Budget 2016

Commentary

March 2016
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1. Introduction

1.1 A Budget for entrepreneurs

The focus of the 2016 Budget was very much on entrepreneurs, savings and tax. Measures designed to boost the enterprise economy sat alongside a flexible lifetime ISAs and changes to capital gains tax. While small and medium-sized enterprises fared relatively well, the Chancellor continues to clampdown on larger businesses, for example, with interest relief due to change for large multinationals, although overall the changes for them were quite reasonable.

The Government confirmed that the pension tax will not change for now, although what’s really needed is a longer-term pensions tax plan to allow people to plan their retirement with more certainty.

The following were among the key Budget announcements:

- Entrepreneurs’ relief - the reintroduction of the availability of capital gains tax (CGT) entrepreneurs’ relief on goodwill when a business is transferred to a company is welcome news. The tax relief has been backdated, so anyone who has incorporated on or after 3 December 2014 should check to see if they are entitled to take advantage of this pragmatic change. Two other welcome backdated relaxations were also announced.

- Tax relief on historic company losses - on the plus side for many businesses, there will be welcome changes for the relief of losses from April 2017, bringing the UK system more in line with its G7 neighbours. It means far fewer SMEs will end up with trapped unusable losses in the future. For companies with profits over £5m there will be some restrictions, but the Government expects this to affect only about 1% of UK companies.

- ISAs - changes to the ISA rules are an interesting compromise between encouraging spending in the economy and encouraging younger people to save for retirement. Increasing the ISA allowance to £20,000 will mean more people’s savings will stay outside the tax net. The new flexible lifetime ISAs - if they allow for withdrawals and replacement of savings - will help younger people save for a home and then top-up again as they get older.

- Capital gains tax - the Chancellor’s plan to reduce CGT rates (from 28% to 20% and 18% to 10% for higher rate and basic rate taxpayers, respectively) is welcome for entrepreneurs and others investing in businesses, as well those with large share portfolios who may be hit from April 2016 by the higher taxes on dividends. It’s yet another disappointment, however, for owners of buy-to-lets and second homes who fail to benefit from this latest initiative.

If you wish to discuss any of these issues, please speak to your usual Smith & Williamson contact or get in touch with me.

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2. Personal and trust taxes

2.1 Personal allowance and higher rate threshold increase

Planned increases to the personal allowance and higher-rate threshold for 2016/17 were confirmed with announcements made for 2017/18.

The personal allowance will increase to £11,000 for 2016/17 and to £11,500 for 2017/18. Following the phasing out of age-related personal allowances, there is only one level of personal allowance, regardless of the taxpayer’s age.

Higher rate taxpayers also receive a boost and many taxpayers will be taken out of higher rate tax, following confirmation of an increase in the higher rate threshold to £43,000 for 2016/17 and £45,000 for 2017/18. A corresponding increase will apply to the NIC upper earnings limit to ensure that the thresholds remain aligned.

Comment

The higher than previously trailed increase to the personal allowance and higher rate threshold from April 2017 is welcome news and reflects the Government’s pledge to increase the personal allowance to £12,500 and higher rate threshold to £50,000 by the end of the current parliament.

However, as previously highlighted, not all taxpayers benefit from the increases to the personal allowance. Those earning above £100,000 will generally continue to see the personal allowance restricted by £1 for every £2 earned above this threshold, leading to an effective 60% tax rate, subsequently dropping back to 40%.

2.2 Abolition of Class 2 national insurance contributions

The Government has confirmed that from April 2018, Class 2 national insurance contributions (NICs) will be abolished for the self-employed.

Class 2 NICs are the contributions payable by self-employed individuals including partners in partnerships. Since April 2015 these contributions have been paid through self assessment at a flat rate of £2.80 per week (2015/16 tax year). From April 2018 Class 2 NICs will be abolished completely.

A consultation on benefit entitlement for the self-employed has been carried out and the Government will announce its responses to this in due course. The results are expected to outline how the self-employed will access contributory benefits after class 2 NIC has been abolished.

Comment

Given the low level of Class 2 NIC, the added complexity and inefficiency did seem unnecessary, so the confirmation of its abolition is welcomed.

We shall have to wait for the Government’s responses to the consultation to ascertain how the self-employed will continue to obtain contributory benefits and to ensure there is no erosion of an individual’s benefits.

2.3 Introduction of a personal savings allowance

A new allowance is to be introduced for basic rate and higher rate taxpayers to apply a 0% rate of income tax to a slice of their savings income.

As announced at the 2015 Budget, a new personal savings allowance will be introduced from 6 April 2016. The allowance will mean that basic rate (20%) taxpayers will not pay tax on the first £1,000 of savings income and higher rate (40%) taxpayers will not pay tax on the first £500. However, additional rate (45%) taxpayers will not qualify for an allowance.

Comment

This is another well trailed announcement, which is expected to result in 95% of taxpayers, around 17 million people, no longer required to pay tax on their savings income.
This is however not an exemption, so the savings income covered by the allowance will count towards total income for other purposes such as the high income child benefit charge, the withdrawal of the personal allowance and restrictions in the pension annual allowance for additional rate taxpayers.

As a consequence of this, the Government will also remove the obligation on banks and building societies to deduct basic rate tax on interest paid.

2.4 Changes to the taxation of dividends to be introduced from 6 April 2016

As announced in the 2015 Summer Budget, from 6 April 2016, the way in which individuals are taxed on dividends will change.

Currently, a 10% notional tax credit attaches to a dividend paid by UK and some non-UK companies. This reduces the effective rate of income tax on the net dividend to 0% at the basic rate, 25% at the higher rate and 30.56% at the additional rate. From 6 April 2016, this method of taxation will change with the notional credit being abolished.

A dividend tax allowance will be introduced, which will not tax the first £5,000 of dividend income of UK resident individuals in each year.

Dividend income in excess of this will be taxed at 7.5% where it falls in the basic rate band, 32.5% for the higher rate and 38.1% for the additional rate. The income within the allowance will count towards total income for other purposes, in a similar way to the new savings allowance.

Comment

The overriding aim behind these changes was to discourage sole traders from incorporating for tax-motivated reasons. However, the regime applies to all dividends not simply those paid by owner-managed businesses.

The introduction of the £5,000 allowance, coupled with the increase in the dividend tax rates, means that there will be winners and losers after 6 April 2016.

As these changes were announced in the 2015 Summer Budget, people have had some months to consider the impact that they may have. For those that have not yet given due consideration, time is running out to take action before the end of the tax year and they should consider doing so now.

2.5 Taxation of sporting testimonials for employed sportspersons

Changes first proposed at the 2015 Autumn Statement will be introduced to subject income from testimonials announced after 25 November 2015 and taking place after 6 April 2017 to income tax and NICs. An exemption will apply to the first £100,000 of income where the testimonial is not contractual or customary.

Before these changes, an extra statutory concession allowed the proceeds of a non-contractual sporting testimonial not to be taxed as earnings. HMRC has for some time been gathering feedback on the proposal to
withdraw this concession and bring the treatment in line with that applying to other voluntary payments made by the public, such as tips to waiters and taxi drivers.

Independent testimonial committees will now need to operate PAYE where the total proceeds from a non-contractual sporting testimonial or benefit match (or a number of events forming a testimonial year) exceed £100,000.

The changes will not apply where the testimonial was granted or awarded before 25 November 2015.

