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Budget Summary 2016

Introduction

In his eighth Budget speech, less than a year after the General Election in which the Conservatives formed their first majority Government since 1992, the Chancellor was under no pressure to be popular by making giveaways.

But uncertainty is the main weapon in the campaign to remain in the EU, so Osborne's warning that leaving would harm the UK's economy came as no surprise.

At the end of last year, the Office for Budget Responsibility forecasted growth in 2016 of 2.4%, but against the backdrop of a darkening global economic outlook Osborne announced that this has been reduced to 2%, with downgrades in forecasted growth for every year through to 2020.

Balancing the books has been central to this Chancellor's tenure, so he predictably announced more spending cuts to continue on his mission to reduce the deficit. Despite admitting that the cookie jar wasn't quite as full as he'd hoped it would be by now, he claimed that Britain has the fastest-growing major economy in the world, the highest level of employment for a generation and that the country is on course for a budget surplus by 2020. Declaring that the richest 1% pay 28% of all income tax revenue, Osborne said "we are all in this together".

The key theme of the Budget was around creating long-term stability and putting the next generation first. His measures include the introduction of lifetime ISAs for the under-40s, a surprise reduction in capital gains tax rates and "rocket boosters" for enterprise. These include cuts to corporation tax, help for small businesses through higher business rates thresholds and the abolition of Class 2 NICs for the self-employed. There was nothing in the Budget to suggest further changes to the rules around dividends, so if you own a business, there's still time to consider whether you should pay them by 5 April.

Our Budget highlights over the page are followed by more detailed analysis of the main announcements.

Simon Robinson
Managing Principal

Budget Highlights

Income tax – The personal allowance for 2016/17 is £11,000 and the basic rate band £32,000. A new personal savings allowance exempts the first £1,000 of savings income of basic rate taxpayers and the first £500 for higher rate taxpayers. Basic rate tax will no longer be deducted at source by banks and building societies.

Tax rates on dividends that exceed £5,000 a year are 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers – no longer with a 10% tax credit.

Pensions – The lifetime limit on tax-advantaged pension funds is cut from £1.25m to £1m from 6 April 2016. The annual allowance for contributions, otherwise £40,000, is reduced from 2016/17 if income exceeds £150,000; by £1 for every £2 over £150,000 to a minimum of £10,000.

Capital gains tax – The annual exemption for 2016/17 is £11,100. Tax rates from 6 April 2016 are to be reduced, except on gains from residential property and carried interest, to 20%, or 10% for basic rate taxpayers. Furthermore, gains on newly-issued shares in unlisted trading companies acquired after 16 March 2016 held for at least three years from 6 April 2016 will be taxed at 10%, up to a maximum of £10 million.

Non-residents' capital gains tax – Gains realised by non-residents on UK residential property on 'no gain-no loss' disposals now do not have to be reported. This change is to be back-dated to 6 April 2015.

Close company loans – The tax on loans by close companies to participators made after 5 April 2016 is increased from 25% to 32.5%.

ISAs – The annual limit is increased to £15,240 from 6 April 2016 and is to be increased to £20,000 from 6 April 2017. Where ISA securities are inherited from a deceased spouse or civil partner the tax privileges are to continue from the date of death. The Help to Buy ISA may be converted into a Lifetime ISA from 6 April 2017.

Stamp Duty Land Tax (SDLT) – SDLT from 17 March 2016 on non-residential property is changed to the 'slice' system, like that for residential property. The rate of SDLT on all but your first residential property is increased by 3%.

ATED – This regime is extended from 6 April 2016 to 'enveloped' dwellings worth over £500,000, with ATED-related CGT following this. The other rates of charge are unchanged, but with some relaxation in administration.

