FLETCHER & PARTNERS
Chartered Accountants

THE BUDGET 2015

George Osborne presented the final Budget of this Parliament on Wednesday 18 March 2015.

In his speech the Chancellor reported ‘on a Britain that is growing, creating jobs and paying its way’.

Towards the end of 2014 the government issued many proposed clauses of Finance Bill 2015 together with updates on consultations. Due to the dissolution of Parliament on 30 March some measures will be legislated for in the week commencing 23 March, whilst others will be enacted by a Finance Bill in the next Parliament (depending on the result of the General Election).

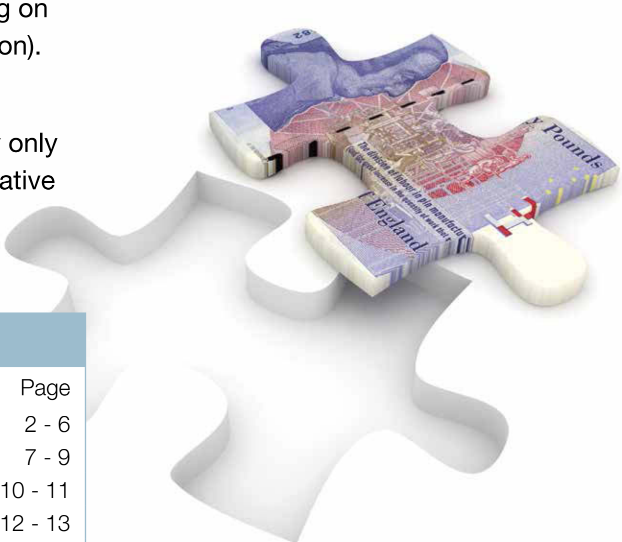
The Budget proposes further measures, some of which may only come to fruition if the Conservative Party is in power in the next Parliament.

Contents

Our summary focuses on the issues likely to affect you, your family and your business. To help you decipher what was announced we have included our own comments. If you have any questions please do not hesitate to contact us for advice.

Main Budget tax proposals

- Increased personal allowances
- The introduction of a new Personal Savings Allowance
- Changes to ISAs including the introduction of a new type of ISA for First Time Buyers
- Changes to pensions
- Potential business rate reform in England
- Entrepreneur’s Relief – changes to qualifying conditions



The Budget proposals may be subject to amendment in a Finance Act. You should contact us before taking any action as a result of the contents of this summary.

Personal Tax

The personal allowance for 2015/16

For those born after 5 April 1938 the personal allowance will be increased to £10,600. For those born before 6 April 1938 the personal allowance remains at £10,660.

Comment

The reduction in the personal allowance for those with 'adjusted net income' over £100,000 will continue. The reduction 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 for 2015/16

The basic rate of tax is currently 20%. The band of income taxable at this rate is being decreased from £31,865 to £31,785 so that the threshold at which the 40% band applies will rise from £41,865 to £42,385 for those who are entitled to the full basic personal allowance.

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

Dividend income is taxed at 10% where it falls within the basic rate band and 32.5% where liable at the higher rate of tax. Where income exceeds £150,000, dividends are taxed at 37.5%.

Starting rate of tax for savings income

From 6 April 2015, the maximum amount of an eligible individual's savings income that can qualify for the starting rate of tax for savings will be increased from £2,880 to £5,000, and this starting rate will be reduced from 10% to 0%. These rates are not available if taxable non-savings income (broadly earnings, pensions, trading profits and property income) exceeds the starting rate limit.

Comment

This will increase the number of savers who are not required to pay tax on savings income, such as bank or building society interest. Eligible savers can register to receive their interest gross using a form R85.

The increase will also provide a useful tax break for director-shareholders who extract their share of profits from a company by taking a low salary and the balance in dividends. This is because dividends are taxed after savings income and thus are not included in the individual's 'taxable non-savings income'.

Transferable Tax Allowance

From 6 April 2015 married couples and civil partners may be eligible for a new Transferable Tax Allowance.

The Transferable Tax Allowance will enable spouses and civil partners to transfer a fixed amount of their personal allowance to their spouse. The option to transfer is not available to unmarried couples.

The option to transfer will be available to couples where neither pays tax at the higher or additional rate. If eligible, one partner will be able to transfer 10% of their personal allowance to the other partner which means £1,060 for the 2015/16 tax year.

Comment

For those couples where one person does not use all of their personal allowance the benefit will be up to £212 (20% of £1,060).

Eligible couples can now register their interest for marriage allowance at GOV.UK/marriageallowance. The spouse or partner with the lower income registers their interest in transferring some of their personal allowance by entering some basic details. HMRC will subsequently invite the couple to apply. Those who don't register their interest will be able to make an application at a later date and still receive the allowance.

