Spring 2016

taxation **news**
regular news from our specialist tax team

# Long term solutions or sticking plasters?

When Chancellor George Osborne sat down after delivering his Budget speech, he might have congratulated himself on an assured performance in the House of Commons. Little did he realise that less than 48 hours later, there would be such a furore over the "sugar tax" and his plans to cut benefits, specifically disability benefits.

The business measures announced surrounding reduced corporation tax rates, a surprise drop in the rate of capital gains tax and a semi permanent Annual Investment Allowance were all highly welcomed. As has become the fashion, the bad news gets pre-announced and therefore the new dividend tax from 6 April 2016 and the new property tax rules were not mentioned again. Clever politics or a little devious – you decide!

The progression towards tax simplification is frankly a myth as successive Budgets (going back further than Gordon Brown) have delivered more complexity. In this context the future scrapping of Class 2 NIC is to be welcomed, but even better if that included Class 4 NIC. Recent Budgets have introduced anti avoidance measures targeted towards family business. Perhaps we should tackle global tax avoidance first before attacking the small owner managed business again.

The remainder of the Bulletin identifies the main points for you – please contact any of our tax advisers if we can help on any matter.

# Budget 2016

## Corporation Tax

The corporation tax rate was set at 20% from 1 April 2015. The rate will reduce to 19% from 1 April 2017, and will fall again to 17% from 1 April 2020, rather than 18% as previously announced.

### Corporation tax losses

Under the current rules, companies with brought forward trade losses can only utilise these losses against future profits from the same trade. However, for losses made after 1 April 2017 companies will be able to utilise losses against profits from any activity, or from other companies within a group. There are restrictions for companies with profits in excess of £5million.

### Capital allowances

The Annual Investment Allowance (AIA) provides businesses with 100% relief for capital expenditure in the year of purchase, up to an annual limit. The Chancellor announced that the current limit of £200,000, which has been in place from 1 January 2016, will become permanent.

### Cars

The 100% first-year allowance for low emission cars has been extended to April 2021. However, from April 2018 the emissions threshold will reduce to 50g/km or less, down from the current limit of 75g/km. Allowances at 18% will be available for cars with emissions of 110g/km or less, down from 130g/km, and allowance at 8% are available where emissions exceed this threshold.

## Capital Gains Tax

### Reduction in rates

From 1 April 2016 the basic rate of CGT will reduce from 18% to 10%, and the higher rate will reduce from 28% to 20%. Residential property will continue to be taxed at the old rates where it is not the taxpayer's only or main residence.

### Entrepreneur's Relief (ER)

Several changes to ER were announced, including:

- Extension to the disposal of shares by long term investors in unquoted shares, other than by officers or employees of the company. To qualify, the shares being disposed of must be:
    1. Ordinary shares in an unlisted trading company
    2. Newly issued to an individual for new consideration after 16 March 2016
    3. Be held for at least 3 years from 6 April 2016

Gains are subject to a £10million lifetime cap.


- Relief available on the transfer of goodwill to a connected company if the seller ends up with a minority share of less than 5%
- Relief available on associated disposals when an accompanying disposal of business assets does not meet the material disposal 5% minimum requirement, if the business assets disposal is to a family member and the claimant previously held a larger stake.

## Property tax

As previously announced in the 2015 Summer Budget, tax relief for finance costs in relation to residential rental property will be restricted to the basic rate of income tax. The restriction will be phased in over four years from 6 April 2017. Landlords of residential property who have substantial borrowings should consider whether their rental business is still viable.

As also previously announced, the rent-a-room limit, which is the annual amount which can be earned tax free by someone who lets out a room in their only or main home, will increase from £4,250 to £7,500 from 6 April 2016.

From 6 April 2016, landlords of fully furnished properties will no longer be able to claim a 10% wear and tear allowance against their rental income. Instead, landlords can claim a deduction for replacing furnishings such as beds, sofas, white goods, televisions, cutlery and crockery. This applies whether the property is furnished or unfurnished. The deduction is only for replacement items, the initial cost of furnishings is not allowable.

From 1 April 2016, if you purchase a second home or a buy-to-let property in Scotland worth £40,000 or more, you will pay a 3% surcharge on top of the Land and Buildings Transaction Tax (LBTT) that is due on the purchase. This is known as an Additional Dwelling Supplement and is charged on the total consideration.

