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2016 Budget Summary

The Chancellor of the Exchequer, George Osborne, delivered his annual Budget yesterday, announcing that it "puts the next generation first".

Although it seems that the economy is less productive than previously thought, with growth forecasts cut, the Chancellor announced that the UK is forecast to grow faster than any other G7 economy this year, with employment at record highs.

From a tax perspective, refreshingly no further changes were announced in respect of pension savings, capital gains tax rates have been reduced and corporate tax rates are going to reduce even further.

There was also some positive news hidden away in the budget notes which has an impact for our non-dom clients.

The key developments were as follows:

Personal Taxation – Allowances

From 6 April 2017, the personal allowance will increase to £11,500 with the higher rate income tax threshold increasing to £45,000.

The government will introduce a new £1,000 "micro-trading" allowance for property and trading income. Individuals with property or trading income below £1,000 will no longer need to declare or pay tax on that income. Those with this income above the allowance will be able to calculate their taxable profit either by deducting their expenses in the normal way or by simply deducting the relevant allowance.

The Chancellor announced that to help provide the next generation with choice and flexibility in their savings, the annual ISA limit will be increased to £20,000 and a new Lifetime ISA would be introduced for the under 40s which allows them to save up to £4,000 each year and receive an additional 25% bonus from government, paid until the age of 50.

Funds can be used to buy a first home with the government bonus at any time from 12 months after opening the account, and can be withdrawn from the Lifetime ISA with the government bonus from age 60 for use in retirement.

The government will set the limit for property purchased using Lifetime ISA funds at a value of £450,000.

Capital Gains Tax

From 6 April 2016, capital gains tax (CGT) is to be cut from 28% to 20% for higher-rate taxpayers and from 18% to 10% for basic-rate taxpayers (except for residential property which does not qualify for main residence relief and carried interest). ATED related chargeable gains remain unchanged by this measure.

The government will extend entrepreneurs' relief (ER) to external investors in unlisted trading companies. This would appear to apply to all newly issued shares in unlisted trading companies acquired on or after 17 March 2016, providing they are held for a minimum of 3 years from 6 April 2016, and subject to a separate lifetime limit of £10 million worth of gains.

National Insurance Contributions

Class 2 National Insurance Contributions will be abolished from April 2018.

Certain forms of termination payments are exempt from employee and employer National Insurance contributions and the first £30,000 is income tax free.

From April 2018, the government will tighten the scope of the exemption to prevent manipulation and align the rules so employer National Insurance contributions are due on those payments above £30,000 that are already subject to income tax.

Non-Domicile ("non-dom") Taxation

The government announced a major reform to non-dom taxation at the 2015 Summer Budget.

One of the key changes is that, from April 2017, non-UK doms will be deemed UK domiciled for all tax purposes after they have been UK resident for more than 15 of the past 20 tax years.

Additionally, individuals who were born in the UK and who have a UK domicile of origin will revert to their UK domiciled status for tax purposes while resident in the UK.

The government will also legislate to charge inheritance tax on all UK residential property indirectly held through an offshore structure from 6 April 2017.

These changes were already announced but it has been confirmed the government will not legislate these non-dom reforms until Finance Bill 2017.

These leave a current air of uncertainty over how exactly the non-dom reforms will be introduced, however there was some welcome news hidden away in the Budget notes.

The 2016 Budget confirms that non-UK domiciled individuals who become deemed-domiciled in April 2017 can treat the cost base of their non-UK based assets as being the market value of that asset on 6 April 2017. Individuals who expect to become deemed UK domicile under the new rules will be subject to transitional provisions with regards to offshore funds to provide certainty on how amounts remitted to the UK will be taxed.

It was also again re-iterated that non-doms who have a non-UK resident trust set up before becoming deemed domiciled in the UK will not be taxed on income and gains retained in the trust.

Businesses

In the 2015 Budget the Chancellor announced that corporation tax would be reduced from the current 20% rate to 19% in 2017 and to 18% in 2020.

He has now announced a further reduction to 17% from April 2020.

In order to prevent large companies paying no corporation tax in a year in which they make substantial profits the Chancellor announced a reform of how losses can be utilised, which is also designed to make the use of losses more flexible.

Currently, carried forward losses can only be used against future trading profits of that company.

For losses incurred on or after 1 April 2017, businesses will be able to use carried forward losses against profits from other income streams or from other companies within a group.

However, from 1 April 2017, the amount of profit that can be offset through losses carried forward will be restricted to 50%. The restriction will only apply to profits in excess of £5 million to ensure that the change only affects large companies.

There are also forthcoming reforms under the Base Erosion Profit Shifting (BEPS) regime which may limit interest deductions in multinational groups.

Disguised Remuneration

Further to the introduction of the disguised remuneration provisions in 2011, a number of schemes based on loans to employees have been developed seeking to avoid the strict statutory provisions. With effect from 16 March 2016, schemes focused on loans which will not be repaid are likely to fall within the ambit of disguised remuneration. Employers and employees who have made use of such planning since 2011 will wish to review the position and ensure they settle any loans before April 2019.

Loans to participators

Loans made to a participator in a close company are currently subject a tax rate of 25%. This rate will increase to 32.5% with effect from 6 April 2016 to keep it in line with the higher rate of tax charged on dividend income.

Stamp Duty Land Tax

SDLT on non-residential property transactions will be reformed to a slice system, similar to residential property, so that SDLT is payable on the portion of the transaction value which falls within each tax band. The new rates will be 0% for the portion of the transaction value between £0 and £150,000; 2% between £150,001 and £250,000; and 5% above £250,000.

VAT

The government will increase the VAT registration threshold in line with inflation to £83,000 from 1 April 2016.

If you would like any advice on how any of these announcements affect you, please contact us.