



Excerpts from the March 2016 Budget

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Corporation Tax Rates

- ▶ The main rate of corporation tax will reduce to 17% from 1st April 2020. This supersedes the previously announced 18% rate from that date.
- ▶ 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.
- ▶ The changes will also have an effect on the accounting for deferred tax assets and liabilities.
- ▶ As previously announced, the rate from 1 April 2017 will be 19%.

Corporation Tax – Interest Paid

- ▶ With effect from 1 April 2017, the amount of relievable interest will be capped at 30% of taxable earnings (UK EBITDA) in the UK.
- ▶ There will be a de minimis group threshold of £2 million net UK interest expense.
- ▶ There will be an exemption for public benefit infrastructure to ensure such projects are not limited.
- ▶ These rules are a significant change from the existing regime which is based on “arm’s length” assessment of borrowing capacity.

Corporation Tax – Loans to Participators

- ▶ With effect from 6 April 2016, the tax charged on loans or benefits conferred by close companies to participators (such as directors' overdrawn current accounts) will be more closely aligned with the new dividend taxation higher rates.
- ▶ The rate of tax charged on the company will be increased from 25% to 32.5% of the loan.
- ▶ Where accounting periods straddle 6 April 2016, different rates of tax will be applied to separate loans or benefits conferred before and after 6 April.

Corporation Tax –Changes to Losses

- ▶ With effect from 1 April 2017, brought forward losses arising after that date may be used against income streams other than those giving rise to the losses.
- ▶ Losses from other group companies may also be used.
- ▶ Groups with profits in excess of £5 million will be restricted to 50% of the amount of the brought forward loss which could be offset.

Capital Allowances on Cars

- ▶ 100% First Year Allowances on the purchase of low emission cars has been extended for 3 years to April 2021.
- ▶ The CO2 emissions threshold for cars eligible will fall from 75g/km to 50g/km in April 2018.
- ▶ The CO2 emissions threshold for the main rate of capital allowances for company cars will reduce from 130g/km to 110g/km in April 2018.

Corporation Tax Quarterly Instalments

- ▶ 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.
- ▶ Payments will be due in the third, sixth, ninth and final month of a 12 month accounting period.
- ▶ The change announced last year has now been deferred to accounting periods starting on or after 1 April 2019.

Business Rates Reform

- ▶ With effect from 1 April 2017, the small business rate relief (SBRR) will be doubled permanently in England and the threshold will apply to rateable values of up to £12,000 tapering to £15,000.
- ▶ The threshold at which business rates bills in England are calculated using the standard multiplier will be raised to rateable values of £51,000 and above.
- ▶ Three yearly revaluations of properties in England will be introduced for business rates

Museum and Galleries

- ▶ A new tax relief will be introduced from 1 April 2017 to encourage the development of creative new exhibitions and to display collections across the country.
- ▶ The relief will apply to the cost of developing temporary or touring exhibitions but exact details of the relief are not yet available.
- ▶ The eligibility criteria for the VAT refund scheme for museums and galleries will broaden to allow a wider range of free museums to access the support from 16 March 2016.

Trading Income Received in Non-Monetary Form

- ▶ This applies to trading or property income.
- ▶ Although the principle on this has not changed, a policy paper has been issued for clarification.
- ▶ It confirms the position that the value of non-monetary receipts must be brought into account as though they were received in money.

Royalty Withholding Tax

- ▶ Income tax will be required to be deducted from intellectual property royalty payments by the payer and paid over to HMRC where royalties are paid to non resident persons in certain circumstances.
- ▶ This takes effect from Royal Assent or 17th March if tax avoidance has been used.
- ▶ This rule applies where:
 - ▶ The UK's double taxation agreements are exploited to ensure little tax on royalties is paid anywhere in the world.
 - ▶ The category of royalty was not previously liable to withholding tax.
 - ▶ Royalties are connected with a business with a UK permanent establishment

Stamp Duty Land Tax – Non Residential Property

- ▶ With effect from 17 March 2016, the rates of SDLT will change where there is an upfront payment of more than £150,000 or a lease net present value (being the worth of income streams less outgoing cashflows) of more than £5 million.
- ▶ The new rates for freeholds and lease premiums are:
 - ▶ 0-150,000 nil
 - ▶ 150,001 – 250,000 2%
 - ▶ Over 250,000 5%
- ▶ A new rate of 2% will apply from 17 March 2016 on leases where the NPV of the rent is above £5 million.

