



A guide to Budget 2016

A SIMPLE GUIDE TO THE BUDGET 2016

This is a basic guide, prepared by ACCA's Technical Advisory team, for members and their colleagues or clients.

It is an introduction only and should not be used as a definitive guide, since individual circumstances may vary. Specific advice should be obtained, where necessary.

Rates and allowances

	2016/17	2015/16
	£	£
Income tax rates - (non-dividend income)		
10% lower rate tax - savings rate only	Up to 5,000	Up to 5,000
20% basic rate tax	Up to 32,000	Up to 31,785
40% higher rate tax	32,000 – 150,000	31,786 - 150,000
45% additional rate tax	Above 150,000	Above 150,000
Personal allowance		
Personal allowance those born after 5 April 1948	11,000	10,600

Corporation tax

The main rate of corporation tax is 20% and from April 2017 to 19%.

Annual Investment Allowance

The annual investment allowance is £200,000 per annum and is available for companies and for unincorporated businesses. It applied from 1 January 2016.

Dividends

Tax is payable on dividends over £5,000 at the following rates:

7.5% on dividend income within the basic rate band

32.5% on dividend income within the higher rate band

38.1% on dividend income within the additional rate band

Personal Savings Allowance

A basic rate taxpayer will be able to receive up to £1,000 of interest per year tax free on their savings.

A higher rate taxpayer will be able to receive up to £500 of interest per year tax free on their savings.

An additional rate tax payer will not have a Personal Savings Allowance.

Any amount received above these limits will be charged at the marginal rate.

Directors overdrawn loan account tax increase

Rate of tax charged on loans to participators increases. From 6 April 2016 the rate of tax charged on loans to participators (currently 25%) will increase to 32.5%.

Capital gain tax reduction

Legislation will be introduced in Finance Bill 2016 to reduce the 18% and 28% rates in those provisions to 10% and 20% respectively, subject to exclusions for chargeable gains on disposals of residential property.

Marriage allowance

This change applies from 6 April and allows for the transfer of £1,100 of a personal allowance to a spouse or partner where the transferor's income is less than £11,000 and the recipient doesn't pay tax at the higher or additional rate.

Employment Allowance

The Employment Allowance (Increase of Maximum Amount) Regulations 2016 increase the employment allowance from £2,000 to £3,000 while The Employment Allowance (Excluded Companies) Regulations 2016 now excludes limited companies where the director is the sole paid employee from April.

Restriction on mortgage interest deduction

Landlords will no longer be able to deduct all of their finance costs from their property income to arrive at their rental profits. The relief in respect of finance costs will be restricted as follows:

2017/18	75% allowed	25% basic rate
2018/19	50% allowed	50% basic rate
2019/20	25% allowed	75% basic rate
2020/21	Nil	100% basic rate

The end of wear and tear allowance

From 5 April 2016 wear and tear allowance and the renewable allowance for property business will be replaced by a system allowing landlords of residential property to deduct only the actual costs incurred on replacing furnishings in the tax year. Capital allowances for furnished holiday lets will not be affected.

Farmers averaging

From April 2016 the period over which they can average will be increased from the current two year years to five years.

Lifetime ISA for first home purchases

From April 2017, any adult under 40 will be able to open a new Lifetime ISA. Up to £4,000 can be saved each year and the government will pay in a 25% bonus on these contributions at the end of the tax year. The funds, including the government bonus, can be withdrawn from the Lifetime ISA from age 60 for any other purpose.

Entrepreneurs' relief

Entrepreneurs' relief is available to external investors in unlisted trading companies, where a gain is made on Goodwill on Incorporation and on an 'associated disposal' of a privately-held asset when the accompanying disposal of business assets is to a family member.

IR35

The government will introduce in Finance bill 2017 legislation that will move the liability to pay the correct employment taxes from a worker's own company to the public sector body or agency / third party paying the company.

SEIS

The Scheme was not permanent, and runs until 5 April 2017. The investment limit for a qualifying individual in a fiscal year is £100,000 and cannot claim tax relief until the company has spent at least 70% of the money invested. The scheme will be affected by the new rules, which include the requirement for companies to be less than 12 years old when receiving their investment.

VAT

	2016/17	2015/16
	£	£
VAT		
Standard rate	20%	20%
Registration threshold	83,000	82,000
Deregistration threshold	81,000	80,000

Changes to pensions

People with defined contribution schemes who are at least 55 years old can make withdrawals up to the value of the funds invested in the scheme. The first 25% will be tax free. An individual who makes a withdrawal will be restricted to making future pension contributions of no more than £10,000.

Where an individual has taken flexible benefits which include income, such as an 'uncrystallised funds pension lump sum' or flexible drawdown with income, and that individual wants to continue paying contributions to a defined contribution pension scheme then a reduced annual allowance of £10,000 will apply towards that individual's defined contribution benefits. The reduced allowance will apply if the individual has withdrawn more than the 25% tax free pension commencement lump sum (PCLS).

The lifetime allowance for pension contributions will reduce from £1.25m to £1m from 6 April 2016.

SDLT increases

The higher rates (3% above the current SDLT) will apply to additional residential properties purchased on or after 1 April 2016 if at the end of the day of the transaction, an individual owns 2 or more properties and has not replaced their main residence.

ATED

A new band for properties between £500,000 and £1m has been introduced. The annual charge is £3,500.

ACCA LEGAL NOTICE

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