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Spring Budget Newsletter – March 2016

If anyone thought that the Chancellor might have run out of ideas by now, they can think again. Strategically and technically this was one of the more interesting budgets in recent years.

In previous Budgets, the Chancellor had already helped big business by introducing historic low rates of corporation tax to attract inward investment and reduce any perceived need to avoid tax. In this Budget, the announcement of a future additional cut in the rate of corporation tax to 17% (the lowest rate in the G20) was coupled with a number of measures aimed at helping smaller businesses.

Perhaps the main surprise of the Chancellor's speech was a reduction in the rates of capital gains tax, which had not been high on anyone's agenda. For investors in shares, it is interesting to note the growing differential in the rates of tax on capital growth (maximum 20%) and dividends (up to 38.1%) which will both take effect in 2016/17 and may encourage investors to seek capital returns rather than income.

Investors in residential property were, again, treated less well than investors in other asset classes with the new rates of capital gains tax being specifically excluded from applying to residential property. This comes on top of the increases to stamp duty land tax on residential investment properties and the restriction of interest relief on buy to lets.

As trailed over recent weeks, potential further changes to pensions relief was abandoned in favour of improved ISA allowances and a new "lifetime ISA" to assist those under age 40 save and make alternative provision for retirement and buying homes. The Chancellor referred to those under 40 as the "young", which will give hope to many that middle age is still some way off!

More generally, growth forecasts were cut, further spending cuts proposed and the controversial "sugar tax" announced.

Capital gains tax

- The rates of capital gains tax will fall to 10% for a basic rate taxpayer and 20% for a higher rate taxpayer with effect from 6 April 2016. The current rates are 18% and 28%. This will be a very welcome change for investors although it should be contrasted with the increase in dividend rates of tax in 2016/17. Presumably the rate for trusts will be 20% although this remains to be confirmed.

- The old rates of 18% and 28% will continue to apply to disposals of residential property (where the exemption for main residences does not apply) and carried interest in private equity structures. It is notable that the Chancellor is continuing his policy of discouraging investors in residential properties.

- Entrepreneurs' relief will be extended to external investors (i.e. individuals who are not employees or directors) who invest in newly issued shares in unquoted trading companies after the date of the Budget where those shares are held for at least three years before disposal. This will provide a 10% rate of tax on a lifetime allowance of up to £10 million. There is no requirement to hold any particular percentage shareholding. Whilst this is an interesting development, it seems somewhat harsh not to extend this to existing shareholdings.

- There have been some positive technical changes to entrepreneurs' relief as it applies to associated disposals of business assets and to companies which hold interests in other companies via joint venture and partnership arrangements.

- It was also announced that non-UK domiciled individuals affected by the new 15 year deemed domicile rule in April 2017 will benefit from a rebasing of their non-UK assets to market value at that date. Whilst this is good news, there remains a lot which is unknown about the new rules which will come into force in 2017.

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Other personal taxes

- With effect from April 2017, the personal allowance will increase to £11,500 (currently £10,600 and already rising to £11,000 in 2016/17).
- Also with effect from April 2017, the point at which higher rate tax (40%) will be charged will rise to £45,000 (currently £42,385 and already rising to £43,000 in 2016/17).
- Class 2 National Insurance is to be abolished from 2018 which, subject to the proposed reform of Class 4 NIC, should represent a saving for many self-employed people.

Investments

- The standard ISA limit will be increased to £20,000 with effect from April 2017 (currently £15,240).
- A new “Lifetime ISA” will be introduced in April 2017 for those under the age of 40. Such individuals can save up to £4,000 each year with the government putting in a bonus of 25% (i.e. an additional £1 for every £4 saved) up to the age of 50. There are restrictions on withdrawals but the idea is to help people save to buy homes and fund retirement. This allowance will fall within the standard allowance of £20,000.

Businesses

- As mentioned above, the mainstream rate of corporation tax will fall to 17% in 2020. It is currently at 20% and already set to fall to 19% in 2017.
- Due to the increase in dividend rates of tax in 2016/17, the corporation tax charge which applies when close companies make “loans to participators” will increase from 25% to 32.5% from April 2016.
- Companies will be able to make more flexible use of trading losses, including group relieving brought forward trading losses and the retention of losses after a change in ownership of the company. It doesn’t seem so many years ago that HMRC obsessed about restricting the use of trading losses. Regardless, this is a good move and will in particular assist buy-out group structuring where it is currently easy for losses to become stranded.
- Smaller businesses will get a boost by 100% relief on business rates on properties with a rateable value of up to £12,000 and a tapered relief on properties with a rateable value between £12,000 and £15,000.
- Stamp duty land tax to acquire commercial properties is to be amended in line with the recent change to stamp duty on residential properties such that the current “slab” system will be replaced by a “slice” system. This will see a stop to big jumps in stamp duty land tax created by as little as a £1 increase in the purchase price.

Anti-avoidance provisions

- Measures are being introduced to stop offshore structures being used to avoid UK tax on the profits of developing land in the UK. These measures include the amendment of the double tax treaties between the UK and Guernsey, Jersey and the Isle of Man. The new rules are expected to come into effect in June 2016 with interim avoidance provisions in the meantime.
- New rules will be introduced to create a withholding tax on royalties paid to offshore persons (e.g. a connected company) who would otherwise escape UK taxation. One specific objective of this is to put a stop to double tax treaty planning commonly exploited by corporate groups to shift profits offshore.

If you would like to discuss any of these issues, please get in touch with your usual contact at Meridian.

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