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CHARTERED ACCOUNTANTS

We've been helping businesses to grow and prosper for over 40 years through solid client relationships and a comprehensive, individual, and good value service.

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The Second Budget 2015

Chancellor George Osborne presented his post-election Second Budget to the House of Commons on 8 July. This newsletter reports on the key announcements most likely to affect your business and personal finances. For further advice, please contact us.

Inside...

Chancellor unveils 'new settlement from a one-nation Government'

Delivering the first Conservative Budget in nearly 20 years, Chancellor George Osborne announced a series of bold measures affecting business, tax and welfare in his 2015 Second Budget.

Heralding the Second Budget as a 'big Budget for a country with big ambitions', the Chancellor unveiled his announcements with the stated aim of moving from a 'low wage, high tax, high welfare economy to the higher wage, lower tax, lower welfare country we intend to create'.

Acknowledging the ongoing risks posed by the global economy, the Chancellor reported that the Office for Budget Responsibility had revised down its economic growth forecast to 2.4% for 2015 and announced that a budget surplus will now be reached a year later than planned, in 2019/20.

In a series of moves designed to incentivise UK businesses, the Chancellor announced future reductions in corporation tax to 18%. The Annual Investment Allowance will be set at £200,000 from 1 January 2016, while the Employment Allowance will be increased by 50% to £3,000 from April 2016. Meanwhile, a new apprenticeships levy will be applied to all large firms.

Key announcements on personal taxation include an increase in the basic income tax personal allowance threshold to £11,000 next year, and a rise in the basic rate limit to £32,000.

The pensions tax relief annual allowance for the highest earners will be reduced from next year, and a new Green Paper will propose radical changes to the pension saving system.

A new, compulsory National Living Wage will apply for those aged 25 and above from next April, while working parents will receive up to 30 hours a week of free childcare for 3-4 year olds from September 2017.

Changes to the inheritance tax rules will include a new main residence allowance starting at £100,000 and rising to £175,000 by 2021. This could allow families to pass on up to a total of £1m to their children without paying inheritance tax.

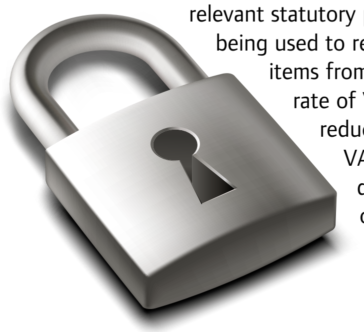
Further measures to clamp down on tax evasion and aggressive tax avoidance are expected to raise an additional £5bn and the Government will abolish permanent non-dom status from April 2017.

Other measures announced include a freeze in fuel duty for the remainder of the year, a planned relaxation of Sunday trading laws for England and Wales, and a new Roads Fund which will be supported by Vehicle Excise Duty.

Income tax, NICs and VAT 'tax lock'

The Government will legislate to set a ceiling for the main rates of income tax, the standard and reduced rates of VAT, and employer and employee (Class 1) NICs rates, ensuring that they cannot rise above their current (2015/16) levels.

The 'tax lock' will also ensure that the NICs Upper Earnings Limit cannot rise above the income tax higher rate threshold; and will prevent the relevant statutory provisions being used to remove any items from the zero rate of VAT and reduced rate of VAT for the duration of this Parliament.



Tax and travel

VAT on fuel for private use

Where businesses wish to reclaim the input VAT on fuel which has some degree of private use, they must account for output VAT for which they may use the flat rate valuation charge. The table shows the VAT chargeable for quarters commencing on or after 1 May 2015.