Comment

Although the Government ultimately pressed ahead with these changes, it is pleasing to see that changes were delayed in order to allow proper consultation.

Furthermore, following consultation, the decision to double the one-off exemption from £50,000 to £100,000 should be applauded, as it will smooth the transition for retiring sportspeople to move into other employment while they retrain to do something else.

2.6 Update on changes to taxation of non-doms

The Government has announced transitional provisions for those non-UK domiciled individuals (non-doms) affected by planned reforms whereby those who have been UK resident in 15 of the past 20 years will be treated as deemed UK domiciled from 6 April 2017. The legislative timetable for the reforms has also been amended.

Proposals were announced in Summer Budget 2015 to reform the taxation of non-UK domiciled individuals (non-doms) with effect from 6 April 2017:

- those who have been resident in the UK for 15 of the past 20 years will be deemed to be UK domiciled for all tax purposes;
- those who were born in the UK with a UK domicile of origin but who have subsequently acquired a non-UK domicile of choice will be deemed to be UK domiciled for all tax purposes whenever they are resident in the UK; and
- all UK residential property held directly or indirectly by non-doms will be within the charge to UK IHT.

The first two of these reforms were due to be legislated via Finance Bill 2016 and the third in Finance Bill 2017. It has now been announced that all the reforms will be contained in Finance Bill 2017.

Two transitional provisions have now been announced for those becoming deemed UK domiciled from 6 April 2017:

- the ability to treat the base cost of non-UK assets for CGT purposes as being the market value of those assets at 6 April 2017; and
- what sounds like a review of the composition of funds offshore ‘to provide certainty on how amounts remitted to the UK will be taxed’.

Comment

Professional advisers, including Smith & Williamson, made representations advocating sensible transitional provisions of some kind as part of the consultation process on the deemed domicile proposals in autumn 2015. While a formal response to the consultation has not yet been published, the fact that representations appear to have been heeded is welcome.

The opportunity to opt for a ‘rebasing’ of assets could reduce both the tax and administrative burden for those becoming deemed UK domiciled.

Turning to remittances of offshore funds, there are a number of possible approaches and it remains to be seen what form the proposals will take. We await further details with interest.

Regarding the legislative timetable, it is helpful that all the proposed reforms will now be contained in a single Finance Bill in 2017 as some of the provisions depend on each other, rather than being split between two Finance Bills. It will be important to ensure there is no slippage in the timetable for publishing draft legislation; that would add to the uncertainty facing those potentially affected. Given that the reforms are due
to come into force from 6 April 2017, non-doms should not be put in the position of having to begin planning, while unsure of the final details.

It should not be forgotten that a further consultation document concerning the changes to indirectly-held UK residential property was promised, which ought to happen before the draft Finance Bill 2017 is published.

2.7 Tax administrative changes: further devolution of powers to Scotland

Legislation will be introduced to distinguish between the tax rates applying to ‘savings income’ and those applying to ‘non-savings, non-dividend income’, for which the Scottish parliament will have independent rate-setting power for Scottish rates from April 2017.

Following the extension of powers from 6 April 2017 to give the Scottish Parliament full control over setting the rates and thresholds of income tax applying to ‘non-savings, non-dividend income’ of Scottish taxpayers, measures will be introduced to ensure that English, Welsh and Northern Irish MPs retain a decisive say on the main rates of income tax applying in the remainder of the United Kingdom.

A ‘savings rate’ will apply to all UK-wide (including Scottish) savings income and will be distinct from the ‘main rate’ applying to ‘non-savings, non-dividend income’ of UK-residents not subject to the Scottish rate of income tax.

A third, ‘default rate’ will also apply to a limited category of taxpayers including, primarily, trustees and non-UK resident individuals.

The measure will have effect from 6 April 2017 to coincide with the further devolution of income tax powers to the Scottish government.

Comment

This administrative change is part of the Government’s pledge to implement ‘English votes for English laws’ and is motivated by concerns about Scottish MPs retaining the right to take part in the decision-making process on setting the main rates of income tax for the Rest of the UK, rates which the UK Parliament can no longer influence in Scotland.

2.8 Compensation and ex-gratia payments made to victims of persecution

The Government will legislate to ensure that compensation or ex-gratia payments from certain schemes will not be subject to IHT.

The legislation will replace a current extra statutory concession that provided an IHT exemption for compensation and ex-gratia payments made by the Government to those persecuted during the World War II era.

The legislation will be extended beyond the current concession to include one-off payments received under the ‘child survivor fund’, and allow the Treasury to exempt further schemes in the future.

The IHT exemption will apply whether the payment was made before or after the claimant’s death and will apply to deaths on or after 1 January 2015.

Comment

While these changes are limited to narrow circumstances and will only apply to a limited number of taxpayers, the aim of the exemptions should be applauded.

2.9 Bad debt relief measures to support peer-to-peer (P2P) lending

Proposals first announced at Autumn Statement 2014 to allow relief for bad debts in respect of P2P loans against other P2P income will take effect from 6 April 2016.

A new relief will be introduced to enable individuals who invest in certain P2P loans to deduct losses realised on defaulted loans against income received from other P2P loans of the same platform.

Any surplus bad debts can be used to offset interest received on loans made through other platforms or carried forward against interest received in the next four tax years from other eligible P2P loans.
The relief will apply automatically for bad debts arising on eligible P2P loans from 6 April 2016. Individuals will also be able to make claims to set losses realised in 2015/16 against interest received from other loans in the same year.

Comment

These changes will be well received by individuals involved in P2P lending and are an indication of the Government’s desire to increase competition in the finance sector.

It is good to see that individuals will be able to claim relief for losses arising in the tax year to 5 April 2016 and, from 6 April 2016, basic and higher rate taxpayers should also note that the newly-introduced savings allowance will apply to limit exposure to tax on any surplus interest after the bad debt relief.
3. Pensions, investments and capital taxes

3.1 Lifetime ISAs to be introduced and ISA limit to be increased

A new Lifetime ISA will be available from April 2017, at which time the ISA subscription limit will also be increased.

New ‘Lifetime ISAs’ will be available from April 2017. These will be available to adults under the age of 40 who will be able to contribute up to £4,000 each year to the account.

The funds, including a 25% bonus provided by the Government, can either be used to buy a first home, after the account has been open for 12 months, or withdrawn from the age of 60.

The overall annual ISA subscription limit will also increase from £15,240 to £20,000 from 6 April 2017.

Comment

Much of the talk before the Budget revolved around whether or not we would see the introduction of the ‘Pension ISA’ whereby the current regime on pension taxation (tax relief on contributions but tax on extraction) would be replaced by a vehicle more akin to an ISA (same tax free wrapper but no relief on entry and no tax on exit). The Lifetime ISA does not go this far but it will be interesting to see whether this is the first step in a longer term plan.

The announcement does, however, continue to demonstrate that the ISA is the Government’s favoured vehicle of choice for savings with the ISA limit increasing from only £7,000 ten years ago.

Also, those under 40 now will need to consider whether a traditional pension remains the attractive vehicle for longer term saving or whether this new Lifetime ISA, with the bonus, which effectively equates to basic rate tax relief, better suits their savings needs.

3.2 Pensions tax consultation

The Chancellor announced that there was no consensus following the consultation and therefore no new changes were announced.

3.3 Confirmation of reduction in the pensions lifetime allowance

As announced previously, the lifetime allowance for pension savings will reduce from £1.25m to £1m from 6 April 2016.

