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Quarterly Update

Spring 2016 Issue

Budget 2016 Summary

Welcome to our first newsletter of 2016 in which we take a look at the recent budget and summarise those matters which we think will be of most interest to you. Unusual this year is the fact that, as we prepare this document, Mr Osborne has already withdrawn elements of his plans to cut disability benefits and is coming under fire to withdraw the budget in its entirety. Whilst we think this is unlikely it is perhaps fortuitous that the modern approach to the Budget has been to announce changes a year in advance which allows time to finesse the details before implementation. This being the case we also include within this newsletter reminders of significant changes that will come into effect from 6th April 2016.

As usual if you have any specific queries about any matter included herein then please contact us on 01932 353165.

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Ahead of the Budget there was much press speculation as to how Mr Osborne would deal with the upcoming European Union referendum. However, following his presentation of a budget he claimed "put the next generation first" Mr Osborne has come under a barrage of criticism from all sources, not least his own parliamentary party, for delivering a budget that favours the wealthiest in society at the expense of the more vulnerable and those in the greatest need.

Following are the key points in relation to the more usual areas than concern us as your advisers but this time with the caveat that, in the light of the withdrawal of planned changes to disability benefits, Mr Osborne does now have a funding gap to fill and it is possible that by the time 6th April 2017 dawns some aspects may have been superseded.

Income Tax

The personal allowance is to increase at a quicker rate than previously announced. From 6th April 2016 the allowance will be £11,000 rising to £11,500 for 2017/18.

It is the aim of this Government for the allowance to be £12,500 by 2020.

There are also changes to the higher rate threshold which will now be £43,000 from 6th April 2016 rising to £45,000 for 2017/18.

Property and Trading Income Allowances

With effect from 6th April 2017 two new allowances will be introduced, one for property income and the other for trading income, both set at £1,000, such that individuals with gross income below the allowance will no longer need to declare or pay tax on that income.

People who make up to £1,000 from occasional jobs – such as providing a lift share or selling goods they have made – will no longer need to pay tax on that income. In the same way, the first £1,000 of income from property – such as renting a driveway or loft storage – will be tax free.

As these are new allowances it means that anyone earning above the £1,000 limit will be able to calculate their taxable profit either by deducting eligible expenses in the usual way or by simply deducting the relevant allowance from the gross income.

Savers

ISAs – The ISA limit will rise from £15,240 to £20,000 in April 2017 however with the introduction of the Personal Savings Allowance (covered elsewhere in this newsletter) this may make cash ISAs less attractive than they once were.

"Lifetime" ISA – From 6th April 2017 any adult under the age of 40 will be eligible to open a Lifetime ISA into which they can contribute up to £4,000 each year and receive a 25% bonus from the government at the end of the year. This ISA will form part of the £20,000 limit referred to above. Specific points to note are:

- Contributions can continue, with the bonus paid up to the age of 50;
- Funds can be withdrawn from aged 60 onwards for use in retirement;
- Funds can be used to buy a first home at any time from 12 months after opening the account;
- There will be national limit of £450,000 on the cost of property purchased using a Lifetime ISA.

Help to Buy ISA – this scheme was launched in Autumn 2015 and is similar to the Lifetime ISA except it is exclusively aimed at first time buyers. These will remain available until November 2019 and savers can opt for both a Help to Buy ISA and a Lifetime ISA however, the Government bonus from only one of these accounts may be used to buy a first home. During 2017/18 anyone with a Help to Buy ISA will be able to transfer the savings therein into a Lifetime ISA and save an additional £4,000.

Budget 2016 Summary (continued)

Capital Gains Tax

A surprise announcement came in connection with Capital Gains Tax with the Chancellor reducing the main capital gains tax rates effective from 6th April 2016. For transactions after that date basic rate taxpayers will see the rate cut from 18% to 10% and the higher rate will reduce from 28% to 20%.

There are some excluded transactions the most important one being the disposal of residential property that does not qualify for private residence relief; these transactions will continue to be taxed at 18% or 28% as appropriate.

