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#### B U D G E T N E W S 2016

##### A word of warning

**The** information given below is based mainly on the Chancellor’s budget speech and associated press releases. Therefore, I cannot accept responsibility for the accuracy of such information. I have covered the parts of the budget which have the widest effect on taxpayers; it is not an exhaustive account. On any individual tax problem, there is no substitute for taking specific advice.

**The Budget in General**

**The** Chancellor began by boasting that the UK’s economy is set to grow faster than any other major advanced economy in the world, unemployment is falling and more people are working than ever before. That somewhat rosy picture masks the reality that growth is lower than previously predicted, so tax receipts are down and it will be harder to achieve the government’s stated aim of a balanced budget by the end of this parliament. Despite continuing spending cuts, which will reach £3.5 billion a year by 2018/19, there will not be a budget surplus until 2019/20. Inflation, which has been negligible over the last year or so, is predicted to be 0.7% this year and 1.6% next year.

This was a budget for tinkering with tax rules, as all of the major changes, such as the new system for taxing dividends, were announced last year.

After years of redundancies and budget cuts, the government has finally accepted that HMRC is not doing its job properly, so will provide funding for 800 extra staff.

**Barter Trading**

**It** has always been the case that tax is due on trading income received in non-monetary form, such as bartered goods or payment in unofficial “currencies” but the law will now be amended to make that clear.

**Stamp Duty Land Tax**

**SDLT** on residential property was reformed in December 2014, replacing a slab system (where one rate applies to the whole price) with a system of bands of increasing rates. A similar system has now been introduced for non-residential property, with bands as follows:

Up to £150,000 0%

£150,001 to £250,000 2%

Over £250,000 5%

**Capital Gains Tax 2016/17**

**In** a surprise move, the rates of Capital Gains Tax are reduced from 18% to 10% for basic-rate taxpayers, and from 28% to 20% for higher-rate taxpayers. The new rates do not apply, though, to sales of residential property which do not qualify for principal private residence relief (in other words sales of second homes or buy-to-let properties will still be taxed at the old rates).

**Loans to Participators**

**When** a limited company lends money to a participator (generally a director) it has to make a tax payment, which can be reclaimed when the loan is repaid. For a long time the rate has been 25%, which was derived from the tax a company had to pay when a dividend was paid. From 2016/17 the rate will be 32.5%, to match the new higher rate on dividends.

It is worth saying here that well-run small companies almost never make loans to directors, so never have to pay this tax. Loans are usually the result of financial recklessness, in particular directors spending the company’s money as if it were their own.

**Corporation Tax**

**The** Chancellor announced last year that the rate of Corporation Tax would be reduced from 20% to 19% in April 2017 and to 18% in April 2020. He has now gone further and announced that the rate from April 2020 will not be 18%, but 17%.

**Residential Properties**

**From** 1 April 2016, there will be two possible rates of Stamp Duty Land Tax on purchases of residential property. The purchase of a main residence will still be charged at the rates introduced in December 2014, but other residential properties, such as a second home or buy-to-let, will be charged at rates 3% higher:

Main residence Other

Up to £125,000 0% 3%

£125,001 to £250,000 2% 5%

£250,001 to £925,000 5% 8%

£925,001 to £1,500,000 10% 13%

Over £1,500.000 12% 15%

**Future Income Tax Changes**

**The** personal allowance will rise by £500 to £11,500 in 2017/18. As the marriage allowance is fixed at 10% of that, it can be assumed that it will also rise by £50 to £1,150.

The basic-rate tax band will also be increased from £32,000 to £33,500.

From 2017/18, there will be two tax exemptions for small traders with sales up to £1,000 and people with rental income up to £1,000. Where sales or rent are more than £1,000, people will have the option of calculating their taxable profit by deducting the £1,000 from their income instead of actual expenses. This seems like an acceptance that there are already many people who are not declaring small amounts of income from internet trading or Airbnb, and it is easier to introduce this exemption than try to collect tax from them.

**Business Rates**

**100%** relief is currently available on business premises with a rateable value up to £6,000. In April 2017, that limit will be increased to £12,000, with tapered relief up to £15,000.