It was announced in Budget 2015 that the lifetime allowance (LTA) for pension savings will reduce from £1.25m to £1m from 6 April 2016. It has now been confirmed that this will be legislated for in Finance Bill 2016.

From 6 April 2018, the LTA will be indexed annually in line with the consumer price index (CPI).

Comment

Its inclusion in Finance Bill 2016 was to be expected, although with the focus in recent times on the annual allowance, its impact has been somewhat overlooked in the press.

Its announcement does, however, serve as a reminder for those that have not yet reviewed their position to do so now or before 6 April 2016.

Furthermore, it is expected that transitional protection for pension rights that are already over £1m will be introduced alongside this, although the brief note in the Budget documentation makes no mention of this.
3.4 Reduction in the rates of capital gains tax

Reductions to both the higher rate and basic rate of capital gains tax were announced with effect from 6 April 2016.

The higher rate of capital gains tax will be reduced from 28% to 20% and the basic rate from 18% to 10%. This will apply to disposals on or after 6 April 2016.

The 28% and 18% rates will, however, continue to apply for carried interest and for chargeable gains on residential property.

Comment

The reduction in capital gains tax rates was previously suggested as a possible reform. However, the reasoning for such a reduction was to encourage the sale of second homes, which would form part of a wider suite of changes to support home ownership and first time buyers.

Clearly, given gains on residential property will not benefit from this reduction, this was not the reason for the change. Instead, the overriding aim of the reduction has been stated to be to develop a ‘strong investment culture’ in the UK as a way of backing business and enterprise.

We await further detail, especially on the assets that will now carry the effective 8% surcharge. The reduction in the CGT rate from 6 April 2016 does, however, mean people who may be about to make disposals should carefully consider their position between now and the end of the tax year.

3.5 Extension of CGT entrepreneurs’ relief to long-term external investors

Entrepreneurs’ relief will be extended to external investors in unlisted trading companies.

Entrepreneurs’ relief results in a 10% rate of capital gains tax up to a lifetime limit of £10m of gains on, amongst other assets, shares in a trading company by an individual who has worked for or been an officer of the company and owned at least 5% of the ordinary shares in the company.

A new extension to the relief will be introduced from 6 April 2016 for shares acquired after 17 March 2016, where the following conditions are met:

- the shares are newly issued, having been acquired by the person making the disposal on subscription for new consideration;
- the shares are in an unlisted trading company, or unlisted holding company of a trading group;
- they have been held for a period of three years from 6 April 2016; and
- they have been held continually for a period of three years before disposal.

If all of the conditions are met, the rate of CGT charged on the qualifying gain will be 10%, with the total amount of gains eligible for the new relief subject to a lifetime cap of £10m per individual - this is separate to the main entrepreneurs’ relief cap.

Comment

There were concerns prior to the Budget that entrepreneurs’ relief could in some way be restricted, so the entrepreneur community will be relieved that, not only does the relief remain in place, but that it has in fact been further extended.

The extension will also be of benefit to the business angel community who continue to provide vital support to start-up businesses in the UK.

We will need to see the final legislation to ascertain the full impact, but it is interesting that the £10m cap is a separate lifetime limit to entrepreneurs’ relief. As such, business owners could potentially benefit from total lifetime entrepreneurs’ relief on £20m of gains.
3.6 Entrepreneurs’ relief available on associated disposals

For disposals made on or after 18 March 2015, the Government has announced that entrepreneurs’ relief will be allowed on the disposal of a privately-held asset when the disposal of the accompanying business or company is to a family member.

The entrepreneurs’ relief rules allow a claim for entrepreneurs’ relief to be made when an asset owned directly by the individual and used in the business or company is disposed of as part of the individual’s withdrawal from that business or company.

Finance Act 2015 sought to restrict this extension to situations where the individual was disposing of at least a 5% interest in the business or company in question.

Finance Bill 2016 will relax this 5% requirement in certain circumstances, particularly where the associated disposal is to a family member. The changes will be backdated to 18 March 2015, being the date from which the original Finance Act 2015 rules applied.

Comment

The relaxation of this earlier restriction is sensible as the rules did potentially restrict normal succession planning for many businesses. Clearly this was not the original intention of the Finance Act 2015 provisions, which were meant to tackle perceived abuse of the relief.

As such, it is good to see that the relaxation will be backdated so that individuals will not have suffered from the 2015 relief change in these succession situations. Anyone who disposed of a property in this way between 18 March and 5 April 2015 may wish to review their 2014/15 tax return.

3.7 Entrepreneurs’ relief available on goodwill on incorporation

The Government has confirmed that entrepreneurs’ relief can be claimed on the goodwill of a business when that business is incorporated into a close company. This will apply to disposals made on or after 3 December 2014, and will be subject to certain restrictions.

Finance Act 2015 introduced new restrictions for entrepreneurs’ relief in respect of certain disposals made on or after 3 December 2014 to combat perceived abuse. The restriction prevented individuals claiming entrepreneurs’ relief by ‘banking’ the goodwill on incorporation of their businesses into a close company, paying a low rate of tax and then continuing to own and operate the business in the company or where the individual continued to be associated with a company shareholder.

Finance Act 2016 relaxes the above restriction on entrepreneurs’ relief if:

• the claimant holds less than 5% of the acquiring company’s shares and voting power; or
• the claimant holds 5% or more of the shares or voting power, but the transfer of the business to the company is part of arrangements for the company to be sold to a new, independent owner.

The condition relevant to the restriction where individuals are related to the acquiring company shareholders will also be removed.

Comment

The Government has tinkered with the entrepreneurs’ relief rules in the last few years. However, this amendment is a helpful measure for certain taxpayers and it is good to note that HMRC listened to representations from the business community.

The amendment will be backdated to disposals occurring on or after 3 December 2014. For those who incorporated on or after that date, it may be worth checking whether they can make a backdated claim for the relief.
3.8 Entrepreneurs’ relief relating to joint ventures and partnerships

As a result of changes to be introduced in Finance Bill 2016, in some circumstances, for disposals made on or after 18 March 2015, it will be possible to claim entrepreneurs’ relief when the disposal of business assets does not meet the existing 5% minimum-holding requirement.

Finance Act 2015 introduced provisions to combat perceived abusive planning whereby shareholdings were being routed via joint venture structures in order to allow fractional shareholdings to qualify for the relief, which might not otherwise have qualified if the individual’s shareholding had been directly in the trading company.

Finance Act 2015 amended the definition of a trading company, requiring interests to be held directly in the trading entity in order to qualify.

To deal with the unfairness of this measure for genuine commercial arrangements, Finance Bill 2016 will provide that entrepreneurs’ relief could be available in certain circumstances. The new provisions will apply if the individual owns at least 5% of the shares and controls at least 5% of voting rights of the joint venture company or has an interest in at least 5% of partnership assets and profits and controls at least 5% of the voting rights of the corporate partner. The interest and voting rights may be held directly or indirectly by the claimant.

Comment
As with the relaxation on the restriction in availability of entrepreneurs’ relief for goodwill on incorporation, this amendment is a helpful measure for certain taxpayers and will be backdated to the date on which the Finance Act 2015 measures became effective, that is for disposals made on or after 18 March 2015.

3.9 Entrepreneurs’ relief definition of trading company under review

The Government has announced that it will review the definition of a trading company in relation to entrepreneurs’ relief.

No further detail has been provided other than that the review will be to ensure that entrepreneurs’ relief ‘operates effectively’.