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Personal Taxation

Income Tax

Rates and Bands for 2016/17

(2015/16 figures in brackets)

	Dividends *(for 2015/16 effective rate with tax credit)*	**Savings Income**	**Other**
First £5,000	0% *(0%)*	0% *(0%)*	20% *(20%)*
£5,001 - £32,000 ** (£5,000 - £31,785 basic rate)	7.5% *(0%)*	20% *(20%)*	20% *(20%)*
£32,011 - £150,000 (£31,786 - £150,000 (higher rate)	32.5% *(25%)*	40% *(40%)*	40% *(40%)*
Over £150,000 (*additional rate)*	38.1% (30.6%)	45% (45%)	45% (45%)

** To be increased to £33,500 for 2017/18.

The 10% starting band on savings income is reduced by the amount of non-savings income in excess of allowances and reliefs. Dividends are treated as the top slice of total income, interest and other savings income as the next**.**

Construction industry sub-contractors: tax deduction on account 20%, or 30% if the sub-contractor is unregistered.

Allowances

		2016/17 £	*2015/16* *£*
Relief at individual's top tax rate			
Personal	- born after 5 April 1938[1]	11,000	*10,600*
	- born before 6 April 1938	11,000	*10,660*[2]
Blind person's allowance		2,290	*2,290*
Relief at 10%			
Married couple's allowance if born before 6 April 1935 and either is aged over 75[3]		8,355	*8,355*
Relief at 20%			
Transferable marriage allowance[4]		1,100	*1,060*
Savings allowance[5]		1,000	*N/A*
Savings allowance[6]		500	*N/A*

[1]To increase to £11,500 in 2017/18. The personal allowance is reduced by £1 for every £2 of income in excess of £100,000 (regardless of age), until it is completely removed.

[2]Reduced to a minimum of £10,600 by £1 for every £2 income exceeds £27,700.

[3]Reduced to a minimum of £3,220 by £1 for every £2 income exceeds £27,700.

[4]For married couples and civil partners not entitled to the married couple's allowance if the transferee has no income liable at a rate other than the basic rate, the dividend ordinary rate or the starting rate for savings.

[5]Limited to the excess over £5,000 savings income and if, ignoring that allowance, the individual has no 'higher rate' income.

[6]Limited to the excess over £5,000 savings income and if, ignoring that allowance, the individual has no 'additional rate' income.

Non-Domicile Taxation

Following announcements in 2015 and subsequent consultations, the Government is pressing ahead with proposals to change the taxation of non-domiciled UK residents from 6 April 2017, with legislation to be in Finance Bill 2017.

A non-domiciled person who becomes deemed domiciled in April 2017 will be allowed to treat the market value at April 2017 of their non-UK assets as being their effective base cost for the gain on disposal calculated on an arising basis, presumably leaving the gain accrued before 6 April 2017 to be taxed only when remitted to the UK.

If an individual becomes deemed domiciled, UK transitional provisions will be brought in to clarify when amounts are remitted to the UK.

Royalty Payments

Payments of UK-source royalties to connected, non-UK resident persons, which would be exempt from UK deduction of tax at source under a double taxation agreement (DTA), will be taxable where it is not the object and purpose of the DTA to grant that exemption.

The measure will counteract contrived arrangements that are used by groups (typically large multinational enterprises). In particular, it will apply to royalties connected with businesses that non-UK resident persons operate in the UK through a permanent establishment in the UK.

Devolved Taxes

The Chancellor announced some necessary legal changes following the devolvement of some income tax rates to the Scottish Government.

With effect from April 2017, the Scottish Government will have the power to set the rates and thresholds that apply to non-savings and non-dividend income of individuals resident in Scotland.

From the same date, English, Welsh and Northern Irish MPs will have a decisive say on the income tax rates applicable in their countries.

Pensions Flexibility

Amendments are being made to ensure that the pensions flexibility introduced in April 2015 operates as intended in relation to lump sums and benefits concerning ill health, dependents, charities and taking a trivial ‘commutation’ or lump sum.

Payrolling Benefits in Kind

With effect from 6 April 2017, employers will be able to include non-cash vouchers and credit tokens when operating their payroll, if they wish. Benefits in kind such as private medical insurance, car, van and fuel benefits, will be included in an employee’s salary in each payment period and taxed accordingly.

EIS and VCT Qualifying Companies

The five-year period for determining the average turnover amount and the relevant three preceding years for the operating costs conditions that must be met by knowledge-intensive companies will end on the last accounts date before the investment is made, unless the last accounts date falls more than 12 months before the date the investment is made, in which case the five and three-year periods end 12 months before the investment is made.