<table>
<tr><th rowspan="2">CO_2 emissions (g/km)</th><th colspan="2">Appropriate percentage</th><th colspan="2">Quarterly VAT</th></tr>
<tr><th>Petrol %</th><th>Diesel %</th><th>Flat Rate Valuation £</th><th>VAT on charge £</th></tr>
<tr><td>0 - 50</td><td>5</td><td>8</td><td rowspan="9">133.00</td><td rowspan="9">22.17</td></tr>
<tr><td>51 - 75</td><td>9</td><td>12</td></tr>
<tr><td>76 - 94</td><td>13</td><td>16</td></tr>
<tr><td>95 - 99</td><td>14</td><td>17</td></tr>
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<tr><td>110 – 114</td><td>17</td><td>20</td></tr>
<tr><td>115 – 119</td><td>18</td><td>21</td></tr>
<tr><td>120 – 124</td><td>19</td><td>22</td></tr>
<tr><td>125 – 129</td><td>20</td><td>23</td><td>200.00</td><td>33.33</td></tr>
<tr><td>130 – 134</td><td>21</td><td>24</td><td>213.00</td><td>35.50</td></tr>
<tr><td>135 – 139</td><td>22</td><td>25</td><td>227.00</td><td>37.83</td></tr>
<tr><td>140 – 144</td><td>23</td><td>26</td><td>240.00</td><td>40.00</td></tr>
<tr><td>145 – 149</td><td>24</td><td>27</td><td>254.00</td><td>42.33</td></tr>
<tr><td>150 – 154</td><td>25</td><td>28</td><td>267.00</td><td>44.50</td></tr>
<tr><td>155 – 159</td><td>26</td><td>29</td><td>281.00</td><td>46.83</td></tr>
<tr><td>160 – 164</td><td>27</td><td>30</td><td>294.00</td><td>49.00</td></tr>
<tr><td>165 – 169</td><td>28</td><td>31</td><td>308.00</td><td>51.33</td></tr>
<tr><td>170 – 174</td><td>29</td><td>32</td><td>320.00</td><td>53.33</td></tr>
<tr><td>175 – 179</td><td>30</td><td>33</td><td>334.00</td><td>55.67</td></tr>
<tr><td>180 – 184</td><td>31</td><td>34</td><td>347.00</td><td>57.83</td></tr>
<tr><td>185 – 189</td><td>32</td><td>35</td><td>361.00</td><td>60.17</td></tr>
<tr><td>190 – 194</td><td>33</td><td>36</td><td>374.00</td><td>62.33</td></tr>
<tr><td>195 – 199</td><td>34</td><td rowspan="7">37</td><td>388.00</td><td>64.67</td></tr>
<tr><td>200 – 204</td><td>35</td><td>401.00</td><td>66.83</td></tr>
<tr><td>205 – 209</td><td>36</td><td>415.00</td><td>69.17</td></tr>
<tr><td>210 – 214</td><td rowspan="4">37</td><td>428.00</td><td>71.33</td></tr>
<tr><td>215 – 219</td><td>441.00</td><td>73.50</td></tr>
<tr><td>220 – 224</td><td>455.00</td><td>75.83</td></tr>
<tr><td>225 and above</td><td>468.00</td><td>78.00</td></tr>
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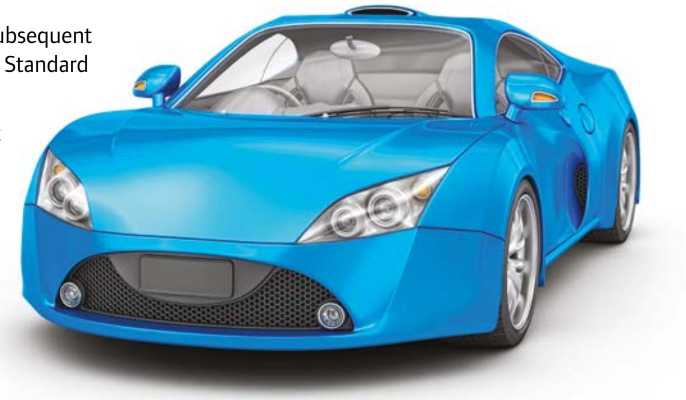
Reforms to VED

All cars first registered before 1 April 2017 will remain in the current VED system, which will not change. For cars first registered from 1 April 2017 onwards the following reforms will be introduced:

- First Year Rates will vary according to the CO_2 emissions of the vehicle
- a flat Standard Rate of £140 will apply in all subsequent years (except zero-emission cars for which the Standard Rate will be £0)
- cars with a list price above £40,000 will attract a supplement of £310 for the first five years in which a Standard Rate is paid.

From 2020/21 revenues from VED will be used to create a new Roads Fund.



Business tax

Corporation tax

Financial year to	31 March 2016	31 March 2015
Taxable profits		
First £300,000	20%	20%
Next £1,200,000	20%	21.25%
Over £1,500,000	20%	21%

The corporation tax main rate will be 19% for the financial years beginning 1 April 2017, 1 April 2018 and 1 April 2019, and 18% for the financial year beginning 1 April 2020.