Comment
This announcement demonstrates that the Government is still not entirely happy that entrepreneurs’ relief is providing the desired incentives without some of the undesired consequences.

We look forward to this review and hope for clarity soon to provide the necessary confidence to investors and businesses.

3.10 Changes to the automatic deduction of savings income tax

From April 2017, the rules will be changed so that savings income tax will no longer be automatically deducted from income received from certain investments.

Basic rate income tax will no longer be deducted at source from interest paid by open-ended investment companies (OEICs), authorised unit trusts, investment companies and on peer-to-peer loans.

Comment
This announcement follows the one made in Budget 2015 that interest paid on non-ISA savings held with banks and building societies will no longer be subject to automatic deduction of basic rate tax.

The provisions have been brought in alongside the introduction of the personal savings allowance, which will exempt from tax the first £1,000 or £500, respectively, of savings income received by basic-rate and higher-rate taxpayers. Following the introduction of this allowance, HMRC indicates that many people will no longer have a tax liability on their savings income.
3.11 Changes to the taxation of life insurance products
The Government has announced its intention to change the current rules on how the part-surrender and part-assignment of life insurance policies are taxed.

The Government has announced that it intends to prevent any excessive tax charges on the part-surrender or part-assignment of life insurance policies. Currently, in these situations, the rules result in an income tax charge being applied to the full part-surrender or part-assignment proceeds, regardless of the base cost.

Although no details of possible changes were announced, a consultation will be held later this year on alternative tax regimes. These would then be legislated in Finance Bill 2017.

Comment
The prospect of a reduction in potentially excessive tax charges is welcome; however, we will have to await the consultation to find out more detail of what the Government has in store.

3.12 Life insurance policies: ‘personal portfolio bonds’ anti-avoidance
A consultation will be opened later in the year on a change to the types of assets a life insurance policyholder can invest in without triggering an annual charge under the personal portfolio bond legislation.

Anti-avoidance legislation currently applies to impose a yearly tax charge on life insurance policies in circumstances where the policyholder is able to select the underlying investments of the policy.

Certain types of assets currently fall outside of these rules and the announced consultation will look at possible changes to these categories.

Comment
It was unclear from the Budget announcement whether the changes will be to expand or restrict the exempt categories of assets and so need to await further details following the issue of the consultation document.

3.13 Venture capital schemes: clarifications and technical changes
The Government has confirmed that all remaining energy generation activities will be excluded from the venture capital schemes. In addition, it was announced that there will be technical clarifications to ensure that the legislation works as originally intended.

As previously announced in the 2015 Autumn Statement, all remaining energy generation activities will be excluded from being a qualifying activity for the purpose of EIS, SEIS and VCTs with effect from 6 April 2016.

The Government has also announced that legislation will be amended to ensure that the five-year period for determining the average turnover in relation to the permitted maximum age requirement and the relevant three preceding years test for the operating costs condition for knowledge-intensive companies, will both end immediately before the beginning of an investee company’s last accounts filing period.

Where the last accounts filing period falls more than 12 months before the date on which the investment is made, the five- and three-year periods end 12 months before the date the investment is made.

The clarifications regarding the five- and three-year periods take effect for shares issued on or after 18 November 2015, though an investee company can elect for the current legislation to apply for shares issued between 18 November 2015 and 5 April 2016.

In addition, legislation will be introduced to specify the non-qualifying investments a VCT may make for liquidity management purposes, where the investment is not a qualifying holding. This will apply for non-qualifying investments made by a VCT on or after 6 April 2016.

Comment
The exclusion of energy generation was previously announced and was therefore an expected change.

The original legislation introduced regarding the five-year average turnover test, and three preceding years test for operating costs, did not work as the Government initially set out. Updating and providing clarification
that the tests will generally use the last set of statutory accounts by default, rather than generally requiring an apportionment to be calculated between different accounting periods, is a welcome announcement and should make the tests easier to consider.

3.14 Help to save scheme introduced
A new ‘help to save’ scheme will be introduced with the aim of encouraging low-income working households to save regular sums.
Under the scheme, savers will be able to save up to £50 per month into a ‘help to save’ account. The government will then pay a 50% bonus after two years. At this point, the saver can choose whether to continue saving for a further two years or to withdraw funds.
The scheme will be open to all adults who receive universal credit and whose minimum weekly household earnings are equivalent to 16 hours at the national living wage, or those in receipt of working tax credits. Accounts will be available no later than April 2018.
Comment
Although the qualifying terms of this scheme mean that it will be restricted to a relatively small portion of the population, its aim of encouraging more widespread saving should be applauded.

3.15 Amendments to pension freedom and choice reforms
The Government is to consolidate pension flexibilities to ensure they are working as intended. The most noteworthy of this is the ability to allow dependants under 23 to continue in flexi-access drawdown once they reach age 23
The Government will consolidate pension flexibilities to ensure that these are working as intended by:
• re-aligning the tax treatment of serious ill-health lump sums with lump sum death benefits, so that they can be paid tax-free (when the provider is content to do so) when someone aged under 75 has less than a year to live but has already accessed their pension;
• making serious ill health lump sums taxable at an individual’s marginal rate when paid in respect of individuals aged 75 and over;
• legislating to convert dependants’ flexi-access drawdown accounts to nominees’ accounts when dependants turn 23, so they do not have to take their funds as a lump sum taxed at 45%;
• legislating to allow defined contribution pensions already in payment to be paid as a trivial commutation lump sum, where total pension savings would be under £30,000; and
• making top ups to fund dependants’ death benefits authorised payments.
Comment
A positive revision to dependants pensions to enable under-23s to continue in flexi-access drawdown once they reach age 23.

3.16 Unfunded Employment Retirement Benefit Schemes
Following the informal consultation announced in the Autumn Statement 2015 the Government will keep this issue under review.

3.17 Dependent scheme pension
There will be a reduction in ‘red tape’ when determining whether a dependants’ scheme pension exceeds the authorised limit.
The measure was announced in the Autumn Statement 2015 and will remove the need for calculations to be carried out each year comparing the value of the dependants’ scheme pension to the scheme pension of the member in certain circumstances.
**Comment**
This is a positive change, which will help in terms of the administration of scheme pensions.

### 3.18 Bridging pensions

Tax rules on bridging pensions will be aligned with Department of Works and Pensions legislation following the introduction of a single tier pension.

This measure is intended to ensure that the existing circumstances when a scheme pension can be reduced following the payment of a bridging pension are maintained following changes to the state pension.

**Comment**
This is designed to preserve the status quo on bridging pensions following the changes to State pension dates in the future.

### 3.19 Pension dashboard

The introduction of a digital interface, so that individuals can view their retirement savings in one place, has been announced.

The Government will ensure the financial services industry designs, funds and launches a pensions dashboard by 2019. This will mean an individual can view all their retirement savings in one place.

**Comment**
This welcome development should assist pension scheme members in monitoring their pension funds.

### 3.20 Undrawn pension funds in drawdown pensions

**No IHT will be chargeable for undrawn pension funds in drawdown**

The measure extends the scope of the current IHT exemption, so that the failure to draw down all of the designated funds before a pension scheme member’s death will not trigger an IHT charge.

**Comment**
We would remind pension scheme members of the rules on their death post-75 whereby beneficiaries of pension funds will be taxed on benefits received at their highest marginal rates.