The personal allowance and tax bands for 2016/17 and beyond

The personal allowance will be increased to £10,800 in 2016/17 and to £11,000 in 2017/18. The Transferable Tax Allowance will also rise in line with the personal allowance, being 10% of the personal allowance for the year.

The higher rate threshold will rise in line with the personal allowance, taking it to £42,700 in 2016/17 and £43,300 in 2017/18 for those entitled to the full personal allowance.

Personal Savings Allowance

The Chancellor announced that legislation will be introduced in a future Finance Bill to apply a Personal Savings Allowance to 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.

These changes will have effect from 6 April 2016 and the Personal Savings Allowance will be in addition to the tax advantages currently available to savers from Individual Savings Accounts.

Comment

The Personal Savings Allowance will provide basic and higher rate tax payers with a tax saving of up to £200 each year.

The end of tax deduction at source on interest

Due to the changes to the starting rate for savings and the introduction of a Personal Savings Allowance, many individuals will no longer need to pay tax on their savings income. Currently, 20% income tax is automatically deducted from most interest on savings excluding ISAs.

From April 2016, the automatic deduction of 20% income tax by banks and building societies on non-ISA savings will cease.

Individual Savings Accounts (ISAs)

On 1 July 2014 ISAs were reformed and the overall annual subscription limit for these accounts was increased to £15,000 for 2014/15. From 6 April 2015 the overall ISA savings limit will be increased to £15,240.

The Chancellor announced in the Autumn Statement an additional ISA allowance for spouses or civil partners when an ISA saver dies. The additional ISA allowance will be equal to the value of a deceased person's savings at the time of their death and will be in addition to the normal ISA subscription limit. Regulations will set out the time period within which the additional allowance will be used. In certain circumstances an individual will be able to transfer to their own ISA non-cash assets such as stocks and shares previously held by their spouse.

Comment

In most cases it is envisaged that the additional allowance will be used to subscribe to an ISA offered by the same financial institution that provided the deceased person's ISA. As the new regulations will allow the transfer of stocks and shares directly into the new ISA, in many cases the effect will be that the investments are left intact and the spouse becomes the new owner of the deceased person's ISA.

This measure applies for deaths from 3 December 2014 and takes effect from 6 April 2015.

As announced at Budget 2015, regulations will be introduced to extend the list of qualifying investments for ISAs and Child Trust Funds to include listed bonds issued by Co-operative Societies and Community Benefit Societies and SME securities that are admitted to trading on a recognised stock exchange, with effect from 1 July 2015.

The government will also consult during summer 2015 on further extending this list of qualifying investments to include debt securities and equity securities offered via crowd funding platforms.

It was announced at Budget 2015 that regulations will be introduced in autumn 2015, following consultation on technical detail, to enable ISA savers to withdraw and replace money from their cash ISA without it counting towards their annual ISA subscription limit for that year.

At Budget 2014, the Chancellor announced that peer-to-peer loans would be eligible for inclusion within ISAs. The government has consulted on the options for changes to the ISA rules to allow peer-to-peer loans to be held within them.

No start date has been announced.

Comment

Peer-to-peer lending is a small but rapidly growing alternative source of finance for individuals and businesses. The inclusion of such loans in ISAs will increase choice for investors and encourage the growth of the peer-to-peer sector.

Help to Buy ISA

The government has announced the introduction of a new type of ISA, the Help to Buy ISA, which will provide a tax free savings account for first time buyers wishing to save for a home.

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 subject to eligibility rules and limits:

- An individual will only be eligible for one account throughout the lifetime of the scheme and it is only available to first time buyers.
- Interest received on the account will be tax free.
- Savings will be limited to a monthly maximum of £200 with an opportunity to deposit an additional £1,000 when the account is first opened.
- The government will provide a 25% bonus on the total amount saved including interest, capped at a maximum of £3,000 which is tax free.
- The bonus will be paid when the first home is purchased.

- The bonus can only be put towards a first home located in the UK with a purchase value of £450,000 or less in London and £250,000 or less in the rest of the UK.
- The government bonus can be claimed at any time, subject to a minimum bonus amount of £400.
- The accounts are limited to one per person rather than one per home so those buying together can both receive a bonus.
- As is currently the case it will only be possible for an individual to subscribe to one cash ISA per year. It will not be possible for an account holder to subscribe to a Help to Buy ISA with one provider and another cash ISA with a different provider.
- Once an account is opened there is no limit on how long an individual can save into it and no time limit on when they can use their bonus.

The government intends the Help to Buy ISA scheme to be available from autumn 2015 and investors will be able to open a Help to Buy ISA for a period of four years.

Junior ISA and Child Trust Fund (CTF)

The annual subscription limit for Junior ISA and Child Trust Fund accounts will increase from £4,000 to £4,080.