Annual Investment Allowance (AIA)

The maximum amount of AIA is currently £500,000 for all qualifying expenditure on plant and machinery from 1 April 2014 for corporation tax and 6 April 2014 for income tax. This limit will be reduced to £200,000 (instead of the previously announced £25,000) with effect from 1 January 2016.

Goodwill

Legislation will be introduced to remove corporation tax relief for companies who write off the cost of purchased goodwill and certain customer related intangible assets. This will apply to accounting periods beginning on or after 8 July 2015, but not in respect of acquisitions made before 8 July 2015.

Any losses arising on a disposal, on or after 8 July 2015, of goodwill that is subject to the new rules, will be treated as non-trading debits and will not be included in the calculation of trading losses.

Controlled Foreign Companies (CFCs)

Legislation will be introduced to stop losses and other surplus expenses from being set off against the CFC charge on the profits of CFCs. This will apply to profits arising on or after 8 July 2015.

Apprenticeships

Employer NICs up to the upper secondary threshold for apprentices aged under 25 will be abolished from April 2016.

A new apprenticeships levy will be introduced on large UK employers to increase the number of apprenticeship starts. Employers in England will be able to access this funding for apprenticeship training. Details will be set out in the Spending Review.

National insurance contributions (NICs)

Class 1 – not contracted out	Employee (primary)	Employer (secondary)
Payable on weekly earnings of:		
Below £112 (lower earnings limit)	Nil	–
£112 - £155 (primary threshold)	*0%	–
Up to £156 (secondary threshold)	–	Nil
Above £156	–	13.8%
£155.01 - £815 (upper earnings limit)	**12%	–
£156.01 - £815 (upper secondary threshold - under 21s)	12%	0%
Above £815	**2%	–

**No NICs are actually payable but notional Class 1 NIC is deemed to have been paid; this protects contributory benefit entitlement. **Over state pension age, the employee contribution is generally nil.*

Employment Allowance		Up to £2,000 (per annum)
Class 1A	On relevant benefits	13.8%
Class 2	Self employed	£2.80 per week
	Small profits threshold	£5,965 per annum
Class 3	Voluntary	£14.10 per week
Class 4*	Self employed on annual profits	
	£8,060 - £42,385	*9%
	Excess over £42,385	*2%

**Exemption applies if state pension age was reached by 6 April 2015.*

Changes to the Employment Allowance

From April 2016 the Employment Allowance will increase to £3,000. However, companies where the director is the sole employee will no longer be able to claim this allowance.

National Living Wage

From April 2016 a new National Living Wage (NLW) in the form of a premium on top of the National Minimum Wage will be introduced for workers aged 25 and above. Initially set at £7.20, it is expected to rise to over £9 by 2020.

Pensions

For those with income (including the value of any pension contributions) above £150,000, the benefits of pensions tax relief will be restricted by tapering away their Annual Allowance to a minimum of £10,000. This will be effective from 6 April 2016.

In order to facilitate the taper, legislation will also be introduced to align pension input periods with the tax year as well as transitional rules to protect savers who might otherwise be affected by the alignment of their pension input periods.

Tax and landlords

Restricting finance cost relief for individual landlords

New legislation will mean that landlords will no longer be able to deduct all of their finance costs from their residential property income to arrive at their property profits. They will instead receive a basic rate reduction from their income tax liability for their finance costs.

This will be introduced gradually from 6 April 2017.

Reform of the Wear and Tear Allowance

The Government will, with effect from April 2016, replace the Wear and Tear Allowance with a new relief that allows all residential landlords to deduct the actual costs of replacing furnishings.

Rent-a-Room relief

From April 2016 the level of Rent-a-Room relief will be increased from £4,250 to £7,500.

Value Added Tax rates and thresholds

From	1 April 2015
Standard Rate	20%
VAT Fraction	1/6
Reduced Rate	5%
Current Turnover Limits	
Registration – last 12 months or next 30 days over	£82,000 from 01/04/15
Deregistration – next 12 months under	£80,000 from 01/04/15
Annual Accounting Scheme	£1,350,000
Cash Accounting Scheme	£1,350,000
Flat Rate Scheme	£150,000

Income tax and personal allowances

Income Tax Rates	2015/16	2014/15
Basic rate band – income up to	£31,785	£31,865
Starting rate for savings	*0%	*10%
Basic rate	20%	20%
Dividend ordinary rate	10%	10%
Higher rate – income over	£31,785	£31,865
Higher rate	40%	40%
Dividend upper rate	32.5%	32.5%
Additional rate – income over	£150,000	£150,000
Additional rate	45%	45%
Dividend additional rate	37.5%	37.5%
Starting rate limit (savings income)	*£5,000	*£2,880

If an individual's taxable non-savings income exceeds the starting rate limit, then the starting rate limit for savings will not be available for savings income.

