Potter & Pollard
Chartered Accountants

Richmond Court, 216 Capstone Road
Bournemouth BH8 8RX
T: 01202 526677 **F:** 01202 536749
E: info@potterandpollard.co.uk

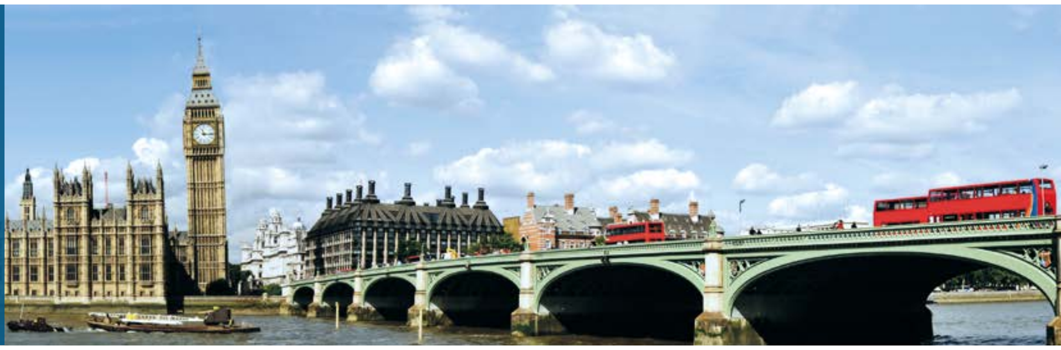
www.potterandpollard.co.uk

Director: Rohan Bagshawe FCA
Manager: Janet Gee FCA
Tax Manager: Norma Coleman ATT

Find us on

Budget Review 2016

Chancellor George Osborne presented the 2016 Budget to the House of Commons on 16 March. This newsletter reports on the key announcements and recent measures most likely to affect your business and personal finances. For further advice, please contact us.



Inside...

Chancellor presents a Budget for the 'next generation'

Chancellor George Osborne delivered his eighth Budget to the House of Commons, calling it a 'Budget for the long term' but warning that 'the storm clouds are gathering again'.

Having proclaimed that the British economy is 'fit for the future' and that the Government remains on course to achieve a budget surplus of £10.4bn in 2019/20, the Chancellor warned that growing global economic gloom threatens the UK.

With low productivity growth and a weak global outlook continuing to present a 'dangerous cocktail of risks', the Chancellor revealed that the Office for Budget Responsibility (OBR) has significantly revised down its economic forecasts for the next five years, with UK economic growth forecast to be just 2% in 2016.

The Chancellor has missed his target to reduce debt as a share of GDP. Borrowing forecasts have been revised upwards to £55.5bn for 2016/17, and the Chancellor announced the need for deeper spending cuts, with £3.5bn of additional savings to be made by 2019/20.

With an EU referendum fast approaching, the Chancellor was keen to point out that the OBR's forecasts were predicated on there being no Brexit, and claimed that leaving the EU could usher in a 'period of uncertainty' for the UK.

The Chancellor revealed a package of business tax measures, announcing that in England the Small Business Rate Relief threshold will rise from £6,000 to £12,000 from April 2017 and promising further radical changes, with the uprating of business rates set to change from RPI to CPI. Greater London will see the complete devolution of business rates from next April.

Meanwhile, for individuals, the Chancellor unveiled a new Lifetime ISA, which is intended to allow adults aged under 40 the opportunity to save up to £4,000 a year towards buying their first home (up to a limit of £450,000) or to save towards their retirement, and which the Government will top up by 25%.

Other key announcements on personal taxation included the next step in the Government's drive to increase the income tax personal allowance, which will rise to £11,500 from April 2017, at which time the threshold for higher rate tax will also rise to £45,000.

Capital gains tax rates will also be cut from 28% to 20% and from 18% to 10% with effect from 6 April 2016.

Other significant announcements include additional investment in the nation's infrastructure, and further measures towards the 'devolution revolution'.

Duties

Alcohol duty

The following duty rates will be frozen in cash terms this year: beer; spirits and other drinks above 22% alcohol by volume (abv); and still cider and lower strength sparkling cider. The duty rates on wine and made-wine at or below 22% abv, and high strength sparkling cider above 5.5% abv will rise by RPI inflation from 21 March 2016.