Sporting Testimonials

From 6 April 2017, employed sportspersons who receive income from a sporting testimonial or a benefit match that are neither contractual or customary will be exempt from tax on up to £100,000 received for the single testimonial or testimonial year. Any excess will be subject to income tax and NICs, and independent testimonial committees will need to operate PAYE. The exemption does not apply to testimonials or benefit matches that are contractual or where there is a customary right.

Off-Payroll Public Sector Workers

The Government announced that it will reform the intermediaries' legislation for public sector engagements so that liability to pay the correct employment taxes will move from the worker's own company to the public sector body or agency/third party paying the company. HMRC will develop a new digital tool that will make as simple as possible the decision on whether the rules should apply and provide certainty.

Full consultation will be undertaken and legislation will be introduced in Finance Bill 2017.

Disguised Remuneration and Employee Benefit Trusts

Investment returns accruing to Employee Benefit Trusts (EBTs) are currently exempt from the disguised remuneration rules where tax is agreed and paid on the basis that the original EBT contribution was earnings from employment. This transitional relief will be withdrawn for investment returns accruing to EBTs after 30 November 2016.

National Insurance Contributions

		2016/17	***2015/16***
Class 1	Employees' contributions (monthly)		
	On earnings up to £672 *(2015/16 £672)*	Nil	*Nil*
	On earnings between £672 and £3,583 *(2015/16 £672 and £3,532)*	12%	*12%*
	On earnings over £3,583 *(2015/16 £3,532)*	2%	*2%*
	Employees' contracted-out rebate (monthly)		
	On earnings between £485 and £3,532	Nil	*1.4%*
	Married women's reduced rate (monthly)		
	On earnings between £672 and £3,532 *(2015/16 £672 and £3,532)*	5.85%	*5.85%*
	On earnings over £3,532 *(2015/16 £3,532)*	2%	*2%*
	Employers' contributions (monthly)		
	On earnings up to £676 *(2015/16 £676)*	Nil	*Nil*
	Employees under 21 on earnings under £3,583 *(2015/16 £3,532)*	Nil	*Nil*
	Apprentices over 21 but under 25 on earnings over £676 and under £3,583	Nil	*13.8%*
	Other earnings over £676 (*2015/16 £676)*	13.8%	*13.8%*
	Employers' contracted-out rebate (monthly) – Salary-related schemes		
	On earnings between £485 and £3,532 (*2015/16 £481 and £3,488*)	Nil	*3.4%*
Class 1A	Employers' contributions on taxable benefits in kind	13.8%	*13.8%*
Class 2	Self-employed contributions (monthly)	£12.13	*£12.13*
	Small earnings exception (annual)	£5,965	*£5,965*
Class 3	Voluntary contributions (monthly)	£61.10	*£61.10*
Class 4	Self-employed (annual profit-related)		
	On profits between £8,060 and £43,000 *(2015/16 £8,060 and £42,385)*	9%	*9%*
	On profits over £43,000 *(2015/16 £42,385)*	2%	*2%*
	Employment allowance (annual)	£3,000	*£2,000*

Class 2 NICs

Class 2 National Insurance Contributions (NICs) will be scrapped from April 2018. Self-employed individuals will, therefore only need to pay Class 4 NICs, which will also be reformed so that they can continue to build state benefit entitlement.

Employers' NICs on Pay-offs

From April 2018, employers will have to pay National Insurance Contributions (NIC) on termination payments above £30,000 where income tax is also due. The employees will have no NIC liability.

Capital Gains Tax

	2016/17	***2015/16***
Annual exemption		
Individuals, personal representatives (for year of death and following two years) and trusts for disabled, etc.	£11,100	*£11,100*
Other trusts		
Divided by the number of trusts with same settlor – up to five.	£5,550	*£5,550*

Rates of Tax

Gains of individuals, trustees, personal representatives, trustees (and ATED-related gains of companies), other than those eligible for entrepreneurs' relief (and excepting residential property and carried interests), are taxed at 20% (28% prior to 6 April 2016); save that, in the case of individuals, gains equal to any unused basic rate band are taxed at 10% (18% prior to 6 April 2016). Gains on residential property and carried interests remain at 18% or 28%.

Entrepreneurs' gains up to a lifetime maximum of £10 million are taxed at 10%.