The government has previously decided that a transfer of savings from a CTF to a Junior ISA should be permitted at the request of the registered contact for the CTF. The government has confirmed the measure will have effect from 6 April 2015.

Bad debt relief on investments made on peer-to-peer lending

The government will introduce a new relief to allow individuals lending through peer-to-peer platforms to offset any losses from loans which go bad against other peer-to-peer income. It will be effective from 6 April 2016 and, through self assessment, will allow individuals to make a claim for relief on losses incurred from 6 April 2015.

Pensions saving

There is an overall limit, known as the lifetime allowance, on the total amount of tax relieved pension savings that an individual can have over their lifetime. The Chancellor has now announced that for tax year 2016/17 onwards:

- The standard lifetime allowance will be reduced from £1.25 million to £1 million.
- Fixed and individual protection regimes will be introduced alongside the reduction in the lifetime allowance to protect savers who think they may be affected by this change.

The lifetime allowance will be indexed annually in line with CPI from 6 April 2018.

Pensions – changes to access to pension funds

The Taxation of Pensions Act has recently been enacted. It provides that individuals aged 55 or over can access their money purchase pension savings as they choose from 6 April 2015.

In most cases access to the fund will be achieved in one of two ways:

- Allocation of a pension fund (or part of a pension fund) to a 'flexi-access drawdown account' from which any amount can be taken over whatever period the person decides.
- Taking a single or series of lump sums from a pension fund (known as an 'uncrystallised funds pension lump sum').

When an allocation of funds to a flexi-access account is made the member typically will take the opportunity of taking a tax free lump sum from the fund (as under current rules).

The person will then decide how much or how little to take from the flexi-access account. Any amounts that are taken will count as taxable income in the year of receipt.

Access to some or all of a pension fund without first allocating to a flexi-access account can be achieved by taking an uncrystallised funds pension lump sum.

The tax effect will be:

- 25% is tax free
- the remainder is taxable as income.

An annuity can, of course, be purchased with some or all of the fund as currently.

Comment

The fundamental tax planning point arising from the changes is self-evident. A person should decide when to access funds depending upon their other income in each tax year.

Pension freedoms to be extended to people with annuities

The Chancellor announced just before the Budget a new flexibility for people who have already purchased an annuity. From April 2016, the government will remove the restrictions on buying and selling existing annuities to allow pensioners to sell the income they receive from their annuity for a capital sum.

Individuals will then have the freedom to take that capital as a lump sum, or place it into drawdown to use the proceeds more gradually.

Income tax at the individuals' marginal rate will be payable in the year of access to the proceeds.

The proposal will not give the annuity holder the right to sell their annuity back to their original provider. The government has begun a consultation on the measures that are needed to establish a market to buy and sell annuities and who should be permitted to purchase the annuity income.

Comment

The government recognises that for most people retaining their annuity will be the right choice. However, individuals may want to sell an annuity, for instance to pay off debts or to purchase a more flexible pension income product.

Taxation of resident non-domiciles

There will be some changes in the annual charge paid by non-domiciled individuals resident in the UK who wish to retain access to the remittance basis of taxation.

The charge paid by people who have been UK resident for seven out of the last nine years will remain at £30,000. The charge paid by people who have been UK resident for 12 out of the last 14 years will increase from £50,000 to £60,000. A new charge of £90,000 will be introduced for people who have been UK resident for 17 of the last 20 years.

The changes apply for 2015/16.

The government is consulting on making the election to pay the remittance basis charge apply for a minimum of three years.

Business Tax

Corporation tax rates

From 1 April 2015 the main rate of corporation tax, currently 21%, will be reduced to 20%.

As the small profits rate is already 20%, the need for this separate code of taxation disappears. The small profits rate will therefore be unified with the main rate.

It is proposed that the rate of corporation tax will continue at 20% for the financial year beginning on 1 April 2016.

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 annual amount of the AIA was increased to £500,000 from 1 April 2014 for companies or 6 April 2014 for unincorporated businesses until 31 December 2015. However it was due to return to £25,000 after this date. The Chancellor announced that following conversations with business groups this would be addressed in the Autumn Statement and would be set at a much more generous rate.

Research and Development (R&D) tax credits

As previously announced, the government will increase the rate of the 'above the line' credit from 10% to 11% and will increase the rate of the SME scheme from 225% to 230% from 1 April 2015.

It is proposed to restrict qualifying expenditure for R&D tax credits from 1 April 2015 so that the costs of consumable items incorporated in products that are sold are not eligible. Following consultation the restriction will not apply where the product of the R&D is transferred as waste, or where it is transferred but no consideration is received.

A new voluntary advance assurance service lasting three years will be introduced for small companies making their first claim from autumn 2015. From 2016 the time taken to process a claim will be reduced. New guidance will be issued by HMRC aimed specifically at smaller companies, backed by a two year publicity strategy to raise awareness of R&D tax credits. HMRC will publish a document in the summer setting out a roadmap for further improvements to the scheme over the next two years.

