KEY TAX POINTS FROM GEORGE'S SUMMER BUDGET

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TAXATION AWARDS 2015 WINNERS

National Living Wage

Applies to individuals over 25 years old:

- £7.20 per hour from April 2016.
- £9 per hour by 2020.

National Insurance

- Employer's Allowance increased to £3,000 per annum from April 2016
- N/A for companies with a single Director on the payroll.

George Osborne has delivered his 7th Budget, the first Conservative Budget since 1996. Described as a "Budget for working people" and a "Big Budget for a country with big ambitions" what does this actually mean for you? The Elman Wall Tax Team have gathered and put together a brief summary of the most important elements, which may impact on you or your business.

OWNER MANAGED BUSINESSES

Headline: Introduction To The 'National Living Wage' (NLW)

Detail: The National Living Wage is a new concept to be introduced by the Conservative government and has been long in discussion. The details have been finalised today that from April 2016 anyone over the age of 25 years old will have to be paid a living wage of £7.20 per hour. This will steadily rise; by 2020 reaching £9.

EW Tax Team Say: *We are all familiar with the concept of national minimum wage which is currently £6.70 an hour for those over 21 years old. The introduction of NLW is effectively another level of minimum wage for those aged over 25 years.*

This will have the biggest effect for those who do pay staff the minimum wage and have a workforce on the cusp of turning 25. The difference in salary will equate to an additional £1,370 being paid (on an average 37.5 hour week/261 working days of the year). The addition of Employer's NI (at 13.8%) brings the total extra outlay on each employee to £1,559.

In publications the government have noted that with the increase in the Employer's Allowance (discussed below) four staff on the NLW can be employed without any additional cost to the employer.

Headline: PAYE Employment Allowance Increase and Restriction

Detail: There were two announcements in today's Budget regarding the Employment Allowance. As many of you with a payroll will know, relief of £2,000 is currently given to most of businesses to cover the Employer's National Insurance liability arising on their employee's salaries.

From April 2016, the amount of relief which can be claimed will increase to £3,000. However, what the Chancellor gives with one hand he takes away with the other, as from this date directors who are the sole employee of a company will no longer be eligible to claim the Employment Allowance relief.

EW Tax Team Say: *Good news for the majority of businesses who will now be able to pay out an additional £13,800 in salaries without incurring any additional Employer's National Insurance.*

We are yet to see the full details of who will be affected in the restriction imposed sole director businesses. Hopefully the restriction will not prevent the addition of family members to the payroll so relief can still be claimed.

Headline: Radical Dividend Reforms

Detail: The government has decided that the current method of dividend taxation is 'arcane and complex' a major reform is in order. The changes to take effect from April 2016 will be to introduce a £5,000 tax free allowance which will be in addition to the personal tax free allowance (to which all UK residents are entitled). The rate of tax to be paid on the dividend income will then also change from basic rate of 10% to 7.5%. The higher rate of 32.5% will remain unchanged and increase from 37.5% to 38.1% for additional rate tax payers.

Dividend Tax Rates

- 10% Tax Credit abolished from April 2016.
- Introduction of a new £5,000 dividend allowance instead.
- Basic rate tax reduced to 7.5%, down from 10%.
- Higher rate remains unchanged at 32.5%.
- Additional rate is increased from 37.5% to 38.1%.

EW Tax Team Say: *This is a big reform which we did not see coming due to the fact the dividend structure has not changed in over 40 years. Based on initial calculations, this suggests many company owners will need to re-look at the question of profit extraction. As dividends are taxed by the company at 20% prior to being taxed on the individual, it should be compared with an equivalent level of salary being paid along with the employees and employers national insurance contributions. In the majority of cases it will still be tax effective to take some remuneration in the form of dividends but each case will have to be considered on its merits.*

PERSONAL TAX, PENSION, SAVINGS & INVESTMENTS

Headline: Consultation on Removal of Tax Relief for Pension Contributions

Detail: What the government is proposing is a consultation on a complete reworking of the way pensions work from the ground-up in the name of simplification. Currently, pensions operate on an "exempt-exempt-taxed" system, whereby pension contributions are effectively tax free and the growth in the fund is tax free but tax is paid on the pension when it is drawn upon. The provisional system suggested in the consultation is a change to "taxed-exempt-exempt", like an ISA, where the payments in are after tax, but growth and withdrawals do not engender a tax charge.