## Pensions and savings

Pension savers breathed a sigh of relief as the recent Budget came and went without the announcement of any changes to pensions. It had been suggested that the Chancellor was planning to cut or scrap the tax relief available to higher and additional rate taxpayers on pension contributions. These plans have been shelved for now, meaning that all pension contributions (either personal or employer) should continue to qualify for full tax relief.

The Chancellor did announce plans for a new Lifetime ISA (LISA) which is a welcome addition to the savings landscape. These will be introduced in 2017 and will be available for people aged between 18 and 40. Individuals can save up to £4,000 a year in a LISA and the government will add a bonus of 25% (£1,000). The LISA can be used by individuals to buy a first home or to save for their retirement.

Some will view the LISA as a 'stalking horse' for radical pension changes further down the line. For now, pensions remain the most tax-efficient way for high earners and those over 40 to save for retirement. Savers may wish to maximise pension funding in the coming years to limit the effects of any future changes.

**This section of the article has been provided by Chris Hendry of Balmoral Asset Management Limited. Please call your normal EQ contact if you would like to be introduced to Balmoral to find out more.**


## Digitalisation

In his Budget speech, the Chancellor continued to outline the road towards fully digitalised taxation by the end of this Parliament. Indeed, HMRC have invested more than £1bn in their systems and this is expected to be the most radical shake up since self assessment came into force in 1996/97.

It is expected that many simpler tax returns will be pre-populated by HMRC using data they hold about state pensions, employments, bank interest and dividends. For businesses and landlords, you will be required to prepare quarterly returns and the implications of this will be for those affected to ensure their systems capture data completely and accurately.

EQ are embracing this change in a number of ways :

- Amber Accounting are enhancing their cloud based accounting solutions
- EQ have been invited by our professional institute to take a lead role in HMRC consultations
- Our Kreston network have established a working party to ensure that all UK firms lead the way

**We will keep you informed as matters develop and ensure that our service delivery is adapted to match the latest requirements from HMRC.**

## Budget 2016 – other measures at a glance

Among the many measures announced in the Budget, here is a brief summary of the less publicised items:

- Class 2 NIC to be abolished from 6 April 2018
- Corporation tax on loans to participators rises to 32.5%
- From 6 April 2016, farmers averaging elections to be done over 2 or 5 years
- Larger companies required to publish their tax strategies
- No change to the existing pension rules, though the standard lifetime allowance reduced to £1m from 6 April 2016
- Capital gains tax anti avoidance measures for planned, tax motivated, liquidations
- Additional nil rate band for IHT on your main residence, from 6 April 2017

**If you would like the full detail, please contact us for a copy of our Budget Summary and we will be happy to send this to you.**

# Meet the team
# Yvonne Murray

**1. How long have you worked with EQ?**

I started working at Carters in February 2005 as a tax assistant. Following the merger with Carters, I joined EQ and I am currently a Tax Senior in the Glenrothes office.

**2. What do you specialise in?**

My background is in Personal Taxation. I work with a diverse portfolio, dealing with tax compliance together with providing proactive support, advice and planning for inheritance tax, capital gains tax and income tax ahead of legislative changes in taxation.

**3. What experience have you gained whilst working at EQ?**

Working at Carters/EQ I have gained experience and knowledge across personal taxation, such as residential and furnished holiday lets and CGT and IHT planning, including deeds of variation, always working closely with clients. I have learned to essentially have a good ear to listen and be there to advise and support, whilst gaining good people skills and maintaining strong relationships with clients across the board.

**4. What is the best tax advice you have provided?**

The best tax advice for me comes from keeping up to date with legislative changes, being aware of the clients' needs and always being proactive with the planning for all personal taxes. Recently, I specifically dealt with some IHT planning based on a deed of variation.

**5. What do you think are the main components of good tax advice?**

I think the main components of good tax advice are: know the client, be up to date with legislation and be proactive.

# Annual Post Budget Analysis

We held our annual Post Budget Analysis on Friday 18 March 2016, presenting the highlights from the Budget to around 100 delegates at the breakfast seminar in Glenrothes and lunchtime seminar in Cupar. Feedback confirmed that the event was a great success and there are plans to hold similar events next year.

If you would like further details of the Budget announcements, our full Budget Summary is available to download from our website at www.eqaccountants.co.uk

The latest tax rates and tables are also available on our FREE tax app – search for "EQ Accountants" in the Apple or Google Play app stores.

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