Construction Industry Scheme (CIS) improvements

At Autumn Statement the government announced it would make a number of changes to the CIS. The aim of the changes is to reduce the administrative burden and related cost burden on construction businesses. The measures should result in more subcontracting businesses being able to achieve and maintain gross payment status, thus improving their cashflow. These changes are to be implemented in stages by the issue of Statutory Instruments.

From 6 April 2015 amendments will be made to the system including:

- The requirement for a contractor to make a return to HMRC even if the contractor has not made any payments in a tax month is removed.

- The requirements for joint ventures to gain gross payment status will be relaxed where one member already has this status and where that firm or company has a right to at least 50% of the assets or the income or holds at least 50% of the shares or the voting power in the joint venture.

From 6 April 2016 further changes are proposed:

- Mandatory online filing of CIS returns will be introduced with the offer of alternative filing arrangements for those unable to access an online channel by reason of age, disability, remote location or religious objection.
- The directors' self assessment filing requirements will be removed from the initial and annual compliance tests.
- The threshold for the turnover test will be reduced to £100,000 in multiple directorship situations.

From 6 April 2017 mandatory online verification of subcontractors will be introduced.

Comment

About two thirds of CIS contractors are also employers who therefore file Real Time Information PAYE returns online. It is no surprise that the government wants to extend the scope of mandatory online filing. The improvements to the online verification process would be welcome but the government is also proposing to remove the option of verifying subcontractors by telephone.

Class 2 National Insurance contributions (NIC)

From 6 April 2015 liability to pay Class 2 NIC will arise at the end of each year. Currently a liability to Class 2 NIC arises on a weekly basis.

The amount of Class 2 NIC due will still be calculated based on the number of weeks of self-employment in the year, but will be determined when the individual completes their self assessment return. It will therefore be paid alongside their income tax and Class 4 NIC. For those who wish to spread the cost of their Class 2 NIC, HMRC will retain a facility for them to make regular payments throughout the year. The current six monthly billing system will cease from 6 April 2015.

Those with profits below a threshold will no longer have to apply in advance for an exception from paying Class 2 NIC. Instead they will have the option to pay Class 2 NIC voluntarily at the end of the year so that they may protect their benefit rights.

The government has announced that Class 2 NIC will be abolished in the next Parliament and will reform Class 4 NIC to include a contributory benefit test. Consultation on these matters will take place later in 2015.

Corporation tax relief for goodwill on incorporation

Corporation tax relief may be available to companies when goodwill and intangible assets are recognised in the financial accounts. Relief is normally given on the cost of the asset as the expenditure is written off in accordance with Generally Accepted Accounting Practice or at a fixed 4% rate, following an election.

An anti-avoidance measure was announced at Autumn Statement to restrict corporation tax relief. The restriction applies where a company acquires internally-generated goodwill and certain other intangible assets used in a business from ‘related persons’. In particular, related persons includes individuals who are shareholders in the company.

In addition, individuals will be prevented from claiming Entrepreneurs’ Relief (ER) on disposals of goodwill when they transfer the business to a related company. Capital gains tax will be payable on the gain at the normal rates of 18% or 28% rather than 10%. Following consultation, the legislation will be revised to allow ER to be claimed by partners in a firm who do not hold or acquire any stake in the successor company.

These measures apply to all transfers on or after 3 December 2014 unless made pursuant to an unconditional obligation entered into before that date.

Comment

Prior to this announcement it was possible, for example, on incorporation of a sole trader’s business to a company which is owned by the sole trader, for the company to obtain corporation tax relief on the market value of goodwill at the time of incorporation. The disposal by the sole trader would qualify for a low rate of capital gains tax.

The government considers this is unfair to a business that has always operated as a company.

Diverted profits tax

At Autumn Statement, a new tax to counter the use of aggressive tax planning techniques by multinational enterprises to divert profits from the UK was announced. Legislation will be introduced in Finance Bill 2015 for a new Diverted Profits Tax using a proposed rate of 25% to apply from 1 April 2015.

Farmers averaging

The government will extend the period over which self-employed farmers can average their profits for income tax purposes from two years to five years. A consultation will be held later this year and the legislation to be introduced in a future Finance Bill will come into effect from 6 April 2016.

Changes to venture capital schemes

The government will make amendments to the Seed Enterprise Investment Scheme (SEIS), Enterprise Investment Scheme (EIS), and Venture Capital Trusts (VCTs).

The government will, subject to EU State aid approval:

- Require that companies must be less than 12 years old when receiving their first EIS or VCT investment, except where the investment will lead to a substantial change in the company’s activity.
- Introduce a cap on total investment received under the tax-advantaged venture capital schemes of £15 million, increasing to £20 million for knowledge-intensive companies.
- Increase the employee limit for knowledge-intensive companies to 499 employees, from the current limit of 249 employees.