### 3.21 ISAs: tax advantages during the administration period

The Government will legislate to extend the ISA tax advantages so that they continue to apply to the ISA savings of a deceased person during the administration period of their estate.

This is a change to the current position, whereby ISA savings become subject to the income tax and CGT regime immediately following the holder’s death. Further details will be set out during 2016, following technical consultation with ISA providers.

**Comment**
This reform, announced in Autumn Statement 2015, marks a significant extension of the ISA tax-relief regime. Over time large ISA investment portfolios can be built-up using the increasingly-generous annual allowances. Income and gains from the portfolios currently become taxable as they arise from death. The welcome change also means that, following changes introduced from 3 December 2014, assets in an ISA can move from one spouse or civil partner through an estate and onto the surviving spouse or civil partner, while retaining their tax-exempt status throughout.
3.22 Residence IHT nil-rate band – provisions for downsizing

As previously announced, legislation will be introduced to extend the IHT residence nil-rate band to cover situations where home-owners downsize or cease to own their home before death.

The rules apply where an individual downsizes or ceases to own their home after 8 July 2015, and passes assets to their direct descendants on death.

The residence nil-rate band will apply from 6 April 2017, for taxpayers who wish to pass their main residence to their direct descendants on death. It applies an additional nil-rate band on top of the standard nil-rate band, although it will be tapered at £1 for every £2 that an estate exceeds £2m in value. The draft legislation will be revised to clarify that some trustees’ disposals will also be taken into account.

Comment

The problem of how to apply the residence nil-rate band where a deceased has either downsized or otherwise disposed of their main residence, for example on moving into residential care, was raised at the time when the reforms were first announced. Indeed, the Chancellor specifically stated in his Summer Budget speech that the provisions would be applied to the proceeds from such a disposal. Exactly how this extension will work, however, has yet to be announced. The concept involved with this relief is straightforward, but its working out may well prove complicated. A simple uplift in the general nil-rate band would be much simpler.

3.23 Objects granted exemption from estate duty

Minor amendments to the interaction between IHT and estate duty.

The current legislation allows IHT relief for certain assets that are considered to be of national importance. Estate duty is a predecessor to IHT, which remains relevant for some long-exempted assets. The reasoning behind such relief is to prevent these nationally important assets from being sold-off to meet an estate’s IHT liability.

There are three main areas involved in these changes:

- aligning the tax position for death and lifetime transfers, by giving HMRC the choice of which rate to charge upon the sale of an asset of national importance;
- creating a charge for an estate-duty exempt item, which has been lost, unless the loss was outside the owner’s control; and
- ensuring that museums, which have fallen out of the exemption due to a technical change in status, are brought back within it.

Comment

These amendments are highly technical and will apply in only a small number of specific situations, but could be extremely important for those affected. The broad aim of the proposals is to increase consistency in this area. Estate Duty itself was replaced by Capital Transfer Tax in 1975.
4. Property taxes

4.1 New property and trading income allowance

It has been announced that from 6 April 2017 new tax-free allowances of £1,000 each will be introduced for property and trading income.

Individuals with property or trading income (that is their turnover, before deducting expenses), where each is below £1,000, will not need to declare or pay tax on the income. Those whose property or trading income exceeds the allowance, however, will have the choice of deducting the allowance in calculating their taxable profits or calculating their taxable profit by deducting their expenses in the usual way.

Comment

These new allowances are in addition to the allowance announced in Budget 2015 for personal savings income. While many in receipt of trading or property income are unlikely to benefit from the allowances, their introduction still represents a pragmatic attempt to simplify the taxation of what are relatively small amounts of income, potentially taking out of self-assessment a number of people with relatively low income from these sources, which could include the occasionally renting out of a home via an online property platform.

The mechanics are similar to those used for rent-a-room relief. In particular, for those with turnover in excess of £1,000, there is a choice of method for calculating taxable profit. The ability to deduct the allowance in calculating taxable profits should allow a greater number of taxpayers to benefit from the simplification than would otherwise be the case. Alternatively, taxpayers can choose to deduct expenses in the normal way, which may be beneficial if they exceed the allowance, but must be weighed up against the burden of greater record keeping.

4.2 Amendments to the finance cost restriction for landlords

Minor amendments are to be made to the rules announced in the Summer Budget 2015 restricting tax relief on finance costs incurred on residential property.

As announced in the 2015 Summer Budget, tax relief on the finance costs incurred on residential property will be gradually restricted to basic rate tax relief from 6 April 2017.

Finance Bill 2016 will clarify that beneficiaries of deceased persons’ estates are also entitled to the basic rate tax reduction.

Comment

Although this announcement is only a minor clarification, it does act as a reminder that the changes to the tax relief available on finance costs are now a little over 12 months away. As such, landlords do need to assess the impact this restriction will have on the commerciality of their rental business and consider whether action should be taken prior to 6 April 2017.

4.3 Reform of the wear and tear allowance

Following a consultation announced by the Government in the summer 2015 budget, the wear and tear allowance available to some landlords will be replaced from April 2016.

Currently, when calculating their taxable rental profit, landlords who let out furnished residential properties are able to claim a deduction equal to 10% of gross rents (less certain expenditure) for wear and tear on furnishings.

From 6 April 2016, landlords will be able to claim a deduction for the actual costs of replacing furnishings for their rental properties instead. The deduction will only be available when replacing existing furnishings, and not for the initial cost of furnishing the property.
Although the removal of the 10% deduction may not be welcome news for all landlords, it should bring the deduction more in line with actual expenditure incurred. Landlords who are anticipating expenditure on replacing furnishings within their rental properties may wish to think about delaying this until after 5 April 2016 when the changes have been introduced.

4.4 CGT for non-UK residents disposing of UK residential property
The Government has reaffirmed minor amendments to the regime governing CGT for non-UK residents disposing of UK residential property.

As announced in Autumn Statement 2015, a number of amendments will be introduced in Finance Bill 2016 to the regime governing CGT for non-UK residents disposing of UK residential property.

The provisions came into effect from 6 April 2015 and the aim of the amendments is to correct minor issues that had subsequently become apparent. The amendments will:

- eliminate, retrospectively from 6 April 2015, a double tax charge that could arise under the rules;
- correct an identified omission from the rules, with effect from 25 November 2015; and
- provide HMRC with powers to determine circumstances when a CGT return is not required.

The Government will also include CGT on the list of taxes that may be collected on a provisional basis.

Any further glitches to what is a relatively new regime should be corrected as they emerge.

4.5 Stamp duty land tax (SDLT): additional properties
From 1 April 2016 existing SDLT residential property rates will be increased by 3% for purchases of additional properties such as buy-to-let properties, second homes and furnished holiday accommodation.

In order to deter second home ownership and buy-to-lets, for transactions that complete on or after 1 April 2016, such purchases will be subject to SDLT at a rate 3% higher than the normal rate. It will not apply to purchases of less than £40,000, leasehold interests originally granted for a term of less than seven years, or freehold or leasehold interests that are reversionary on leases with more than 21 years remaining at the date of purchase.

In contrast to the earlier consultation there will be no exemption for significant investors. Instead of 18 months in which to claim a refund of the additional rate where a purchaser acquires a new main residence, but only subsequently manage to sell their original main residence, they will have 36 months. The 36 month period will commence on 25 November 2015 for those who disposed of a main residence prior to this date while still holding another property.

Whether someone has an additional residential property will take account of properties held anywhere in the world. Joint owners and married couples will be treated as one unit so that each party is treated as owning an interest in the property they hold together, for the purpose of determining whether any individual has more than one residential property.