Eligible gains are those realised by individuals and trustees on disposal of interests in a business (trade, profession or vocation), assets used for such a business, or shares in a trading company of which the individual is at least a 5% shareholder and employee or director, subject to a minimum ownership period. Trustees' disposals only qualify if a beneficiary has an interest in possession, and, in the case of shares also personally owns at least 5% of the shares and is an employee or director, and otherwise is a disposal of assets used in a business carried on by the beneficiary.

Entrepreneurs' Relief - Joint Ventures and Partnerships

The definition of a 'trading company' and 'trading group' will be changed for individuals and trustees realising gains in a company that invests in a joint venture company. Where the new definitions apply, a fraction of the activities of a joint venture company will be treated as carried on by a company which holds shares in the joint venture company. Similarly, the trading activities of a corporate partner will be taken into account in deciding whether the company is a trading company for entrepreneurs' relief purposes. The measure will apply to disposals on or after 18 March 2015.

Investors' Relief

A similar relief to entrepreneurs' relief (ER) will be extended to external investors (other than employees and directors) in unlisted trading companies. Investors' relief will apply to gains accruing on the disposal of ordinary shares that were newly issued to the claimant for new consideration after 16 March 2016, and have been held for a period of at least three years starting from 6 April 2016. There will be a lifetime limit of £10 million, distinct from the same limit that applies to the existing ER.

Entrepreneurs' Relief - Goodwill on Incorporation

Individuals who incorporate their business will be able to claim entrepreneurs' relief on the gain on goodwill, provided the new company is a close company (controlled by five or fewer participators or by its directors) and the individual holds less than 5% of the acquiring company shares. The measure has been backdated and applies to disposals from 3 December 2014.

Entrepreneurs' Relief - Associated Disposals

Individuals who realise gains on the disposal of a private asset, which is used in a business carried on by their partnership or company once they retire or reduce their participation in their business, will be able to claim entrepreneurs' relief on the 'associated disposal' if the disposal is to a family member. The measure will apply to disposals from 18 March 2015.

Lifetime Limit on Employee Shareholder Status

Gains made on the disposal of shares acquired under employee shareholder agreements (in which employees give up certain employment rights) have been completely exempt from capital gains tax. This exemption will be limited to the first £100,000 for shares issued after 16 March 2016.

Employee Share Schemes Simplification

A rights issue which takes place after 5 April 2016 in respect of shares originally acquired on the exercise of an Enterprise Management Incentive (EMI) option will be treated in the same way for share identification purposes as other rights issues: the new shares will be treated as acquired at the same time as the original shares.

Inheritance Tax

Rates at Death	**From 6 April 2016**	***From 6 April 2015***
Nil	Up to £325,000	*Up to £325,000*
40%*	Over £325,000	*Over £325,000*

* a reduced 36% rate of IHT is available where 10% or more of the estate net of reliefs, exemptions and the nil rate band is left to charity.

The annual exemption for lifetime gifts of £3,000 and the small gifts annual exemption of £250 have remained at these levels for 31 years.

Objects Exempted from Estate Duty

There are three new measures designed to correct anomalies in the inheritance tax (IHT) legislation regarding objects which have a legacy exemption to estate duty (a forerunner of IHT) because they are of national importance. When that item is sold or otherwise disposed of, the tax comes into charge.

The three new measures are:

- the ability for HM Revenue & Customs (HMRC) to choose whether to charge IHT or estate duty following a death on or after 17 March 2016 – the current position being that IHT can be chosen to be paid by the taxpayer at lower rates than the estate duty which might apply;
- to create a charge on objects which had an estate duty exemption, but have been lost in certain circumstances, generally due to negligence;
- to bring public galleries and museums, which were exempt due to being maintained by local authorities but which no longer qualify due to being independent charitable trusts, back into scope of the exemption. Also, the power to add new national institutions to the exemption list will be transferred from HMRC to HM Treasury.