The government will encourage the transition from SEIS to the other venture capital schemes by removing the requirement that 70% of the funds raised under SEIS must have been spent before EIS or VCT funding can be raised.

Business rates - England

Shortly before the Budget the government launched a wide-ranging review of national business rates in England.

The review, set to report back by Budget 2016, will examine the structure of the current system. The review will look at how businesses use property and how to modernise the system so it better reflects changes in the value of property.

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 are now announced well in advance. Most cars are taxed by reference to bands of CO_2 emissions. The percentage applied to each band has typically gone up by 1% each year with an overriding maximum charge of 35% of the list price of the car. From 6 April 2015 the percentage applied by each band goes up by 2% and the maximum charge is increased to 37%.

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%. The 3% diesel supplement will be removed from 6 April 2016.

Comment

These increases may discourage businesses from retaining the same car. New cars will often have lower CO_2 emissions than the equivalent model purchased by the employer, say three years earlier.

Zero emission vans

The van benefit charge exemption for zero emission vans is to be phased out from 6 April 2015. For 2015/16 a charge will apply equal to 20% of the normal van benefit charge. This will increase by a further 20% each year over the next three years up to 2018/19 and by a further 10% in 2019/20. From 6 April 2020 a normal 100% van benefit charge will apply to zero emission vans.

Comment

The charge for a zero emission van for 2015/16 will therefore be £630 (£3,150 x 20%).

Employer National Insurance contributions (NIC) for the under 21s

From 6 April 2015 employer NIC for employees under the age of 21 will be reduced from the normal rate of 13.8% to 0%. For the 0% rate to apply the employee will need to be under 21 when the earnings are paid.

This exemption will not apply to earnings above the Upper Secondary Threshold (UST) in a pay period. The weekly UST is £815 for 2015/16 which is equivalent to £42,385 per annum. Employers will be liable to 13.8% NIC beyond this limit.

Comment

The UST is a new term introduced for this new NIC exemption. It is set at the same amount as the Upper Earnings Limit, which is the amount at which employees' NIC fall from 12% to 2%.

NIC for apprentices under 25

The government will abolish employer NIC up to the UST for apprentices aged under 25. This will come into effect from 6 April 2016.

Comment

Detailed regulations will be issued on the NIC for apprentices including the definition of an apprentice.

NIC Employment Allowance

The Employment Allowance was introduced from 6 April 2014. It is an annual allowance of up to £2,000 which is available to many employers and can be offset against their employer NIC liability.

The government will extend the annual £2,000 Employment Allowance for employer NIC to householders who employ care and support workers. This will come into effect from 6 April 2015.

Review of employee benefits

In 2014 the Office of Tax Simplification published recommendations on the tax treatment of employee benefits in kind and expenses. In response the government has issued draft legislation on four areas:

- From 6 April 2015 there will be a statutory exemption for certain non-cash benefits in kind costing up to £50. An annual cap of £300 will be introduced for office holders of close companies and employees who are family members of those office holders. Those affected by this cap will be able to receive a maximum of £300 worth of trivial benefits in kind each year exempt from tax.
- From 6 April 2016 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.
- From 6 April 2016 there will be no tax liability on an employee for certain reimbursed expenses. This will replace the current system where employers have to apply for a dispensation to avoid having to report non-taxable expenses (on forms P11D). Also employees will automatically get the tax relief they are due on qualifying expenses payments.
- 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 forms P11D.

Overarching contracts of employment and temporary workers

The use of overarching contracts of employment by employment intermediaries such as ‘umbrella companies’ can result in workers obtaining tax relief for home to work travel that would not ordinarily be available.

From April 2016 the government will change the rules to restrict travel and subsistence relief for workers engaged through an employment intermediary, such as an umbrella company or a personal service company, and under the supervision, direction and control of the end-user.

Capital Taxes

Capital gains tax (CGT) rates

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.

CGT annual exemption

The CGT annual exemption will increase to £11,100 for 2015/16.

CGT - Entrepreneurs' Relief (ER)

Gains which are eligible for ER, but which are deferred into investments which qualify for the Enterprise Investment Scheme or Social Investment Tax Relief can now remain eligible for ER when the gain is realised. This applies to qualifying ER gains on disposals on or after 3 December 2014 which are deferred into either scheme.

CGT - Restricting ER

ER will not be available to reduce CGT on gains which accrue on personally owned assets used in a trading business carried on by a company or a partnership, unless they are disposed of in connection with a disposal of at least a 5% shareholding in the company, or a 5% share in the partnership assets. This measure will affect disposals on and after 18 March 2015.

