Excerpts from the Summer Budget July 2015

BROWN WITHEY LLP

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Corporation Tax Rates

- The main rate of corporation tax will reduce from 20% to 19% from 1st April 2017.
- There will be a further reduction to 18% with effect from 1st April 2020.
- UK companies and overseas companies trading through a UK permanent establishment (branch) will all be affected.
- The measures are aimed at increasing the attractiveness of the UK as a place of business and to discourage aggressive tax planning.

Restriction of corporation tax relief for amortisation of purchased goodwill

- This provision will not apply to the acquisition of shares in a company
- It will apply where company assets, including goodwill, are acquired.
- The current tax treatment generally follows the accounting amortisation and allows the deduction for tax
- able to claim tax relief for amortisation of goodwill.
- The accounting amortisation figure will now be added back to taxable profits in the tax computation.
- This may result in asset acquisitions being less attractive than a share purchase

Capital Allowances – Annual Investment Allowance

- Plant and machinery investment from 1st January 2016 will benefit from 100% relief on the permanent increased limit of £200,000 (previously expected to be £25,000).
- Any balance in excess will attract normal capital allowances of 18% or 8%.
- The current limit of £500,000 will expire 31st December 2015.
- This will be a major benefit for small and medium sized businesses who will be able to offset all or most of their expenditure in the year.
- The permanent nature also provides welcome certainty for business planning.

BROWN WITHEY
6th Floor, 48 Gracechurch Street, London EC3V 0EJ
e: info@ brownwithey.com w: brownwithey.com
T : +44 (0) 20 7183 3427

Corporation Tax quarterly instalments

- Payment of the instalments will be accelerated by four months for the largest groups.
- This affects companies with annual taxable profits of at least £20 million but this limit is divided by the number of companies in a group.
- The change is effective from 1st April 2017
- Payments will be due in the third, sixth, ninth and final month of a 12 month accounting period.
- Companies will need to forecast profits in advance of their first quarterly results which will lead to less accurate figures.

Controlled foreign companies – loss restriction

- UK resident parent companies will no longer be able to use UK tax losses and surplus expenses to reduce a liability arising under the CFC rules.
- In addition, group relief will not be available to be so used.
- These rules impose additional tax on the UK resident parent of some foreign subsidiaries in low tax jurisdictions.
- The changes relate to the profits of CFCs arising on or after 8th July 2015.
- Provisions will be put in place to deal with accounting periods straddling the date.

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Research and Development tax relief

- Higher education establishments and charities are to be excluded from the R & D expenditure credit legislation to prevent them from receiving cash payments from HMRC.
- The change applies to expenditure incurred from 1st August 2015 so an opportunity still exists for expenditure incurred before this time.

Direct recovery of debts due to HMRC

- With effect from Royal Assent of the summer Finance Bill, individuals and businesses who owe more than £1,000 to HMRC will be affected.
- HMRC will be able to recover the debt directly from cash held in bank or building society accounts, including ISAs.
- The measure has previously been consulted on and safeguards to prevent HMRC incorrectly accessing funds are yet to be finalised.

National Insurance

- Any business, charity and community amateur sports club is able to reduce their Class 1 secondary (employer) national insurance contributions by the employment allowance.
- The employment allowance will increase from £2,000 p.a. to £3,000 p.a. from April 2016.
- Companies where the director is the sole employee will no longer be able to claim.
- The government is to consult on abolishing Class 2 NICs and reforming Class 4 for the self-employed.

Income tax

- It was already announced that the main rates of income tax, national insurance and VAT would not be increased during this parliament.
- There will be increases in the personal allowance as follows:
  - 2016/17 £11,000
  - 2017/18 £11,200

  It is currently £10,600 but the abatement of £1 for every £2 of income in excess of £100,000, remains.
- There will also be increases in the higher rate 40% threshold as follows:
  - 2016/17 £43,000
  - 2017/18 £43,600

  It is currently £42,385

Dividend taxation reforms

- The income tax treatment of dividends is to change from 6th April 2016.
- This will affect both UK dividends and foreign dividends received.
- Individuals will receive a £5,000 dividend tax free allowance and the current regime of the 10% tax credit will be abolished.
- Dividend income in excess of the £5,000 allowance will be taxed at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 30.6% for additional rate taxpayers.
- Irrespective of an individual's marginal rate of tax, dividends received within the allowance will not suffer tax.
- A larger amount of dividend income received may result in a higher tax burden than previously.

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Pensions allowance restriction

- The annual pensions allowance will be restricted for individuals with income exceeding £150,000.
- The annual allowance for 2015/16 is £40,000 but tapering will apply from 6th April 2016.
- The allowance will be reduced by £1 for every £2 of income between £150,000 and £210,000
- The minimum allowance for those earning £210,000 or more will be £10,000.
- Income limits are calculated before deducting personal contributions and after adding back employer contributions.
- Pension input periods are also aligned with the tax year with immediate effect.

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Rental property

- The wear and tear 10% allowance will be replaced from 6th April 2016.
- Actual costs in replacing furnishings in the tax year will be used instead.
- Capital allowances for furnished holiday lets will not be affected.
- Tax relief for finance costs is to be restricted to basic rate from April 2017 phased in as follows:

  2017/18 75% full relief 25% basic rate

  2018/19 50% full relief 50% basic rate

  2019/20 25% full relief 75% basic rate

  2020/21 all at basic rate.
- Rent-a-room relief is increased from £4,250 to £7,500 p.a. from 6th April 2016.

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Capital gains tax treatment of carried interest

- Individuals managing investments for private equity funds who are partnership members will be affected if they receive sums linked to the fund's successful performance.
- The new treatment will apply to all carried interest arising after 8th July 2015.
- Any sums received will be a chargeable gain taxed at the full rate of capital gains tax with only limited costs allowed.
- This measure serves to dis-apply the existing base cost shift rules.

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Non UK domiciled individuals

- Long term UK residents will be treated as deemed UK domiciled for income tax, capital gains tax and inheritance tax purposes.
- This will apply when an individual has been UK resident in 15 out of the last 20 tax years.
- The remittance basis will no longer be available from the 16th year of UK tax residency.
- World wide assets will also come within the inheritance tax net from the 16th year (previously 17 years).
- Those born in the UK who emigrate and acquire a foreign domicile of choice will revert to a UK domicile if they become UK resident again.
- The measures will be effective from 6th April 2017 and the £90,000 remittance basis charge for those UK resident in 17 of the last 20 years will no longer be relevant.

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Non UK domiciled inheritance tax changes

- Ownership of a UK residential property via a company resident overseas may no longer provide protection from inheritance tax.
- Shares in the overseas company are commonly held in an overseas trust giving IHT protection even when a deemed UK domicile is acquired.
- This will no longer be the case if proposals in the consultation document go ahead, probably from 6th April 2017.
- It is expected that the new rules will look through structures to tax the underlying assets.
- Inheritance tax raised under these proposals is likely to be limited.

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Family home inheritance tax

- An additional nil rate band of £175,000 will be available for individuals when their residential property is passed on death to a direct descendant.
- This will be in addition to the existing £325,000 nil rate band.
- To the extent either of the bands are unused, they may be transferred to a surviving spouse or civil partner.
- The additional relief is not lost if an individual sells their home or downsizes after 8th July 2015 provided assets of equivalent value are passed to direct descendants on death.
- The new rate band will be phased in as follows:
  - 2017/18 £100,000
  - 2018/19 £125,000
  - 2019/20 £150,000
  - 2020/21 £175,000

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Contact Us

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