EW Tax Team Say: *Simply removing the tax relief would be major disincentive for pension contributions – running the figures shows that a phenomenal level of growth is required to compensate for two layers of taxation. To comment intelligently, we would really need to see proper proposals, rather than a consultation, but.... there are two clear advantages to the current system, from the perspective of the taxpayer. Firstly, following retirement it is likely that total income will be a lot lower, so tax relief now is worth more than tax relief in the future, and secondly, if tax relief is given up front more funds will be available to invest, so more growth will occur. In addition, human nature suggests that tax relief now is more likely to incentivise people than a tax free amount later, and low earners will find it easier to contribute if the funds do not have to come out of their already strained net income. However, this is only a consultation so we will make representations and see what is actually proposed.*

Income Tax

- Personal Allowance (PA) increased to £11,000 for 2016/17 (previously quoted as £10,800)

  £12,500 by 2020.

- Basic Rate Tax Band increased to £32,000 for 2016/17 (£43,000 including the PA)

  £50,000 by 2020 (including the PA).

- Income rates remain unchanged and are locked for the rest of Parliament.

Headline: Reduction of Tax Relief for Mortgage Interest on Let Property

Detail: Currently, a landlord can claim the cost of finance used in his letting business in full against the rental profits – usually, this refers to a mortgage secured on the property, but any loan used for the purposes of the business is permitted. This means that a higher rate taxpayer receives 40% tax relief on the interest charged. This will, in future, be restricted to only basic rate relief – i.e. 20% of the interest charged, though drilling down, no portion of the finance costs will be available to increase losses. However, this will be phased in gradually starting from 6 April 2017; in 2017/18, only 75% of the finance costs will be eligible for full relief.

EW Tax Team Say: *Clearly this is bad news for investors in property, as it will increase the cost of finance by a third for higher rate taxpayers (60% after tax relief now becomes 80%). This is, therefore, also likely to depress the market for property as the real cost of purchase will increase. However, it is still worth trying to ensure that debt costs can be assigned to the rental business as some relief is better than none.*

Hidden news: Rent-a-Room Relief to be Increased to £7,500

Detail: Currently, when letting a room in your home (residentially) you can replace the actual costs associated with the letting with the figure of £4,250 when calculating your taxable profits. This figure is set to rise to £7,500 from April 2016.

EW Tax Team Say: *This limit has not changed for many years. While it is, therefore, due for review, there are perhaps more important figures that are due for an inflationary increase. Nonetheless, it is welcome news for anyone considering letting a room in their home or setting up a guesthouse.*

Hidden News: Wear & Tear Allowance to be Scrapped

Detail: Where a residential property is let furnished no relief is currently available for the costs of furnishings etc. Instead, a deduction equal to 10% of the rent received is permitted. From 6 April 2016 this relief will be scrapped, but relief will be available for the cost of replacing such assets.

EW Tax Team Say: *This is a reasonably sensible change, which grants relief in proportion to the costs incurred. As to whether it is advantageous will depend on the figures in individual cases. This will have a cash flow effect on individuals with furnished properties as previous deductions of a wear and tears allowance permitted even expenditure to be accrued for. Under the new rules every 3 to 5 years, when furniture is replaced there will be a dip in income. This provides a tax planning opportunity should other income be receivable.*

CORPORATION TAX

Headline: Further Cuts to Corporation Tax Rates

Detail: With Corporation tax rates having already been slashed from 28% to 20% over the course of the last 5 years; today, George Osbourne announced further cuts to the tax with a fall in the rates to 19% from 2017 and 18% from 2020.

EW Tax Team Say: *This was a bit of a surprise they threw in to the widely anticipated "Second Budget of 2015", as it was expected that any cuts to "one of the lowest corporation tax rates in the world" and the lowest in the G20 would be unlikely. This now puts our rates in line with the likes of Belarus, Switzerland, and Ukraine, which is great news for businesses, big and small and suggests that the government are trying to encourage a boost in inward investment, employment and growth.*

Headline: Annual Investment Allowance Limits Now Permanent

Detail: The Annual Investment Allowance (AIA) is an accelerated relief intended to encourage UK businesses to invest in capital assets. Prior to the General Election, and in the March Budget, it was announced that the AIA would be reduced from its temporary limit of £500,000 to £25,000 from 1 January 2016. This time around, it has been set at £200,000 for the foreseeable future.