Comment

To obtain ER on a personally owned asset used in a trading company or partnership there has to be a genuine withdrawal from participation in the company or partnership. The measure therefore clarifies what is allowed for a valid ER claim to be made.

CGT - ER on joint ventures and partnerships

Amendments are to be made for ER purposes to the definition of a trading company or holding company of a trading group. This will be determined by reference to that company's own activities (or the activities of the group.)

The aim is to exclude the activities carried on by joint venture companies in which a company is invested, or of partnerships of which a company is a member. Therefore a company will need to have a significant trade of its own in order to be considered as a trading company. It does not, however, affect shareholdings in companies whose investment in a joint venture is part of their own trade. This measure will affect disposals on and after 18 March 2015.

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%).

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.

Comment

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, 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.

Changes to the tax treatment of pension funds on death

If an individual has not bought an annuity, a defined contribution pension fund remains available to pass on to selected beneficiaries. Inheritance tax (IHT) can be avoided by making a 'letter of wishes' to the pension provider suggesting to whom the funds should be paid. However, currently there are other tax charges to reflect the principle that income tax relief would have been given on contributions into the pension fund and therefore some tax should be payable when the fund is paid out. In some situations tax at 55% of the fund value is payable.

The government has introduced significant exceptions from the tax charges (in the Taxation of Pensions Act). Generally the changes take effect where the first payment to a beneficiary is on or after 6 April 2015.

Under the new system, anyone who dies under the age of 75 will be able to give their remaining defined contribution pension fund to anyone completely tax free, whether it is in a drawdown account or untouched. This is subject to the condition that the fund is transferred into the names of chosen beneficiaries within two years. The fund can be paid out as a lump sum to a beneficiary or monies taken out of the fund by the beneficiary when required.

Those aged 75 or over when they die will also be able to pass their defined contribution pension fund to any beneficiary who will then be able to draw down on it as income whenever they wish. They will pay tax at their marginal rate of income tax when the income is received. Beneficiaries will also have the option of receiving the fund as a lump sum payment, subject to a tax charge of 45%.

Changes to the tax treatment of annuities on death

Draft legislation has been issued which changes the tax treatment when an annuity continues to be paid after death. The changes mirror the changes to the treatment of pension funds passing to beneficiaries on death. For example beneficiaries of individuals who die under the age of 75 with a joint life or guaranteed term annuity will be able to receive any future payments from such policies tax free.

The changes apply where the first payment to a beneficiary is on or after 6 April 2015.

Inheritance tax and deeds of variation

The government will review the uses of deeds of variation as these can currently be used to avoid IHT charges.

Other Matters

Digital tax accounts

The government has announced some initiatives to 'transform the tax system over the next Parliament' by introducing digital tax accounts and removing the need for annual tax returns. A digital tax account will enable individuals and small businesses to see and manage their tax affairs online. As a first step, the government will:

- publish a roadmap later this year setting out the policy and administrative changes needed to implement this reform
- introduce digital tax accounts for five million small businesses and the ten million individuals by early 2016.

Gift Aid

It is proposed to increase the annual donation amount which can be claimed through the Gift Aid Small Donations Scheme to £8,000. This will allow charities and Community Amateur Sports Clubs to claim Gift Aid style top-up payments of up to £2,000 a year, with effect from April 2016.

VAT help for certain charities

As announced at Autumn Statement 2014 hospice, search and rescue and air ambulance charities will be eligible for VAT refunds from 1 April 2015. The Chancellor has now announced that blood bike charities will also be included.

Tax evasion

The government will toughen sanctions for those who evade tax by closing early the existing disclosure facilities. For example the Liechtenstein Disclosure Facility will close at the end of 2015, instead of April 2016. A tougher 'last chance' disclosure facility will be offered between 2016 and mid-2017, with penalties of at least 30% on top of tax owed and interest and with no immunity from criminal prosecutions in appropriate cases.

Tax avoidance

The government will introduce tougher measures for those who persistently enter into tax avoidance schemes that fail, and will develop further measures to publish the names of such avoiders and to tackle avoiders who repeatedly abuse reliefs.

Specific anti-avoidance measures

- The government will introduce legislation, effective from 18 March 2015, to prevent companies from obtaining a tax advantage by entering contrived arrangements to turn historic tax losses of restricted use into more versatile in-year deductions.
- Measures will be introduced to prevent partly exempt VAT businesses taking account of foreign branches when calculating how much VAT on overhead costs they can reclaim in the UK. This will take effect from 1 August 2015.
- The government will introduce legislation, with effect from 26 February 2015, to clarify the effect of capital allowances anti-avoidance rules where there are transactions between connected parties or sale and leaseback transactions.