Tobacco duty

With effect from 6pm on 16 March 2016, the hand-rolling tobacco duty rate is increased by 5% above RPI inflation.

Fuel duty

The main rate of fuel duty for petrol and diesel will remain frozen at 57.95p per litre in 2016/17.

Car and fuel benefits

The taxable petrol and diesel car benefit is based on the car's CO_2 emissions. It is calculated using the car's UK list price and applying the 'appropriate percentage', as shown in the table on the right. The car fuel benefit is calculated by applying the same percentages to the fuel benefit charge multiplier, which for 2016/17 is £22,200.

From April 2016, all the appropriate percentages will be increased by 2%, up to the maximum of 37%.

In addition, new European standards which came into force in September 2015 required diesel cars to have the same air quality emissions as petrol cars. The 3% diesel supplement was set to be removed in April 2016. However, it will now be retained until April 2021, when EU-wide testing procedures will ensure new diesel cars meet air quality standards even under strict real-world driving conditions.

CO_2 emissions (g/km)	Appropriate percentage	
	Petrol %	Diesel %
0 - 50	7	10
51 - 75	11	14
76 - 94	15	18
95 - 99	16	19
100 - 104	17	20
105 – 109	18	21
110 – 114	19	22
115 – 119	20	23
120 – 124	21	24
125 – 129	22	25
130 – 134	23	26
135 – 139	24	27
140 – 144	25	28
145 – 149	26	29
150 – 154	27	30
155 – 159	28	31
160 – 164	29	32
165 – 169	30	33
170 – 174	31	34
175 – 179	32	35
180 – 184	33	36
185 – 189	34	37
190 – 194	35	
195 – 199	36	
200 and over	37	

Soft drinks industry levy

A new soft drinks industry levy will be introduced, to be paid by producers and importers of soft drinks that contain added sugar.

The levy will be charged on volumes according to total sugar content, with a main rate charge for drinks containing above five grams of sugar per 100 millilitres and a higher rate for drinks with more than eight grams of sugar per 100 millilitres.

There will be an exclusion for small operators.

Following consultation, legislation will be introduced in Finance Bill 2017 and implemented from April 2018.

Business tax

Corporation tax

Financial year to	31 March 2017	31 March 2016
Corporation tax rate:	20%	20%

The corporation tax rate will be 19% for the financial years beginning 1 April 2017, 1 April 2018 and 1 April 2019, and 17% for the financial year beginning 1 April 2020.

Corporation tax loss relief

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.

From 1 April 2017, the amount of profit that can be offset through losses carried forward will be restricted to 50%. This restriction will only apply to profits in excess of £5m. For groups, the £5m allowance will apply to the group.

Loans to participators

The rate of tax charged on loans to participators and other arrangements is to be increased from 25% to 32.5% so that it continues to mirror the higher rate of dividend tax. This new rate will apply to loans made and benefits conferred by close companies on or after 6 April 2016.

For accounting periods which straddle 6 April 2016, different rates will be applied to separate loans made or benefits conferred before, and on or after, 6 April 2016.

Personal service companies

From April 2017, individuals working through their own company in the public sector will no longer be responsible for deciding whether the intermediaries legislation (known as IR35) applies and then paying the relevant tax and national insurance contributions (NICs). This responsibility will instead move to the public sector employer, agency, or third party that pays the worker's intermediary. They will have to decide if the rules apply to a contract and, if so, account for and pay the liabilities through the RTI system and deduct the relevant tax and NICs.

The existing IR35 rules will continue as they are now for non-public sector engagements.

Business rates

Following the business rates review, the Government has announced that from 1 April 2017 it will permanently double Small Business Rate Relief in England from 50% to 100%. It will also increase the thresholds so that businesses with a property with a rateable value of £12,000 and below will receive 100% relief, while businesses with a property with a rateable value between £12,000 and £15,000 will receive tapered relief.