EW Tax Team Say: *Over the last few years, this has been one of the reliefs that has been fiddled with most, with the limits going up and down like a yo-yo. Finally we have some stability, in that they have promised to maintain this level of AIA for the rest of this Parliament. Perhaps more relevant for we advisers (!), as we will no longer have to calculate the transitional rates, but the new limit will mean that businesses purchasing assets qualifying for AIA will have a better understanding of the investments that will provide them with that much-needed cash-flow.*

Hidden news: No Relief for Amortisation on Purchased Goodwill

Detail: Previously any purchased Goodwill purchased by a company after 2002 would no longer be treated as a capital asset and would instead be eligible for a deduction of amortisation over its useful life or 4% per year. This has been scrapped as of today (08/07/15) so now no tax relief is now available.

EW Tax Team Say: *The removal of the relief for purchased goodwill will impact on the profits of those companies which have paid above the asset valuation of any other business. There will now be less advantage when just purchasing the assets of a company to purchasing the whole of the company's share capital.*

Corporation Tax

- Rate of tax reduced from April 2017 to 19%

  Then to 18% by 2020.

- Annual Investment Allowance will be permanently fixed at £200,000.

CAPITAL TAXES

Headline: Investment Fund Managers

Detail: The government will stop investment fund managers from using tax loopholes as a means to avoid paying capital gains tax (CGT) at the rate of 28% on the profits of the fund that is known as carried interest.

This has immediate effect by requiring taxpayers who receive carried interest to pay CGT at the full rate of 28% on their reward from the fund, rather than at the lower rate of 10% from buying and selling companies

EW Tax Team Say: *This preserves the long understood tax treatment of carried interest, and thus gives fund managers certainty. It achieves its objective by closing the loophole and reverts back to the agreement between the BVCA and HMRC on the taxation of carried interest.*

Headline: Increasing the Inheritance Tax (IHT) Threshold to £1 million

Detail: The nil rate band for IHT has been set at £325,000 for many years and today the government has announced a change to reflect the uplift in property prices. From April 2017, an additional 'main residence' nil-rate band of £175,000 applies as well as the current nil-rate band, to give a total of £500,000 value of transfer. Just as the way that the basic allowance can be passed between spouses if unused, this will also apply to the new allowance, giving a total value of £1 million in primary residence value to be passed on to future generations.

So as not to penalise those individuals who downsize prior to passing assets on, the full allowance will be available to offset against their other assets should their house no longer fill the band. However, there will be a taper for properties exceeding £2million in value, to ensure the relief is not abused by wealthy estates.

EW Tax Team Say: *A change in the IHT nil rate band has been long awaited, with the band remaining unchanged since 6 April 2009. The changes to be implemented in the coming years allow for families with valuable properties to pass on their family homes to their children free of IHT, somewhat relieving a burden.*

Headline: Changes to the treatment of Trusts

Detail: Detailed and complex rules surround the calculation of Inheritance tax charges in relation to various events involving trusts. The new rules are intended to simplify the calculations, but will also act to block certain planning whereby reliefs are able to be claimed multiple times rather than shared across trusts with the same settlor. There are also a couple of procedural simplifications.

EW Tax Team Say: *The changes relating to trust charges will hopefully mean a simplification of calculations and may even result in a lower charge. However, problems may arise where multiple trusts were settled on the same day, as each will now need to take the others into account when calculating the nil-rate band available. Whilst this seems like reasonable anti-avoidance, we will need to see the actual legislation to be confident that the tax liability will not exceed that due if only one trust had been used.*

Inheritance Tax

- Nil-rate band (NRB) remains unchanged at £325,000
- Introduction of a 'main residence' NRB of £175,000 from April 2017

  i.e. £1m per couple.
- Rates of tax remain unchanged.