**National Insurance**

**The** fixed weekly contribution for self-employed people (Class 2 NI) will be abolished in April 2018, so they will pay only Class 4, which is 9% on profits over £8,060. It is currently the Class 2 contribution which earns entitlement to benefits, so there will have to be a change in the rules, presumably to make Class 4 the qualifying contribution. There should also be some provision for low earners to make a voluntary contribution to preserve benefit entitlement.

**Income Tax changes for 2016/17**

**Personal** allowances have been increased as promised for 2016/17:

Increase New rate Notes

£ £

Personal allowance 400 11,000 1

Marriage allowance 40 1,100 2

Born before 6.4.35 3

Married couples maximum 0 8,355 4

minimum 0 3,220 4

Income limit 0 27,000

Blind person’s allowance 0 2,290

Personal Savings Allowance 5

Basic-rate taxpayer 1,000

Higher-rate taxpayer 500

***Notes:***

1. *The personal allowance is available in full only if income does not exceed £100,000. If it does, the allowance is reduced by £1 for every £2 of the excess until £122,000, when it is lost completely.*
2. *Marriage allowance can be claimed by married couples or civil partners where one partner has income below the personal allowance and the other is not a higher-rate taxpayer.*
3. *The married couple’s allowance can be claimed only by those born before 6 April 1935. If income exceeds the limit then the allowance is reduced by £1 for every £2 of the excess, until it equals the minimum amount.*
4. *Tax relief is given at 10% on these allowances.*
5. *The new Personal Savings Allowance applies to bank and other interest. Banks will no longer deduct tax at source on interest.*

The basic rate of tax is still 20% and applies to the first £32,000 of taxable income. The next £118,000 is taxable at the higher rate of 40%, then income over £150,000 is taxable at the additional rate of 45%. There are two exceptions to these rates:

1. There is a new system for taxing dividends, which no longer carry a tax credit, but will still be treated at the top slice of income. The first £5,000 is exempt, then the excess is taxed at 7.5% for basic-rate taxpayers, 32.5% for higher-rate taxpayers and 38.1% for additional rate taxpayers.

2. There is now a 0% tax rate up to £5,000 on the savings income (generally bank interest) of people whose taxable non-savings income is below that level.

**Sugar Levy**

**A** levy on soft drinks with added sugar will be introduced in April 2018 and the money will be used to support sport in primary schools. There will be two rates, based on the level of sugar content, but the levy will not apply to milk-based drinks or fruit juices.

Tax Credit Rates

Increase 2016/17

£ £

Working Tax Credit

Basic element 0 1,960

Couple and lone parent element 0 2,010

30 hour element 0 810

Disabled worker element 0 2,970

Severe disability element 0 1,275

Child Tax Credit

Family element 0 545

Child element 0 2,780

Disabled child element 0 3,140

Severely disabled child element 0 1,275

Income thresholds for withdrawal of Tax Credits

Basic 0 6,420

Those entitled to CTC only 0 16,105

The withdrawal rate is still 41%

Childcare element (weekly)

Maximum - one child 0 175

two or more children 0 300

Up to 70% of childcare costs can be covered, up to the maximum childcare element above.

Tax Credit awards are always paid provisionally, based on the previous year’s income, then reassessed at the end of the year when actual income is known. A £2,500 or more reduction in income will give a back-dated award, while an increase in income of £2,500 or more will lead to Tax Credits being reclaimed in whole or in part.

The freezing of Tax Credit rates, combined with the introduction of the National Living Wage, will inevitably lead to fewer and smaller claims for these benefits.

Over the next few years, Tax Credits and some other benefits will be replaced by the new Universal Credit, which is already available to single people with no children.

Tax-exempt Savings

Increase 2016/17

£ £

Individual Savings Account (ISA) 0 15,240

Junior ISA 0 4,080

Child Trust Fund 0 4,080

The ISA limit will be increased to £20,000 in 2017/18.

Also in 2017/18 a new Lifetime ISA will be available to anyone under 40, who will be able to invest up to £4,000 a year. The government will add a bonus of 25%, much like contributions to a personal pension, while the savings will earn tax-free interest, like an ISA. The investment can be withdrawn to use as a deposit on a first home, or saved to provide a retirement income after age 60.

VAT

The registration threshold has been increased by £1,000 to £83,000, the deregistration threshold has been increased by the same amount to £81,000.

**Excise Duties**

**Surprisingly**, the Chancellor decided not to increase excise duties on fuel, beer or spirits. The only increases are on wine and the usual target, tobacco.