Pension Inputs

Annual limit on pension 'inputs' (contributions and accrual of benefits)		
	2016/17	***2015/16***
If income does not exceed £150,000	£40,000	
If income exceeds £150,000 but not £210,000	£40,000 less £1 for every £2 income exceeds £150,000	
If income exceeds £210,000	£10,000	
Limit for 6 April to 8 July 2015		*£40,000*
Limit for 9 July 2015 to 5 April 2016		*£40,000*

Savings

Lifetime Individual Savings Account

From 6 April 2017 a Lifetime ISA may be opened by adults under the age of 40. Contributions of up to £4,000 a year may be made and any savings put in before they are 50 will receive a 25% bonus from the Government.

Once the account has been opened for more than 12 months the funds held plus the Government bonus can be used to purchase a first home or withdrawn tax-free from the age of 60.

Although withdrawals may be made earlier for purposes other than to buy a home, the Government bonus will be lost as will any interest or growth on this. A 5% levy will also be charged. The Government is considering whether withdrawals may be made for other specified purposes without losing the bonus.

People may still also open a Help to Buy ISA until November 2019 but will only be able use the Government bonus from one of the accounts to buy their first home. During 2017/18 those who already have a Help to Buy ISA can transfer the savings into a Lifetime ISA, or continue saving into both.

Motor Car Benefits

CO^2 emissions g/km	Petrol engine %	Diesel engine %
50 or less	7	7
51-75	11	11
76-94	15	18
95-99	16	19
per additional 5g/km, until 185g/km	+1	+1
185-189	34	37
190-194	35	37
195-199	36	37
200 and above	37	37

Motor Van Benefits

The annual benefit taxable for an employee's private use of a van (not over 3,500kg) is £3,170 (*2015/16 £3,150*). This amount is reduced if the van is not used for the whole tax year or, if someone else also uses the van for private travel or if something is paid for using the van privately.

Fuel Benefits (Cars and Vans)

Where the employer also provides fuel for private motoring in a car provided to an employee, a further benefit is taxable. For 2016/17, it is the 'car benefit percentage' of £22,200 (2015/16 £22,100). This figure is also subject to NIC for employers. Where fuel for private use of a van (not over 3,500kg) is provided, a benefit charge of £598 applies (2015/16 £594).

A 2% discount on the company car fuel multiplier for benefits in kind applies if the car is capable of being run on E85 fuel (unleaded petrol mixed with 85% bioethanol).

Advisory fuel rates for company cars (per mile) from 1 March 2016

	LPG	Petrol		Diesel
1400cc or less	7p	10p	1600cc or less	8p
1401 – 2000cc	8p	12p	1601 – 2000cc	10p
over 2000cc	13p	19p	over 2000cc	11p

Business Taxation

Corporation Tax

Rates and Bands	**Year to 31 March 2017**	***Year to 31 March 2016***
Main rate	20%	*20%*

Payment Dates

In the Summer 2015 Budget the Government said corporation tax payment dates would be brought forward for companies with taxable profits over £20 million, with tax to be payable in the 3rd, 6th, 9th and 12th months of the year. This will be delayed to apply to accounting periods starting after March 2019.

Reform of Loss Relief

Unused corporation tax losses arising on or after 1 April 2017 will be usable against profits from different types of income and profits of other group companies.

The use of losses brought forward (for non-banks) is to be limited to 50% of profits in excess of £5 million arising after March 2017.

The restriction on banks' pre-2015 losses which may be set against subsequent profits is cut from 1 April 2016 to 25% of those profits, where previously it was 50%.

Companies' Interest Relief

The Government has proposed that interest relief will be capped at 30% of taxable earnings in the UK or based on the net interest-to-earnings ratio for the worldwide group. To ensure the rules are targeted where the greatest risk of base erosion and profit shifting lies, the rule will include a threshold limit of £2 million net UK interest expense.

Business Rates

The small business rate relief for England will be doubled from April 2017 and the threshold increased from £12,000, with tapering for values up to £15,000. The standard multiplier threshold for England will be increased to £51,000 from April 2017.

Trading Income Received in Non-Monetary Form

Legislation will be introduced with immediate effect that confirms existing law and practice, in that trading or property income received in non-monetary form is fully brought into account in calculating taxable profits for income tax and corporation tax purposes.

