

# THE 2016 BUDGET REPORT

Budget highlights from Ward Goodman, Chartered Accountants & Business Advisers - 16th March 2016

'Putting rocket boosters on the back of enterprise' was one of the Chancellor's catchier statements as his Budget was intended to focus on boosts for business and improving the health and wealth of the next generation. We have highlighted the most significant tax related announcements for individuals and businesses below.



## INCOME TAX

### Income Tax rates and allowances

Whilst there were no changes to the Income Tax rates and allowances for 2016/17 previously announced by the Chancellor, he has continued with his aim of increasing both the Personal Allowance and higher rate bands during this parliament. Accordingly the tax-free Personal Allowance will increase by £500 to £11,500 in April 2017. At the same time the point at which the higher rate of tax applies will be increased to £45,000 (2016/17 £43,000).

### Property and trading income allowances

From April 2017 two new allowances will be introduced, a £1,000 property income allowance and a £1,000 trading income allowance. Individuals with income within the allowance will no longer need to declare or pay tax on that income. Those with income above the allowance will be able to calculate their taxable profit either by deducting expenses in the normal way or alternatively by simply deducting the relevant allowance.

### Dividend taxation

There are no changes to the new rules for the taxation of dividends as announced in last year's Budget which come into effect on 6 April 2016. The Dividend Tax Allowance provides tax-free income on the first £5,000 of dividends received each tax year. Any dividend income received in excess of the allowance will be taxed at the following rates: 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

## NATIONAL INSURANCE

### Class 2 National Insurance Contributions

The current system of Class 2 contributions for self employed individuals will be scrapped from April 2018. It will be replaced by a reformed Class 4 contribution system, details of which are not available yet.

## CORPORATION TAX

The Chancellor had previously announced reductions in the rate of Corporation Tax to 19% from 1 April 2017 and 18% from 1 April 2020. Surprisingly he has now announced that the rate will be reduced by a further 1% to 17% from 1 April 2020.

The rate of the tax charge on loans to participators such as overdrawn directors' loan accounts will increase from 25% to 32.5% on loans made on or after 6 April 2016.

Loss relief will be simplified so that, for losses incurred after 1 April 2017, companies will be able to use carried forward losses against profits from other income streams or from other companies within a group.

The Government is commissioning the Office of Tax Simplification to review options to simplify the computation of Corporation Tax. It is also consulting on possible reform to the Substantial Shareholdings Exemption for corporate capital gains.

## CAPITAL ALLOWANCES

Currently, expenditure on cars with CO2 emissions above 130g/km only qualifies for Writing Down Allowances of 8%. This threshold will be reduced to 110g/km for expenditure incurred from April 2018 onwards. At the same time, the threshold for 100% First Year Allowances will be reduced from 75g/km to 50g/km.

## VAT

The rate of VAT remains at 20% while the threshold for registration is increased by £1,000 to £83,000. The deregistration threshold is also increased by £1,000 to £81,000. Both increases take effect from 1 April 2016.

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## EXCISE DUTIES

### Tobacco and Alcohol

The tobacco duty is being increased from 6pm today by 2% above inflation, with hand rolling tobacco up by a further 3%.

The duty on beer and cider, and on whisky and other spirits will be frozen. The duty on wine will increase with inflation as planned, equivalent to 4p on a bottle.

### Vehicles

Vehicle Excise Duties on cars and vans are to increase in line with RPI from 1 April 2016, increases being limited to no more than £5 per year.

The freeze on fuel duty increases will continue. By the end of 2016/17 the duty will not have increased for six years.

## CAPITAL GAINS TAX

The annual exemption for individuals and personal representatives remains unchanged at £11,100 for 2016/17, and the exemption for most Trustees at £5,550. However in another unexpected move the Chancellor announced that the rates of tax payable on most gains are to be reduced with effect from 6 April 2016, from 18% for basic rate taxpayers and 28% for higher rate taxpayers, to 10% and 20% respectively. The tax rate reductions do not apply to taxable disposals of residential property as the Chancellor wants to encourage investment in business.

Entrepreneurs' Relief is not generally available for the 'associated disposal' of a privately held asset when the accompanying disposal of business assets is to a family member. This was an effect of an anti avoidance change made in last year's Budget. A new amendment, backdated to 18 March 2015, relaxes this restriction. Relief will also sometimes be available where the disposal of business assets does not meet the 5% minimum size condition.

There are changes to the treatment of joint ventures and partnerships for Entrepreneurs Relief, also backdated to 18 March 2015.

Entrepreneurs Relief will be extended to external investors in unlisted trading companies from 17 March 2016, on shares having been held for three years from 6 April 2016.

Capital Gains Tax exempt gains on the disposal of Employee Shareholder Agreement shares acquired after 16 March 2016 is to be subject to a lifetime limit of £100,000.

## INHERITANCE TAX

There are no changes to the rates of tax, which remain at 40% on Estates (or 36% where 10% or more is left to charity) and 20% for lifetime transfers, or the Nil Rate Band (£325,000).

A consultation exercise was forecast last year, on Deeds of Variation with a view to limiting their use, following a death, to reduce Inheritance Tax liability. Following that consultation the Government announced that it would not be making any restrictions on the use of Deeds of Variation for tax purposes but would continue to monitor their use.

## ISAs

### Lifetime ISA

From April 2017, any adult under 40 will be able to open a new Lifetime ISA to save up to £4,000 each year, to which the Government will add a 25% bonus. The money saved can be used as retirement income, after age 60 or withdrawn before then to buy your first home. Other withdrawals will lose their 25% bonus and there will be a 5% charge.

### ISA limit

The annual savings limit into all ISAs will increase from £15,240 to £20,000 with effect from April 2017.

## OTHER MATTERS

### Business Rates

From April 2017, small businesses occupying property with a rateable value of £12,000 or less will pay no business rates. The limit is currently £6,000. There will be tapered relief on properties worth up to £15,000.

### Minimum Wage

The minimum wage for adults of 25 and over will increase to £7.20 an hour from 1 April 2016 to bring it in line with the National Living Wage. The rate for workers aged 21-24 will increase by 25p to £6.95 from 1 October 2015. The rate for workers aged 18-20 will increase by 25p to £5.55 an hour and workers aged 16-17 will get a 13p increase to £4.00 an hour.

**This summary of Budget highlights has been prepared shortly after the Chancellor's speech. These proposals are subject to amendment before the Finance Act is passed and no transactions should be effected from the information contained in this summary without first obtaining specific professional advice.**

**For more information  
or to discuss your  
personal circumstances  
please contact us.**

**Ferndown (Head Office)**  
4 Cedar Park, Cobham Road,  
Ferndown Industrial Estate,  
Wimborne, Dorset. BH21 7SF  
t: 01202 875900

**Shaftesbury**  
First Floor, 34 High St,  
Shaftesbury, Dorset. SP7 8JG  
t: 01747 835435

**Wareham**  
18 West Street,  
Wareham, Dorset. BH20 4JX  
t: 01929 551551