Business rates

Prior to the General Election Mr Osborne promised a review of business rates and he announced the following reforms which will take effect from 1 April 2017:

- The Small Business Rate Relief is permanently doubled from 50% to 100%;
- Businesses with a property that has a rateable value of £12,000 and below will receive 100% relief;
- Businesses with a property that has a rateable value of between £12,000 and £15,000 will receive tapered relief;
- An increase in the threshold for the standard business rates multiplier to £51,000.

More Pressing Matters

Changes to the taxation of dividends

With effect from 6th April 2016 the current system of taxing dividends is being abolished. Dividends will no longer be received net of basic rate tax with the associated 10% tax credit. Instead a Dividend Allowance of £5,000 will be available to UK resident individuals with any excess dividends being taxed at –

7.5% on dividends within the basic rate band;

32.5% on dividends within the higher rate band; and

38.1% on dividends above the higher rate limit.

Comparing these rates to those effective for the current tax year, 2015/16, which are 0%, 25% and 30.55%, shows that the timing of dividends before and after 5th April 2016 may be critical. For any of you with owner managed companies, if you would like us to advise on this ahead of the end of the tax year then you should contact us as a matter of urgency as action cannot be taken retrospectively.

One further point to note is that the Dividend Allowance is not a deduction in calculating taxable income instead the first £5,000 of dividend income will be taxed at 0%.

Personal Savings Allowance

In a similar vein, a new Personal Savings Allowance is to be introduced on 6th April 2016 which will apply to bank and building society interest. The Allowance is set at £1,000 for basic rate taxpayers, £500 for higher rate taxpayers and £nil for those paying the additional rate. Once again this is not a deduction in arriving at taxable income but instead the relevant income will be taxed at 0%.

As a consequence of this change banks, building societies etc. will no longer be required to pay interest net of basic rate income tax.

Loans to directors of a close company

The rate of tax charged on loans to directors from a close company will be linked to the dividend upper rate of 32.5% from 6th April 2016. This is an increase from 25%.

Employment Allowance

On 6th April 2016, the employment allowance which allows businesses to reduce Class 1 national insurance, is increasing from £2,000 to £3,000. However, businesses with a sole employee who is also a director are no longer eligible for employment allowance.

Stamp Duty Land Tax (SDLT)

1st April 2016 sees the introduction of an SDLT surcharge which will apply on the purchase of a second or subsequent residential property completing after that date. An additional 3% will be charged on top of the normal rate.

Whilst it may well not have been the intention, this change will also apply to anyone completing the purchase of a new home before completing the sale of their current one, even if the delay is only a few days. There are some transitional rules in place covering those transactions in process at the point of the change however thereafter, regardless of circumstances, the additional SDLT will be payable. If the sale of the original property then goes ahead and completes within an 18 month period a claim can be made for the surcharge to be refunded although there are no details as yet as to the mechanism for doing so.

One possible bright spot on the horizon is that the rules may be changed such that the surcharge would not be payable at all if the first property were sold within 30 days of the second purchase.

Personal Tax Returns ...a reminder!

Look out for, and keep, any information that you receive that is required for your tax return. In particular the banks will shortly be issuing interest summaries and investment managers are preparing annual portfolio information. For those of you in employment, you will shortly be receiving your end of year P60 and in the next couple of months form P11D, if one is due.

Where we assist in the completion of your return please get all necessary information to us as soon as possible after the tax year end on 5th April. If you are expecting a refund then the earlier the return is submitted the quicker the refund will be issued. Similarly, if you expect your tax liability to be less than it was in 2014/15 the sooner the return is completed the sooner we can calculate the final liability and, if appropriate, reduce the payment on account due in July.

For those of you receiving this via e-mail we hope the process has proved successful. If you would like to either opt in or out of the electronic version, please telephone us on our usual number, 01932 353165, or e-mail mary@mwaccountant.co.uk.

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