Rates and Allowances 2015/16

INCOME TAX RATES

2015/16 Band £	Rate %	2014/15 Band £	Rate %
0 - 5,000	0*	0 - 2,880	10*
0 - 31,785	20**	0 - 31,865	20**
31,786 - 150,000	40♦	31,866 - 150,000	40♦
Over 150,000	45•	Over 150,000	45•

*Only applicable to savings income. The rate is not available if taxable non-savings income exceeds £5,000 (£2,880).

**Except dividends (10%). ♦Except dividends (32.5%). •Except dividends (37.5%).
Other income taxed first, then savings income and finally dividends.

INCOME TAX RELIEFS

		2015/16	2014/15
Personal allowance	- born after 5 April 1948	£10,600**	£10,000
	- born after 5 April 1938 and before 6 April 1948*	£10,600**	£10,500
	- born before 6 April 1938*	£10,660**	£10,660

(Reduce personal allowance by £1 for every £2 of adjusted net income over £100,000.)
**£1,060 may be transferable between certain spouses where neither pay tax above the basic rate.

	2015/16	2014/15
Married couple's allowance (relief at 10%)*	£8,355	£8,165
(Either partner 75 or over and born before 6 April 1935.)		
- min. amount	£3,220	£3,140
*Age allowance income limit	£27,700	£27,000
(Reduce age allowance by £1 for every £2 of adjusted net income over £27,700 (£27,000).)		
Blind person's allowance	£2,290	£2,230

PENSION PREMIUMS

2015/16

Tax relief available for personal contributions: higher of £3,600 (gross) or 100% of relevant earnings. Any contributions in excess of £40,000, whether personal or by the employer, may be subject to income tax on the individual.

The limit may be reduced to £10,000 once money purchase pensions are accessed.

Where the £40,000 limit is not fully used it may be possible to carry the unused amount forward for three years.

Employers will obtain tax relief on employer contributions if they are paid and made 'wholly and exclusively'. Tax relief for large contributions may be spread over several years.

CAPITAL GAINS TAX

	2015/16 £	2014/15 £
Individuals		
Exemption	11,100	11,000
Standard rate	18%	18%
Higher rate*	28%	28%
Trusts		
Exemption	5,550	5,500
Rate	28%	28%

*For higher and additional rate taxpayers.

Entrepreneurs' Relief

The first £10m of qualifying gains are charged at 10%. Gains in excess of the limit are charged at the rates detailed above.

CAR, VAN AND FUEL BENEFITS

CO_2 emissions (gm/km) (round down to nearest 5gm/km)	% of car's list price taxed
0-50*	5
51-75*	9
76-94*	13
95	14
100	15
105	16
110	17
115	18
120	19
125	20
130	21
135	22
140	23
145	24
150	25
155	26
160	27
165	28
170	29
175	30
180	31
185	32
190	33
195	34
200	35
205	36
210 and above	37

2015/16

Company cars

For diesel cars add a 3% supplement but maximum still 37%.

For cars registered before 1 January 1998 the charge is based on engine size.

The list price includes accessories and is not subject to an upper limit.

The list price is reduced for capital contributions made by the employee up to £5,000.

Special rules may apply to cars provided for disabled employees.

*Rounding down to the nearest 5gm/km does not apply.

Car fuel benefit 2015/16

£22,100 x 'appropriate percentage'*

*Percentage used to calculate the taxable benefit of the car for which the fuel is provided.
The charge does not apply to certain environmentally friendly cars.
The charge is proportionately reduced if provision of private fuel ceases part way through the year. The fuel benefit is reduced to nil only if the employee pays for all private fuel.

Van benefit per vehicle 2015/16

Van benefit £3,150	Fuel benefit £594

The charges do not apply to vans if a 'restricted private use condition' is met throughout the year.
A reduced charge may be due if the van cannot in any circumstances emit CO_2 by being driven.

MILEAGE ALLOWANCE PAYMENTS

2015/16 and 2014/15

Cars and vans	Rate per mile
Up to 10,000 miles	45p
Over 10,000 miles	25p
Bicycles	20p
Motorcycles	24p

These rates represent the maximum tax free mileage allowances for employees using their own vehicles for business. Any excess is taxable. If the employee receives less than the statutory rate, tax relief can be claimed on the difference.

NEW INDIVIDUAL SAVINGS ACCOUNTS

	2015/16	2014/15 From 1.7.14 to 5.4.15
Overall investment limit	£15,240	£15,000*

*Special rules apply if investments were made before 1.7.14. Investments for 2014/15 cannot exceed £15,000 in total.

VALUE ADDED TAX

Standard rate	20%
Reduced rate	5%
Annual Registration Limit-from 1.4.15 (1.4.14 - 31.3.15 £81,000)	£82,000
Annual Deregistration Limit-from 1.4.15 (1.4.14 - 31.3.15 £79,000)	£80,000

INHERITANCE TAX

Death rate	Lifetime rate	Chargeable transfers 2015/16 and 2014/15
Nil	Nil	0 - £325,000*
40%	20%	Over £325,000*

*Potentially increased for surviving spouses or civil partners who die on or after 9 October 2007.