Loans to Participators of Close Companies

A corporation tax charge is imposed on loans by close companies to participators if the loans remain outstanding nine months after the end of the accounting period. The tax charge is made to ensure tax is not avoided by granting loans to participators rather than paying dividends. When the loan is repaid, the tax paid under this charge is refunded to the company. Previously, the rate was 25%, but for loans made after 5 April 2016 the rate will be 32.5%.

Transfer Pricing Guidelines Updated

The UK's definition of 'transfer pricing guidelines' will be amended to incorporate the revisions to the Organisation for Economic Co-operation and Development's Guidelines for Multinational Enterprises and Tax Administrations (the OECD Guidelines), published in October 2015.

SME R&D Relief: State Aid Cap

This measure concerns small and medium-sized companies (SMEs) making claims for Research & Development (R&D) tax relief within the SME R&D scheme where any claim for an individual project exceeds €7.5 million.

The amendment will prevent an unintended reduction in the R&D relief available to some SMEs when the Large Company Relief expires on 31 March 2016. This is being replaced by R&D Expenditure Credit.

It is a technical matter that will involve amending the definition of 'notional relief' together with changes to a formula used within the legislation.

Apprenticeship Levy

An apprenticeship levy of 0.5% is to be imposed from April 2017 on the payroll of employers with a wage bill of more than £3 million.

Profits from Trading In and Developing UK Land

Non-UK-resident companies are to be subject to corporation tax on UK property trading profits, regardless of whether the company has a permanent establishment in the UK. A UK property trade will exist where the trade consists of:

- dealing in any estate, interest or right in or over land in the UK; or
- developing any land in the UK with a view to disposing of any estate, interest or right in or over the land, including redevelopment.

The rules will apply to disposals that occur on or after the date the legislation is introduced in Parliament at the report stage, which is anticipated to be in June 2016.

Anti-avoidance rules will be introduced where either:

- between 16 March and the report stage the land is transferred to a related party who is not intended to be the ultimate recipient, therefore preventing any rebasing between 16 March 2016 and the report stage; or
- arrangements are made with the main purpose being to secure that the profits arising are not subjected to corporation tax.

Repeal of the Renewals Allowance

The renewals allowance will be repealed from 6 April 2016 for income tax purposes and from 1 April 2016 for corporation tax purposes.

The measure coincides with a new relief being introduced for domestic items for residential landlords, so that relief for the cost of replacing implements, utensils and tools used in a business – for which the renewals allowance was intended – will continue to be provided.

Orchestra Tax Relief

With effect from 1 April 2016, companies that produce qualifying orchestral concerts (or a series of concerts) will be able to claim an additional deduction of 25% of qualifying expenditure in computing their taxable profits. If that additional deduction results in a loss, that loss may be surrendered for a payable tax credit.

Museums and Galleries – Tax Relief

The Government has announced a consultation on a new tax relief for museums and galleries for their temporary or touring exhibitions, which will take effect from April 2017.

Capital Allowances

	2016/17	***2015/16***
Plant and machinery generally Annual investment allowance (on up to £200,000)	100%	*100%*
Annual writing-down allowance	18%	*18%*
Integral features and cars with CO^2 emissions over 160g/km)	8%	*8%*

Enterprise Zones

With effect from Royal Assent, the period in which enhanced capital allowances (ECA) at 100% are available in Enterprise Zones will change to eight years.

Other Taxation

Value Added Tax

	2016/17	*2015/16*
Standard Rate	20%	*20%*
Registration level	£83,000	*£82,000*
De-registration level	£81,000	*£80,000*

Online Sales Fraud Clampdown

The Chancellor has announced measures to combat VAT fraud in relation to online sales of goods.

The measures are aimed at non-EU suppliers who are shipping stock to the UK for onward sale to UK consumers but are suspected of not charging VAT.

HMRC already has some powers to combat this type of fraud but will now have three additional weapons to aim at the fraudsters:

1. With effect from Royal Assent, HMRC will have strengthened powers to require non-EU suppliers to appoint a UK VAT representative who will have joint and several liability for the VAT due on the UK sales.

2. If non-compliance continues, HMRC will have the power to direct that the online marketplace hosting the non-EU supplier will have joint and several liability for the unpaid VAT. This measure will also take effect from Royal Assent.

3. HMRC has issued a consultation document regarding a new registration scheme and due diligence requirement for fulfilment houses that store, pack and/or deliver online orders.