In response to the consultation the Government has decided that married couples who are living separately in circumstances that are likely to become permanent will not be treated as one unit for the purposes of the 3% additional SDLT charge. In addition a minority share (50% or less) in a single property, which has been inherited within the 36 months prior to the transaction, will not be considered as an additional property.

Together with the restriction on interest relief on buy-to-let properties, which will be phased in from April 2017, this can be seen as an attempt to tilt the playing field in favour of first time buyers. Whether this has any real effect, though, remains to be seen when it is introduced.

At the top end of the market the extra stamp duty land tax will be significant. However, at the lower end of the market it may not sufficiently deter buy-to-let landlords provided that the projected rental yield is strong...
enough to support it. It may, therefore, have limited impact, other than potentially increasing the cost of some dwellings where the extra SDLT represents an additional cost to a property dealer or developer.

In contrast with the application of the additional 3% land and buildings transactions tax in Scotland, the additional 3% SDLT charge will not apply to mixed use property in England, Wales or Northern Ireland.

4.6 **Stamp duty land tax (SDLT): certain authorised property funds**

From the date of Royal Assent of Finance Bill 2016, seeding relief will be available to exclude SDLT charges on the transfer of properties to property authorised investment funds (PAIFs) and co-ownership authorised contractual schemes (COACs). Changes to SDLT will also be introduced to ensure that it does not arise on transactions in the units of these funds.

Seeding relief will be available to PAIFs and COACs during a defined 18-month seeding period. The relief will only be available for portfolios of at least 100 residential properties with a value of at least £100m, or at least ten non-residential properties with a market value of at least £100m. There will also be a three-year claw-back period during which relief will be withdrawn if the fund ceases to qualify as a PAIF or COAC, or the units in the fund are sold.

*Comment*

It is understood that this measure is aimed at encouraging the relocation to the UK of property portfolios supporting pension funds in run-off, which are currently managed offshore. It is only likely to be relevant to substantial property portfolios. Once this measure is introduced it will be interesting to see whether it will be extended to other tax-favoured property investment vehicles such as real estate investment trusts.

4.7 **ATED and 15% rate of SDLT: scope of reliefs**

The Government has announced an extension to reliefs from annual tax on enveloped dwellings (ATED) and 15% stamp duty land tax (SDLT) charges applicable to certain ownership of high value residential property, to take account of property transactions currently caught by these charges but outside their intended target. The new reliefs will apply from 1 April 2016.

The new reliefs will apply to non-natural persons (for example, companies) acquiring high value residential property as a result of equity releases schemes, or for conversion to non-residential use (for example conversion or demolition of a residential property for using the land for the purpose of a trade, for example, for use as a factory or school). There will also be an extension to the relief available where a property is occupied by a qualifying employee.

*Comment*

The ATED and 15% SDLT charges on non-natural persons acquiring high value residential property operates by initially including all properties within scope (subject to some exemptions) and then excluding certain categories of property by relief.

Since the charges were introduced in 2013, it has become apparent that the reliefs do not exclude all those properties that were intended to be outside the scope of the charges. These new reliefs are a welcome improvement, particularly in view of the reduction in the threshold for a high value residential property from April 2016, to those exceeding a value of £500,000.
4.8 SDLT: reform of non-residential rates

The application of SDLT to non-residential transactions in England, Wales and Northern Ireland changes from a system applying the relevant rate to the whole consideration (the ‘slab’ system), to one where different rates will apply to different portions of consideration (similar to the income tax system).

The rates that will apply are:

<table>
<thead>
<tr>
<th>Non-residential or mixed-use transactions of freehold and leasehold premium interests</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate applies to consideration in the band</td>
</tr>
<tr>
<td>not exceeding £150,000</td>
</tr>
<tr>
<td>exceeding £150,000 but not £250,000</td>
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<tr>
<td>exceeding £250,000</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Rental leases - applies to the net present value (NPV) of rent payable over the term of the lease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate applies to NPV in the band</td>
</tr>
<tr>
<td>NPV does not exceed £150,000</td>
</tr>
<tr>
<td>NPV exceeds £150,000 but not £5m</td>
</tr>
<tr>
<td>NPV exceeds £5m</td>
</tr>
</tbody>
</table>

These rates for purchases and lease rentals will apply where the transaction has an effective date (the earlier of the date of completion or substantial performance) on or after 17 March 2016. Where a contract is entered into before 17 March 2016, but has an effective date on or after that date, it is possible to elect to apply the old rates provided certain conditions are met.

<table>
<thead>
<tr>
<th>Old rates applied at a single rate to the whole consideration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases - rate applies to whole consideration</td>
</tr>
<tr>
<td>not exceeding £150,000</td>
</tr>
<tr>
<td>exceeding £150,000 but not £250,000</td>
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<tr>
<td>exceeding £250,000 but not £500,000</td>
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<tr>
<td>exceeding £500,000</td>
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</tbody>
</table>

**Lease rentals:** Rate of 1% on the whole consideration where the NPV exceeded £150,000

**Comment**

This change brings the method of applying SDLT on non-residential transactions into line with that for residential transactions. While the method of application might be considered as a fairer system, the increase in SDLT rates for larger transactions means this measure is expected to raise in excess of £500m extra revenue annually. The Government’s estimate is that this will come from around 9% of commercial property transactions.

Based on the latest Government property statistics for non-residential property transactions, this means approximately 10,000 transactions annually will have an average extra SDLT charge of around £50,000.
5. Employment taxes and payroll

5.1 Salary sacrifice
The Government is considering restricting the number of benefits that employees can receive tax and national insurance free through salary sacrifice arrangements.

Under salary sacrifice arrangements an employee gives up some salary in exchange for their employer providing a benefit. In many instances, the benefit may be income tax and/or national insurance free or the taxable amount less than the salary given up. This flexibility in agreeing a remuneration package can result in an advantage to the employee or the employer or both and a possible loss of revenue to the Government. This loss has increased over recent years as salary sacrifice arrangements have gained in popularity, especially with larger employers.

Comment
It is helpful that confirmation has been given that any change will not have an impact on the sacrifice for employer pension contributions, childcare or cycle to work. This is in keeping with the Government’s drive to encourage saving for retirement, making it easier for parents to return to work and encouraging employers to focus on staff health. In addition it gets round the difficult issue of how to treat different types of pension contributions fairly.

5.2 Termination payments
From April 2018, termination payments in excess of the £30,000 exemption will also be subject to employer’s national insurance contributions (NIC). A consultation will also be held on reducing the scope of the £30,000 exemption.

Currently, termination payments over £30,000, not otherwise liable to tax as earnings, are subject to income tax over that amount but exempt for NIC. New legislation to be introduced in April 2018 will ensure that the part of a termination payment in excess of the £30,000 exemption is subject to both income tax and employer’s NIC but, as it is not mentioned, would still appear to be exempt from employee NIC. It is not clear from the Budget material that the employer’s NIC is on the excess only, but that seems a reasonable inference in the light of the more general proposed aligning of income tax and NIC.

The scope of £30,000 exemption is likely to be reduced following consultations.

Comment
Termination payments have historically been a complex area for which simplification would be welcome. The applicability of the exemption can, for example, depend on whether the employer has a custom of making payments in similar circumstances. This has led to a degree of unfairness insofar as earlier tax free termination payments have removed the possibility for later payments to be made tax free due to them becoming customary.