DOMICILE AND RESIDENCE

Headline: Crackdown on the Non-Dom Rules

Detail: From April 2017, individuals born in the UK to parents who are domiciled here will no longer be able to claim Non-Domicile status whilst they are resident in the UK. This will apply to an individual who has severed all ties with the UK to acquire a domicile of choice.

A Consultation will also be published later this year with regards to the abolition of Non-Domicile status for those who have been resident in the UK for more than 15 of the past 20 tax years. Therefore, in future long term Non-Domiciled UK resident individuals will be no longer able to claim the remittance basis and instead will automatically be taxable in the UK on their worldwide income and gains. This seeks to align the income and capital gains tax treatment of Non-Domiciles to those in existence for inheritance tax.

EW Tax Team Say: *The Chancellor has made it clear that he does not want to abolish the Non-Domicile rules outright, which is a welcome shift away from Labour's earlier viewpoint. Instead, he is cracking down on the number of individuals having the ability to benefit from the rules. The Non-Dom treatment is important to the UK, as it attracts overseas wealth and foreign investment. Now, more than ever, it is important for Non-Domiciled individuals to carefully plan for the future.*

Headline: Deemed Domicile Rules Tightened

Detail: Currently, where an individual has been resident in the UK for 17 out of 20 years, they will be deemed to be domiciled in the UK for IHT purposes meaning that they will be subject to UK IHT on their worldwide assets. From April 2017, the point at which a Non-Domiciled individual will be deemed domiciled for IHT will be brought forward to 15 out of 20 years.

EW Tax Team Say: *This 15 year deemed domicile rule will apply for inheritance tax purposes mirrors the new proposals which have been announced for income and capital gains tax.*

Headline: IHT Implications of Owning a UK Situated Property

Detail: It was also announced that a Consultation will follow proposing that inheritance tax is payable on all UK resident property owned by Non-Domiciled individuals irrespective of their residence status. This includes property held indirectly through an offshore structure such as a trust.

EW Tax Team Say: *The UK property proposals are likely to have the effect of reducing overseas investment in the UK property market, a welcome change for some, but again making it less appealing to invest in the UK. It will also impact upon those with structures already in place meaning they will need to rethink their affairs. Since the changes are subject to consultation, it will take a while before we can get some certainty.*

TAX ADMINISTRATION

Headline: Tax Lock

Detail: Legislation will be introduced to set a ceiling for the main rates of income tax, employers' and employees' Class 1 National Insurance and the standard and reduced rates of VAT. This will ensure the relevant rates cannot rise about the current 2015/16 levels.

EW Tax Team Say: *Although this was much hyped during the election, it remains good news especially in allowing individuals and businesses to plan for the future with some certainty about their tax position. Of course we need to see the detail of the legislation, as there may be some loopholes in the lock…*

Headline: Tackling Offshore Evasion

Detail: As part of the overall objective of reducing the tax lost from tax evasion, the government is to introduce legislation to require financial intermediaries and tax advisors to write to clients to inform them that:

- the government will receive information on offshore accounts from 2017;
- UK bank accounts will be shared with other world-wide tax authorities;
- a new time-limited disclosure facility will apply;
- enforcement penalties, including new civil penalties and a new criminal offence for failure to declare offshore income and gains.

EW Tax Team Say: *It comes as no surprise that the government is seeking to tighten the net even further on offshore tax evaders. However the principle of requiring tax advisors to do this takes matters to another stage. Of course, this is pure disclosure and does not impact on the actual tax position of any income source, so should not matter to any of our clients, but places an unwelcome burden on advisers.*

Headline: IR35

Detail: In an effort to combat some of the estimated £400m tax loss through perceived tax avoidance HMRC has published a second consultation on restricting claims for home to work travel in cases of "disguised employment". Normally, travel from one's home to a permanent workplace is not allowable for tax purposes, but travel to a temporary workplace is. The proposed rules will extend the latter treatment to cover cases where there is an intermediary with which the individual has a single employment and then services a series of short term engagements at different locations.

EW Tax Team Say: *Once again the government has signalled its intention to look at the way limited companies are used for certain contractual engagements. This is a second line of attack, which can apply where the contract is "IR35-proof", as the only test relating to the engager is whether the individual is subject to supervision, direction or control, which is a much broader test.*

TAXATION AWARDS 2015 WINNERS

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