Stamp Duty Land Tax – Additional Residential Property

- ▶ With effect from 1 April 2016, the rates of SDLT will increase by 3% on purchases of additional residential properties where a main residence is not being replaced.
- ▶ This will apply to second homes and buy to let properties.
- ▶ It will also apply to companies and non natural persons purchasing residential property, even if it is the first such purchase.
- ▶ Properties purchased for under £40,000, caravans, mobile homes and houseboats will be excluded from the increased rates.
- ▶ Property in Scotland is subject to the devolved law on SDLT.

Offshore Property Developers

- ▶ Legislation will be introduced to extend the corporation tax charge to any non-resident who trades in or develops UK land with a view to sale.
- ▶ The charge will apply to existing developments in the course of construction and will tax the whole profit to corporation tax.
- ▶ Tax agreements with Jersey, Guernsey and the Isle of Man have been amended with immediate effect to protect the tax collection.
- ▶ The new charge applies to commercial and residential property.

Disguised Remuneration

- ▶ This affects companies, employers and individuals who used tax avoidance schemes based on employee benefit trusts (EBTs) prior to 2011 and have yet to settle with HMRC.
- ▶ Settling with HMRC does not include payment of the Accelerated Payment which is not classed as an agreement.
- ▶ Loans to an employee by third parties such as EBTs made prior to 2011 will be subject to PAYE as at 5 April 2019 if the loan is not repaid on or before that date and no settlement has been reached with HMRC.
- ▶ Anyone who has not settled with HMRC prior to 30 November 2016 will lose the transitional relief on investment returns accruing on disguised remuneration which will then be subject to PAYE.

Employee Shareholder Shares

- ▶ A lifetime limit of £100,000 exempt capital gains applies from 17 March 2016 for Employee Shareholder Agreements entered into on or after that date.
- ▶ Any gains or future gains made in respect of shares acquired under an agreement prior to 17 March 2016, will not count towards the lifetime limit.

Deep in the Money Options

- ▶ The transfer of a UK company registered share on the exercise of an option, is liable to Stamp Duty or Stamp Duty Reserve Tax currently charged on the consideration paid for the share.
- ▶ Options entered into after 25 November 2015 and exercised after 15 March 2016 will be subject to this tax on the full market value of the share where transferred to a depositary receipt issuer or a clearance service.
- ▶ Shares not transferred to depositary receipt issuers or a clearance service, are not affected.

Personal service companies

- ▶ Existing legislation applies when an individual offers services through a company to a third party but the arrangements are more that of an employee to the third party.
- ▶ The rules will be amended for public sector engagements so the individual will no longer be responsible for determining whether the rules apply.
- ▶ The employer, agency or third party will have to account for PAYE.
- ▶ The rules will take effect from April 2017 and are likely to be extended to the wider population in due course.

Micro Entrepreneurs

- ▶ With effect from 6 April 2017, a new £1,000 trading income allowance and £1,000 property income allowance will be introduced.
- ▶ It will apply to those letting out property or trading via “sharing economy” websites.
- ▶ Where such individuals receive income below these limits, they will not be taxable or reportable to HMRC.
- ▶ Where gross receipts exceed these limits, the individuals can take the allowance as a deduction against gross income to arrive at the taxable figure, rather than detailing actual expenses and deducting those.

Capital Gains Tax Rates

- ▶ The current 28% rate applies to higher rate taxpayers or those whose gains push them into higher rate, trustees and personal representatives and ATED related gains. It also applies to receipts of carried interest.
- ▶ The newly announced rates will apply from 6 April 2016.
- ▶ New legislation will reduce the rates to 10% for non higher rate taxpayers and 20% for those who pay higher rate income tax.
- ▶ Residential property which does not qualify for private residence relief, and carried interest will be excluded from the reductions.
- ▶ Entrepreneur's Relief is unaffected as are non resident company capital gains.

ISA Changes

- ▶ The annual limit on investment into ISAs will increase from £15,240 in 2016/17 to £20,000 in 2017/18.
- ▶ New Lifetime ISAs will be available to those aged under 40 years from April 2017. A maximum of £4,000 p.a. can be saved which will receive a further 25% bonus from the government at the tax year end.
- ▶ The new ISA can be used to buy a first home worth up to £450,000 or withdrawn at age 60.

Personal Tax rates and Allowances

- ▶ With effect from 6 April 2017, the new personal allowance will be £11,500 and the basic rate band £33,500 producing a higher rate threshold of £45,000.
- ▶ The upper National Insurance threshold is linked to the higher rate threshold. The lower threshold is unchanged at £8,060.
- ▶ The personal allowance and basic rate band for 2016/17 previously announced were £11,000 and £32,000 respectively.
- ▶ Class 2 national Insurance will be abolished from April 2018.

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