The complexity had also been perceived as unfair insofar as employees receiving larger payments are in a better position to receive advice in order to ensure that the payments qualify for the tax exemption whereas employers tend to subject smaller termination payments to tax without seeking advice.

Making a termination payment liable to NIC does, though, imply the amount paid is earnings, which it definitely is not. NIC purists might argue this change was conceptually inappropriate.

5.3 Employer provided pensions advice
The amount of tax and NIC relief available for employer-arranged pensions advice is increased from £150 to £500.

The government will consult over the introduction of a ‘pensions advice allowance’ to allow people to withdraw savings to pay for regulated advice.
The allowance will allow people over the age of 55 to withdraw up to £500 tax free from defined contribution pensions to redeem against the cost of financial advice.

Comment
A measure designed to ensure that the actual cost of advice is adequately provided for as the previous sum of £150 was not sufficient for anything other than the provision of basic information rather than advice.

5.4 Simplification of the administration of employee benefits and expenses
The Government will introduce a package of measures to simplify further the tax administration of employee benefits and expenses.

The details of the measures announced are to:

• extend the voluntary payrolling framework to allow employers to account for tax on non-cash vouchers and credit tokens in real time from April 2017;
• consult on proposals to simplify the process for applying for and agreeing PAYE Settlement Agreements;
• consult on proposals to align the dates by which an employee has to make a payment to their employer in return for a benefit-in-kind they receive to ‘make good’; and
• legislate to ensure that if there is a specific statutory provision for calculating the tax charge on benefits-in-kind (Finance Bill 2016 and Finance Bill 2017).

5.5 Trivial benefits statutory exemption
From 6 April 2016 a trivial benefits exemption will be written into legislation, setting out a monetary limit of £50 per employee per benefit.

Currently there is a trivial benefits concession in place with HMRC, with no monetary limit defined. Irregular and small benefits such as tea and coffee, flu jabs and seasonal or small gifts to employees are accepted by HMRC as being ‘trivial’, with no tax or NIC payable on them. From 6 April 2016 this exemption will be written into legislation, setting out a monetary limit of £50 per employee per benefit.

There is an annual cap of £300 for directors and other office holders of close companies and members of their families and households who are also employees of the company.

Comment
The measure was announced during the 2014 Budget as part of a package of measures aimed at simplifying the administration of employee benefits in kind and expenses.

It is not clear how the legislation will be applied by HMRC in practice. In order for the exemption to apply, two of the conditions are that the benefit is not provided in recognition of particular services performed by the employee as part of their duties and is not contractual. HMRC has indicated that where employees are provided with trivial benefits on a regular basis, consideration should be given to whether or not they are linked to the employee’s service.

5.6 Employment intermediaries
As previously announced, the Government will introduce rules from April 2016 to restrict tax relief for home to work travel and subsistence where workers are engaged through employment intermediaries such as a personal service company (PSC). From April 2017 public sector bodies engaging intermediaries will be responsible for operating payroll taxes.

The new legislation will remove tax relief for the cost of home to work travel for workers employed through a PSC. Currently, where PSCs supply temporary workers to end users the workers have a single continuing employment with the PSC and so travel from home is treated as being to a temporary workplace, resulting in the cost of travel being eligible for tax relief. From 6 April 2016 this relief will no longer be available.

Where the client is a public sector body, new rules will be introduced from April 2017 to shift the burden of applying PAYE and NIC from the intermediary to the public sector body.
In recent years there has been a substantial increase in the number of workers engaged through employment intermediaries, including PSCs. Despite HMRC originally setting out the removal of tax relief on travel and subsistence payments to intermediaries in the Summer Budget 2015, this announcement has removed the relief in respect of PSCs only. The measure will remove perceived unfair tax-driven advantages from the labour market, bringing the cost of commuting in line with employees who are not entitled to claim relief for travel and subsistence costs relating to their regular commute. HMRC is seeking to remove this advantage.

Public sector bodies, including HMRC have been criticised in the press for contracting with workers via PSCs. The proposed changes appear to be aimed at discouraging public sector bodies from engaging workers on this basis. Depending on the success of these measures, we may see these rules widened in subsequent years to include the private sector.

5.7 Employee share schemes: simplification

As previously announced, the Government will make a number of minor changes aimed at simplifying the operation of employee share schemes. The changes are due to take effect from April 2016.

The new rules will remove some of the discrepancies regarding the capital gains tax rules where shares are acquired via Enterprise Management Incentives (EMI) option. On a ‘disqualifying event’ the time limit for an employee to exercise their option and maintain their income tax relief was increased from 40 days to 90 days with effect from July 2013. The capital gains tax rules for preserving the 10% tax rate offered from entrepreneurs’ relief will be amended so as to also allow the employee 90 days to exercise following a disqualifying event.

The new rules will also remove the non-standard treatment of EMI shares on a rights issue to align the treatment with non-EMI shares.

Comment

These are welcome changes. While the previous rules allowed employers to manage their liability to PAYE and NIC by allowing exercise within 90 days, employees could find that they faced a larger capital gains tax bill than expected. The alignment ensures that all parties are working to the same timeframe when considering exercise following a disqualifying event and ensures that a reasonable timeframe is in place to execute the required documentation.

5.8 Disguised remuneration

The Government introduced legislation with effect from 16 March 2016 to deny tax relief in cases where disguised remuneration arrangements have been used for tax avoidance purposes. The Government will consult on further measures to tax loans that are still in place as part of disguised remuneration schemes.

Disguised remuneration schemes often involve complex structures that seek to reclassify monies and benefits that would otherwise be taxed as employment income. This announcement follows on from the introduction of the original disguised remuneration legislation introduced in Finance Act 2011 that taxes monies and benefits provided by third parties to employees. It was aimed primarily, but not exclusively, at employee benefit trust arrangements.

Taxpayers had been given an opportunity up to 31 July 2015 to settle outstanding employee benefit trust cases with HMRC who are currently seeking to litigate unsettled cases. The new rules, which include a targeted anti-avoidance rule (TAAR), will, with immediate effect, restrict relief in certain cases where the taxpayer would otherwise claim to reduce their tax bill by providing consideration in return for the benefits received. The consultation could seek to strengthen HMRC’s position on tackling historic arrangements where existing untaxed loans are in place at 5 April 2019 as well as widening the net to catch new avoidance schemes.

Comment

It appears that taxpayers who refused to settle may now be targeted with new measures aimed at undoing the tax advantages of existing schemes.
The drafting of the disguised remuneration legislation previously introduced was wide and in some respects difficult to interpret. This had the effect of bringing some commercial transactions within its remit, causing uncertainty for taxpayers.

Where possible, we prefer such changes to be narrowly targeted at specific avoidance schemes in order to reduce the burden of uncertainty on commercial arrangements.

5.9 Employee shareholder status
The Government will introduce an individual lifetime limit of £100,000 on gains eligible for CGT exemption through the employee shareholder status (ESS). This limit will apply for arrangements entered into on or after 17 March 2016.

A major change has been announced which has the potential to have a substantial impact on the attractiveness of ESS arrangements. Employees giving up statutory employment rights in exchange for employee shareholder shares with a value of no more than £50,000 currently pay no tax on the gains arising on the sale, no matter the size of the gain. For employee shareholder arrangements not in place at midnight on 16 March 2016 a new lifetime allowance of £100,000 tax free gain on ESS comes into effect. Any gain in excess of this amount will be subject to capital gains tax.