Personal Allowances	2015/16	2014/15
Personal Allowance (PA)		
Born after 5 April 1948	£10,600	£10,000
Born after 5 April 1938 and before 6 April 1948	*£10,600	*£10,500
Born before 6 April 1938	*£10,660	*£10,660
Married couple's allowance (MCA)		
Either partner born before 6 April 1935 (relief restricted to 10%)	*£8,355	*£8,165
Transferable Tax Allowance		
for certain married couples and civil partners born after 5 April 1935 (relief 20%)	£1,060	–

**Allowances for those born before 6 April 1948 are reduced by £1 for every £2 that adjusted net income exceeds £27,700 (£27,000) to a minimum PA of £10,600 (£10,000) and to a minimum MCA of £3,220 (£3,140).*
Where adjusted net income exceeds £100,000, PA is reduced in the same way until it is nil regardless of the individual's date of birth.

The personal allowance will be increased to £11,000 for 2016/17. The basic rate limit will be increased to £32,000 for 2016/17.

Dividend taxation

From April 2016 the Dividend Tax Credit will be abolished and a new Dividend Tax Allowance of £5,000 a year will be introduced.

The new rates of tax on dividend income above the allowance will be 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

Non-domicile status

From April 2017, individuals who are 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.

Legislation will be introduced so that from April 2017 anybody who has been resident in the UK for more than 15 of the past 20 tax years will be deemed to be domiciled in the UK for tax purposes. A technical consultation will be published later in the year.

Inheritance tax (IHT)

Nil-rate band

The IHT nil-rate band was previously frozen at £325,000 until April 2018. It will now remain frozen until April 2021.

Main residence nil-rate band

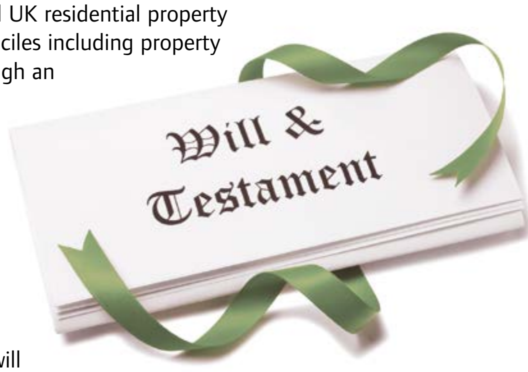
The Government will introduce an additional nil-rate band when a residence is passed on death to a direct descendant. This will be £100,000 in 2017/18 and will increase by £25,000 each year until it is £175,000 in 2020/21.

This will affect individuals, with direct descendants, who have an estate (including a main residence) with total assets above the IHT threshold (or nil-rate band) of £325,000.

IHT and non-domiciles

From April 2017, the point at which an individual who is classed as a non-domicile is deemed to be domiciled for IHT purposes will be brought forward to 15 out of 20 years. The Government will also treat individuals who were born in the UK to parents who are domiciled here, as UK domiciled whilst they are in the UK. This aligns IHT with the changes to the income tax and CGT regimes.

The Government will legislate to ensure that from April 2017, IHT is payable on all UK residential property owned by non-domiciles including property held indirectly through an offshore structure. This will apply regardless of their residence status for tax purposes and so will also include non-domiciles who are not UK resident. A full consultation will take place later in the year.



Increased HMRC powers

Legislation will be introduced to modernise and strengthen HMRC's powers to recover in certain circumstances tax and tax credit debts of over £1,000 directly from debtors' bank and building society accounts, including funds held in cash ISAs. Safeguards will be put in place, including a county court appeal process and a face-to-face visit to every debtor before they are considered for debt recovery.

HMRC's funding will be increased by a total of over £60m by 2020/21 to allow it to step up its criminal investigations into serious and complex tax crime.

The Government will extend HMRC's powers to acquire data from online intermediaries and electronic payment providers to find those operating in the hidden economy. The Government will also create a digital disclosure channel which makes it simple for taxpayers to disclose unpaid tax liabilities.

An investment of around £300m will be made by the Government over five years from 2016 to tackle non-compliance by small and medium-sized businesses, public bodies and affluent individuals.