Reliefs

Annual exemption	£3,000	Marriage	- parent	£5,000
Small gifts	£250		- grandparent	£2,500
			- bride/groom	£2,500
			- other	£1,000

Reduced charge on gifts within seven years of death

Years before death	0-3	3-4	4-5	5-6	6-7
% of death charge	100	80	60	40	20

CAPITAL ALLOWANCES

Plant and machinery - Annual Investment Allowance (AIA)

The AIA gives a 100% write-off on most types of plant and machinery costs, including integral features and long life assets but not cars, of up to £500,000 p.a. for expenditure incurred on or after 6 April 2014 (1 April 2014 for companies). The rate may be reduced to £25,000 for expenditure incurred on or after 1 January 2016. Special rules apply to accounting periods straddling these dates.

Any costs over the AIA fall into the normal capital allowance pools below. The AIA may need to be shared between certain businesses under common ownership.

Other plant and machinery allowances

The annual rate of allowance is 18%. An 8% rate applies to expenditure incurred on integral features and on long life assets.
A 100% first year allowance may be available on certain energy efficient plant and cars, including expenditure incurred on new and unused zero emission goods vehicles.

Cars

For expenditure incurred on cars, costs are generally allocated to one of the two plant and machinery pools. Cars with CO_2 emissions not exceeding 130gm/km receive an 18% allowance p.a. Cars with CO_2 emissions over 130gm/km receive an 8% allowance p.a.

NATIONAL INSURANCE

2015/16 Class 1 (employed) contracted in rates

Employee: Earnings per week	%	Employer**: Earnings per week**	%
Up to £155	Nil*	Up to £156	Nil
£155.01 - £815	12	Over £156	13.8**
Over £815	2		

*Entitlement to contribution-based benefits retained for earnings between £112 and £155 per week.

**The rate is 0% in relation to employees under 21 on earnings up to £815 per week.

Class 1A (employers)	13.8% on employee taxable benefits
Class 1B (employers)	13.8% on PAYE Settlement Agreements
Class 2 (self-employed)	flat rate per week £2.80 small profits threshold £5,965 p.a.
Class 3 (voluntary)	flat rate per week £14.10
Class 4 (self-employed)	9% on profits between £8,060 and £42,385 plus 2% on profits over £42,385

STATUTORY PAY RATES

Weekly benefit		**2015/16**	**2014/15**
Basic retirement pension	- single person	£115.95	£113.10
	- married couple	£185.45	£180.90

Statutory pay rates - average weekly earnings £112 (£111) or over

Statutory Sick Pay		£88.45	£87.55
Statutory Maternity Pay	- First six weeks	90% of weekly earnings	
	- Next 33 weeks	£139.58*	£138.18*
Statutory Paternity Pay	- two weeks	£139.58*	£138.18*
Statutory Adoption Pay	- 39 weeks	£139.58*	£138.18*

*Or 90% of weekly earnings if lower.

CORPORATION TAX

Year to 31.3.16: Profits band £	Rate %	Year to 31.3.15: Profits band £	Rate %
All profits	20	0 - 300,000	20*
		300,001 - 1,500,000	21.25*
		Over 1,500,000	21*
		Standard fraction	1/400*

*The profits limits are reduced for accounting periods of less than 12 months and for a company with associated companies.

Different rates apply for ring-fenced (broadly oil industry) profit.

STAMP DUTY AND STAMP DUTY LAND TAX

Land and buildings in England, Wales and N. Ireland

Rate	Residential*	Non-residential**	Rate
%	£	£	%
0	0 - 125,000	0 - 150,000	0
2	125,001 - 250,000	150,001 - 250,000	1
5	250,001 - 925,000	250,001 - 500,000	3
10	925,001 - 1,500,000	Over 500,000	4
12	1,500,001 and over	-	

*Payable on consideration which falls in each bracket.
**Payable on total consideration once limit is breached.

SDLT is charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain non-natural persons for acquisitions with an effective date on or after 20 March 2014.

Shares and securities - rate 0.5%.

LAND AND BUILDINGS TRANSACTION TAX

Land and buildings in Scotland

Rate	Residential	Non-residential	Rate
%	£	£	%
0	Up to 145,000	Up to 150,000	0
2	145,001 - 250,000	150,001 - 350,000	3
5	250,001 - 325,000	Over 350,000	4.5
10	325,001 - 750,000		
12	Over 750,000		

The rates apply to the portion of the total value which falls within each band in respect of transactions with an effective date on or after 1 April 2015.

Please contact us about any of the points mentioned in this booklet.

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