VAT raised on sanitary products, to support women's charities. This will continue over the course of this Parliament, or until EU rules are amended to enable the UK to apply a zero rate.

*Comment: VAT on sanitary products*

This is an example of social media in action. A petition, signed by 300,000 people, argued that no VAT should be charged on sanitary products. VAT is already charged at the lowest 5% rate allowable under European law. The suggestion to use the funds for charitable purposes was made to the Chancellor by an MP and is similar to the way the government use LIBOR fines.

# Tax – free childcare and tax credits

## New tax-free childcare scheme

In Budget 2013, the government announced new tax incentives for childcare. This scheme is expected to launch in 2017.

Under the scheme the relief will be 20% of the costs of childcare up to a total of childcare costs of £10,000 per child per year. The scheme will therefore be worth a maximum of £2,000 per child (£4,000 for a disabled child).

The government has announced changes to the conditions to qualify for tax-free childcare. All parents in the household must:

- meet a minimum income level based on the equivalent of working 16 hours a week at the National Living Wage (increased from eight hours at the National Minimum Wage)
- each earn less than £100,000 a year (reduced from £150,000), and
- not already be receiving support through tax credits or Universal Credit.

The current system of employer supported childcare will continue to be available for current members if they wish to remain in it or they can switch to the new scheme. Employer supported childcare will continue to be open to new joiners until the new scheme is available.

It is proposed that parents register with the government and open an online account. The scheme will be delivered by HMRC in partnership with National Savings and Investments, the scheme's account provider. The government will then 'top up' payments into this account at a rate of 20p for every 80p that families pay in.

## Free childcare

From September 2017 the free childcare entitlement will be doubled from 15 hours to 30 hours a week for working parents of 3 and 4 year olds. The government will implement this extension of free hours early in some local areas from September 2016. This free childcare is worth around £5,000 a year per child. The 30 hours free childcare offer for working parents of 3 and 4 year olds has been extended to help families maintain childcare arrangements and support the transition back to work at the end of their parental leave or period of ill health.

# Tax – free childcare and tax credits

## Tax credits

A number of changes to tax credits and Universal Credit were announced in the Summer Budget but the Chancellor has scrapped some of the changes following a defeat of the proposals by the House of Lords.

The government has confirmed that:

- The rate at which a tax credit claimant's award is reduced as each pound of their income exceeds the income threshold (known as the taper rate) will remain at 41% of gross income from April 2016.
- The level of income at which a claimant's tax credit award begins to be tapered away (known as the income threshold), will remain at £6,420 per year from April 2016. Claimants earning below this amount will retain their maximum award. Consequently the income threshold for Child Tax Credit-only claimants will remain at £16,105 in 2016/17.
- As announced at Summer Budget 2015, the income rise disregard in tax credits will reduce from £5,000 to £2,500. This is the amount by which a claimant's income can increase in-year compared to their previous year's income before their award is adjusted.

The changes to Universal Credit announced at Summer Budget will go ahead as planned from 2016/17.

*Comment: Tax credits*

There are two types of tax credits; Working Tax Credit (WTC) and Child Tax Credit (CTC). The CTC is potentially available to families who have responsibility for one or more child.

The Universal Credit is gradually being introduced. It is a new type of benefit replacing six existing benefits - income-based jobseeker's allowance, income-related employment and support allowance, income support, housing benefit, WTC and CTC.

# Sundry other matters

## Taxation of sporting testimonials

The government will legislate to simplify the tax treatment of income from sporting testimonials. From 6 April 2017, all income from sporting testimonials and benefit matches for employed sports persons will be liable to income tax. However, an exemption of up to £50,000 will be available for employed sports persons with income from sporting testimonials that are not contractual or customary. This legislation will apply where the sporting testimonial is granted or awarded on or after 25 November 2015, and only to events that take place after 5 April 2017.

## Gift Aid Small Donations Scheme (GASDS)

GASDS allows eligible charities and Community Amateur Sports Clubs to claim a Gift Aid style payment on small cash donations of up to £20. From April 2016, the annual donation amount which can be claimed through the GASDS will increase to £8,000. The government is going to review the operation of this scheme to ensure it is operating as effectively as possible.

## Museums and Galleries Tax Relief

The government will explore the case for introducing a new tax relief for museums and galleries.

# Anti-avoidance

## Tax evasion

The government has announced a number of measures aimed at tax evasion. These include:

- a new criminal offence that removes the need to prove intent for the most serious cases of failing to declare offshore income and gains
- an increase in civil penalties for deliberate offshore tax evasion, including the introduction of a new penalty linked to the value of the asset on which tax was evaded
- introducing civil penalties for those who enable offshore tax evasion
- a new criminal offence for corporates which fail to prevent their agents from criminally facilitating tax evasion by an individual or entity.

## New anti-avoidance provisions

Some anti-avoidance provisions have been announced. These include the introduction of:

- new measures for those who persistently enter into tax avoidance schemes that are defeated by HMRC. These include a special reporting requirement and a surcharge on those whose latest return is inaccurate due to use of a defeated scheme
- a new penalty of 60% of tax due, to be charged in all cases successfully tackled by the General Anti-Abuse Rule.

## Anti-avoidance amendments

Specific anti-avoidance amendments have been made or are proposed in relation to the following:

- The intangible fixed asset rules for partnerships with corporate members, which apply to transactions involving transfers of intangible fixed assets to the partnership that take place on or after 25 November 2015. With regard to transactions that occurred before 25 November 2015, the measure will have effect in relation to the accounting debits and credits accruing on or after that date.
- Capital allowances and leasing which will apply to certain agreements entered into on or after 25 November 2015.

These changes will prevent companies from artificially lowering the disposal value of plant and machinery for capital allowance purposes, and make any payment received for agreeing to take responsibility for tax deductible lease related payments subject to tax as income.

*Comment: General*

The government continues to increase pressure on tax avoidance schemes

# What should I do next?

Our summary focuses on the tax issues and measures likely to affect you, your family and your business that were announced in the Autumn statement and the budgets earlier this year.

We will issue updates and insights into the changes introduced by the budget via our website and our clients will be notified of these updates, so please do keep an out for emails from us.

If you would like to discuss how the budget affects you particular situation please contact your usual WMT partner, a member of the WMT tax team or call 0800 158 5829

## Anne-Maree Dunn
## Tax Partner

Anne-Maree Dunn is the Tax Partner at WMT Chartered Accountants and has been part of the team here since 1988. She is a Chartered Accountant and Chartered Tax Adviser and works with a wide variety of owner-managed businesses and private individuals on their tax and business advisory needs.

Anne-Maree's particular areas of tax specialism are in property, family business issues, exit strategies for owner-managers, capital gains tax, group reorganisations, as well as tax efficient share and reward schemes.

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## Sarah Lockhart-White
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Sarah has over 25 years experience of advising owner-managed businesses and large corporates on their tax challenges and opportunities. Sarah works on both advisory and tax compliance matters, and clients seek out her technical knowledge to help grow their businesses.

Sarah's recent projects include advising on acquisitions, disposals and restructurings as well as overseas expansion. She has also helped clients to make the most of tax reliefs and allowances such as R&D tax credits, capital allowances and the patent box regime.

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## Peter Davies
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Peter Davies is a former Inland Revenue investigator with extensive experience in enquiries carried out by HM Revenue & Customs. Since joining the accountancy profession in 2004 Peter has advised businesses on employment tax issues including benefits in kind, PAYE and National Insurance, and more specialised areas such as employment status and termination payments.

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