Stamp Taxes

Stamp Duty Land Tax (except in Scotland)

Rates and Bands

Transfers for consideration*		
Non-residential:	**From 17 March 2016 ** **	
Lease rents net present value		
If value exceeds £150,000 but not £5m	1%	
If value exceeds £5m	2%	
Other consideration:		
£0 - £150,000	Nil	
Next £100,000	2%	
Over £250,000	5%	
Residential:	**From 20 March 2014**	
Single dwelling bought buy a 'non-natural person' if over £500,000	15% (subject to a number of exemptions)	
Other residential property (exchange after 25 November 2015)	**From 1 April 2016**	
Lease rents net present value	Only residence	Other property***
If over £40,000 but not over £125,000	Nil	3%
If over £125,000	1%	4%
Other consideration:		
First £125,000	Nil	0%/3%****
Next £125,000	2%	5%
Next £675,000	5%	8%
Next £575,000	10%	13%
Balance of consideration	12%	15%

* SDLT applies to the market value on certain transfers to a connected company and in connection with interests in partnerships if this is more than any actual consideration.

** If contracts exchanged but not completed before 17 March 2016 purchasers may choose to apply the rates previously applicable.

*** 3% addition may be reclaimed if disposal of main residence within 36 months.

**** 3% if total consideration is over £40,000 but not over £125,000.

Deep In The Money Options

Where a UK company share is transferred under an option, the Stamp Duty (SD) or Stamp Duty Reserve Tax (SDRT) is currently calculated and paid based on the amount paid for the shares.

An option where the amount paid for the shares is significantly below their market value is called a Deep In The Money Option (DITMO). HMRC is aware of an increasing amount of avoidance using DITMOs with the shares transferred to depository receipt takers and clearance services.

From 16 March 2016, where after the exercise of the option, the shares are transferred to a depository receipt taker or clearance service, the transfer is charged to SD or SDRT at 1.5% of the higher of the price paid and the market value as at the date of the instrument (SD) or the date of transfer (SDRT). These rules apply to options exercised on or after 16 March 2016 if the option was entered into after 24 November 2015.

Annual Tax on Enveloped Dwellings (ATED)

Value at 1 April 2012 or subsequent acquisition (or substantial part disposal)	2016/17	*2015/16*
More than £500,000 but not over £1 million	£3,500	*Nil*
More than £1 million but not over £2 million	£7,000	*£7,000*
More than £2 million but not over £5 million	£23,350	*£23,350*
More than £5 million but not over £10 million	£54,450	*£54,450*
More than £10 million but not over £20 million	£109,050	*£109,050*
More than £20 million	£218,200	*£218,200*

Anti-Avoidance

Targeted Transactions in Securities

The Government proposes changes to this legislation by the introduction of a Targeted Anti-Avoidance Rule (TAAR), to stop the potential of income being converted into capital and thus benefit from the lower capital gains tax rates. This will apply to liquidation distributions paid after 5 April 2016, where caught by this rule.

Hybrid Financial Instruments

A hybrid financial instrument is one which allows the payer to deduct an amount as interest, but allows the receipt to be treated as an exempt dividend. A hybrid entity is a partnership which is treated as transparent by one jurisdiction but treated as opaque by another. The effect is that one jurisdiction would apply its tax rules to the partnership as if it were a corporate body, while the other would apply its tax rules to the partners. Permanent establishments can be used in a similar way to generate mismatches or double-deductions.

Legislation, applicable to payments after 2016, will be introduced to neutralise the tax mismatch created by the hybrid arrangement by changing the tax treatment of either the payment or the receipt, depending on the circumstances.

Penalties for Evasion and Unsuccessful Avoidance

A raft of proposed changes and consultations targeting tax abuse, avoidance and evasion have been tabled. Among others, these include: a new a criminal offence for offshore tax evaders; 60% penalties under the General Anti-Abuse Rule (GAAR); detention and seizure powers; a statutory definition of ‘reasonable care’; new penalties for participating in a VAT fraud; and cracking down on the hidden economy.

Specific advice should be obtained before taking action, or refraining from taking action, on any of the subjects covered above. If you would like advice or further information, please speak to your usual Shipleys contact.