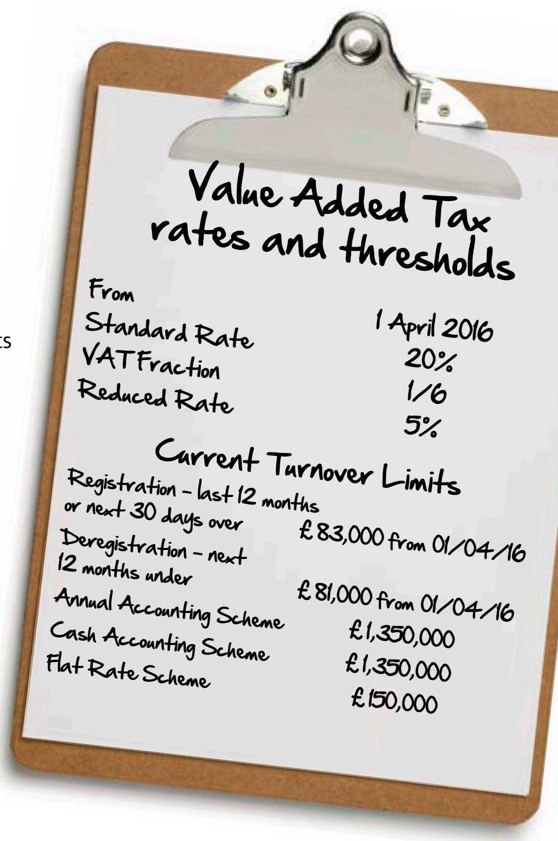
National insurance contributions (NICs)

Class 1	Employee (primary)	Employer (secondary)
Payable on weekly earnings of:		
Below £112 (lower earnings limit)	Nil	–
£112 - £155 (primary threshold)	*0%	–
Up to £156 (secondary threshold)	–	Nil
Above £156	–	13.8%
£155.01 - £827 (upper earnings limit)	**12%	–
£156.01 - £827 upper secondary threshold (UST) for under 21s	12%	0%
£156.01 - £827 apprentice upper secondary threshold (AUST) for under 25s	12%	0%
Above £827	**2%	–

*No NICs are actually payable but notional Class 1 NIC is deemed to have been paid; this protects contributory benefit entitlement. **Over State Pension age, the employee contribution is generally nil.

Employment Allowance (per annum)		Up to £3,000
Class 1A	On relevant benefits	13.8%
Class 2	Self employed	£2.80 per week
	Small profits threshold	£5,965 per annum
Class 3	Voluntary	£14.10 per week
Class 3A	Voluntary contributions may be available to 5 April 2017 in order to obtain extra additional State Pension (maximum £25 a week) – variable contribution rates according to age.	
Class 4	Self employed on annual profits	
	£8,060 - £43,000	*9%
	Excess over £43,000	*2%

*Exemption applies if State Pension age was reached by 6 April 2016.



Future changes

It was announced that from April 2018, Class 2 NICs will be abolished, and a reform of Class 4 NICs will be undertaken.

Lifetime ISA

From 6 April 2017 any adult under 40 will be able to open a new Lifetime ISA. They can save up to £4,000 each year and will receive a 25% bonus from the Government for every pound they put in, up to the age of 50. Funds can be used to save for a first home or for retirement. Features include:

- both the savings and Government bonus can be used towards a deposit on a first home, worth up to £450,000
- accounts are limited to one per person rather than one per home – so two first-time buyers can both receive a bonus when buying together
- during the 2017/18 tax year, those that have a Help to Buy: ISA can transfer the savings into the Lifetime ISA, or continue saving into both, but will only be able to use the bonus from one to buy a house
- after their 60th birthday savers can withdraw the savings, tax-free
- savers can withdraw money at any time before their 60th birthday for any purpose, but the Government bonus, together with any interest or growth thereon will be lost. A 5% charge will also be payable.

Income tax

Income Tax Rates	2016/17	2015/16
Basic rate band – income up to	£32,000	£31,785
Starting rate for savings income	*0%	*0%
Basic rate	20%	20%
Dividend ordinary rate	**7.5%	0%
Higher rate – income over	£32,000	£31,785
Higher rate	40%	40%
Dividend upper rate	**32.5%	25%
Additional rate – income over	£150,000	£150,000
Additional rate	45%	45%
Dividend additional rate	**38.1%	30.6%
Starting rate limit (savings income)	*£5,000	*£5,000

*For 2016/17, Scottish taxpayers are effectively subject to the same income tax rates as the rest of the UK. *If an individual's taxable non-savings income exceeds the starting rate limit, then the starting rate limit for savings will not be available for savings income. For 2016/17, £1,000 of savings income for basic rate taxpayers (£500 for higher rate) may be tax-free. **For 2016/17 the first £5,000 of dividends are tax-free.*

The Government has announced an increase in the basic rate limit for the 2017/18 tax year from £32,400 to £33,500. As a result, the higher rate threshold will be £45,000 in 2017/18.

Personal Allowances	2016/17	2015/16
Personal Allowance (PA)		
Born after 5 April 1938	£11,000	£10,600
Born before 6 April 1938	*£11,000	*£10,660
Married couple's allowance (MCA)		
Either partner born before 6 April 1935 (relief given at 10%)	*£8,355	*£8,355
Transferable Tax Allowance ('Marriage Allowance')		
for certain married couples (relief given at 20%)	£1,100	£1,060

**Allowances are reduced by £1 for every £2 that adjusted net income exceeds £27,700 to a minimum PA of £11,000 (£10,600) and to a minimum MCA of £3,220.*

Where adjusted net income exceeds £100,000, PA is reduced in the same way until it is nil regardless of the individual's date of birth.

The Government has committed to raise the PA to £12,500 by the end of this Parliament, and to increase it to £11,500 for 2017/18.

Micro-entrepreneurs

From April 2017, the Budget introduces two new £1,000 allowances for property and trading income.

Individuals with property income or trading income below the level of allowance will no longer need to declare or pay tax on that income.

Those with relevant incomes above £1,000 can benefit by simply deducting the allowance instead of calculating their exact expenses.

Stamp Duty Land Tax

Changes take effect on and after 17 March 2016 for purchasers of non-residential property with an upfront payment worth more than £150,000 or a lease net present value (NPV) of more than £5m. These measures do not apply in Scotland.

This changes the rules for calculating the Stamp Duty Land Tax (SDLT) charged on purchases of non-residential properties and transactions involving a mixture of residential and non-residential properties. Previously, for purchases of freehold, the assignment of an existing lease and for the upfront payment (premium) on a new leasehold transaction, SDLT has been charged at a single percentage of the price paid for the property, depending on the rate band within which the purchase price fell.

On and after 17 March 2016, SDLT will be charged at each rate on the portion of the purchase price which falls within each rate band. The new rates and thresholds for freehold purchases and lease premiums are:

Transaction Value Band	Rate
£0 - £150,000	0%
£150,001 - £250,000	2%
£250,000 +	5%

For new leasehold transactions, SDLT is already charged at each rate on the portion of the NPV of the rent which falls within each band. On and after 17 March 2016 a new 2% rate for rent paid under a non-residential lease will be introduced where the NPV of the rent is above £5m. The new rates bands and thresholds for rent paid under a lease are:

NPV of rent	Rate
£0 - £150,000	0%
£150,001 - £5,000,000	1%
£5,000,000 +	2%

Capital gains tax (CGT)

From 6 April 2016, the higher rate of CGT will be reduced from 28% to 20%, and the basic rate from 18% to 10%.

There will be an eight percentage point surcharge on these new rates for carried interest and for gains on residential property. Private Residence Relief will continue to ensure that an individual's main home is not subject to CGT.

Employee Shareholder Status (ESS)

Budget 2016 introduces an individual lifetime limit of £100,000 on gains eligible for CGT exemption through ESS. This limit will apply to arrangements entered into on or after 17 March 2016, and will not apply to arrangements already in place.

Entrepreneurs' relief (ER)

ER will be extended to external long term individual investors in unlisted companies, providing a 10% CGT rate for gains accruing on the disposal of newly issued shares in unlisted companies purchased on or after 17 March 2016. This new investors' relief is subject to the shares being held for a minimum of three years from 6 April 2016, and a separate lifetime limit of £10m of gains.