Comment
This change may, in part, be a clampdown on the perceived use of ESS for tax avoidance purposes. Employees currently within the scheme will not be affected. It may, however, limit the number of employees willing to participate in the scheme from now on.

5.10 Employment allowance increase
The Government will increase the national insurance contributions (NIC) employment allowance from £2,000 to £3,000 a year from 6 April 2016. It will also be withdrawn from single person companies, such as a PSC.

The NIC employment allowance was introduced from April 2014, with the idea of helping businesses and charities grow by cutting the cost of employment. When it was introduced there were only a few restrictions on which employers could claim the allowance. It was available to most employers, whether a business, charity or community amateur sports club. Employers can currently claim £2,000 per year on an on-going basis. From 6 April 2016 the allowance will be increased by £1,000 to £3,000, enabling employers to claim a greater reduction on their employers’ NICs liability.

Employers who hire illegal workers and, as a result, receive civil penalties from the Home Office will have a year’s employment allowance removed. This measure will take effect from 2018.

Comment
Increasing the allowance to £3,000 will further support eligible employers with additional wage costs. Up to 90,000 employers will be taken out of paying NICs. When introduced in 2014, the employment allowance offset the NICs costs of employing four workers full time on the national minimum wage. The increase means that firms will be able to continue to employ four workers full time on the new national living wage next year, without paying any NICs.

The removal of the allowance for PSCs is unsurprising and it is in line with HMRC’s continuing crack down on employment intermediaries and tax avoidance.

5.11 Apprenticeship levy
As previously announced in the Autumn Statement 2015, the Government will introduce the apprenticeship levy in April 2017. It will be set at a rate of 0.5% of an employer’s pay bill and will be payable through PAYE. It will apply to all employers across all sectors.

Each employer will receive an allowance of £15,000 to offset against their levy payment, with the result that only employers with total gross employee earnings in excess of £3m will be subject to the charge.
The Government has announced employers will receive a 10% top-up to monthly funds in levy payers’ digital accounts in England from April 2017 and this will be available for them to spend on apprenticeship training.

Comment

The new charge will be imposed from April 2017 with the Government’s objective being that the levy collected from larger employers will help apprenticeship training by smaller companies that have not paid the levy.

It is also interesting to note that the 10% top-up applies to digital accounts in England only.
6. Business taxes

6.1 Business tax road map
In addition to the detailed information on proposed tax changes, the Government has also published a further business tax road map, setting out its plans for business taxes to 2020 and beyond. Its purpose is to give businesses the certainty they need to plan and invest for the longer term.

In broad terms, the package outlined is a reduction of tax rates by reducing business rates, cutting corporation tax, cutting the North Sea oil business taxes and reducing CGT. It also has a plan on avoidance, covering interest deduction, hybrid mismatches, withholding tax on royalties and taxing offshore developers. Finally, there is a theme on ‘modernising’, including the business energy tax regime, new rules on losses, stamp duty land tax and pay-as-you-go tax arrangements.

Comment
This document should be recommended reading for anyone directly involved in the area. While the individual components are dealt with elsewhere, the road map brings a degree of coherence to understanding the thinking that would be welcome for other taxes as well.


6.2 Further reduction in corporation tax rates
The Government has announced a further reduction in corporation tax rates which will reduce to 17% from 1 April 2020.

During the 2015 Budget the Government had announced a reduction in corporation tax rates to 18% from 2020. Today’s Budget has announced a further reduction to 17% from 1 April 2020. The corporation tax rates for the financial years beginning 1 April 2017, 1 April 2018 and 1 April 2019 will remain at 19%.

Comment
The further reduction in corporation tax rates has been a consistent feature of recent Budgets. The latest cuts will mean the UK’s corporation tax rate is the lowest in the G20.

If income tax rates remain as they are currently, the differential with the corporation tax rate in 2020 may raise concerns with HM Treasury where reserves are built up within the company rather than distributed. The possibility of reintroducing close company apportionment which may seek to charge to income tax an element of undistributed reserves has already been raised in recent consultations.

6.3 Delay in the schedule of payment of corporation tax for large companies
In the 2015 Budget the Government announced an acceleration in the payment of corporation tax for large companies which would take effect from accounting periods on or after 1 April 2017. This has been delayed and will now commence from 1 April 2019.

The payment of corporation tax will be accelerated by four months for companies that have taxable profits in excess of £20m so that these companies will be required to pay tax in instalments in the third, sixth, ninth and twelfth months of the accounting period. This will take effect from accounting periods commencing on or after 1 April 2019.

Comment
The change means that companies will need to forecast taxable profits for the year in advance of their first quarterly results. This is likely to lead to less accurate calculations and greater volatility in tax payments, but brings the UK corporation tax system into line with other major economies in this respect. The two year postponement of the introduction of this change will be welcomed by companies.
6.4 **Soft drinks industry levy**  
A new soft drinks industry levy is being introduced from April 2018. The levy will be paid by producers and importers of soft drinks that contain added sugar. An exclusion will apply for small operators and the Government is to consult on the details over the summer.

The charge will be based on volumes according to sugar content. There will be an exclusion for small operators.

*Comment*  
It is hoped that this measure will give rise to tax avoidance! Reducing the amount of sugar in soft drinks or people switching to sugar free drinks will result in a low tax take, making this a successful behavioural tax.

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6.5 **Withdrawal of renewals allowance**  
As previously announced, the renewals allowance will be repealed and replaced with standard capital allowances for businesses. Residential landlords will be able to claim in the same manner as they currently do for the cost of replacing domestic items.

Traders and property businesses will no longer benefit from renewals allowance when replacing tools but will, from April 2016, be able to obtain relief under the same regime as for other capital items. Businesses will be able to claim capital allowances. In the case of residential landlords relief, the cost of replacing domestic items such as furnishings and appliances can be claimed under new replacement furniture relief.

*Comment*  
This represents a simplification of relief for replacement of tools, bringing it into line with the treatment for other capital assets.

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6.6 **Abolition of vaccine research relief**  
Finance Bill 2016 will introduce a measure to provide for the expiry of vaccine research relief (VRR) with effect from 31 March 2017.

Since April 2012 VRR has only been available to large firms and is an additional research and development tax relief for companies undertaking research in the fields of vaccines and treatments for tuberculosis, malaria and HIV/AIDS.

The low level of take-up of the relief suggests it does not have a significant impact on a company's research decisions. The Government believes that direct spending programmes like the recently announced Ross Fund offer a more effective and flexible approach to the production of medicines and vaccines.

Where qualifying VRR expenditure is incurred before 1 April 2017, companies can continue to claim VRR for this expenditure in returns that are submitted after 1 April 2017, in line with normal claim time limits.

*Comment*  
There will be a small impact on the tax savings for the companies currently claiming the relief.

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6.7 **State aid cap on research and development relief for SMEs**  
Legislation will be introduced in Finance Bill 2016 with effect from 1 April 2016 to ensure there is no adverse effect on small and medium sized enterprises (SMEs) from the research and development expenditure credit (RDEC) replacing the large company relief in respect of expenditure incurred on or after 1 April 2016.

The SME research and development (R&D) scheme is a notified state aid and no one company can receive aid in excess of €7.5m for any one project. When calculating whether they have exceeded this €7.5m cap, companies can ignore any aid which represents a notional amount that could be claimed under the large company relief (that scheme is not a state aid). This calculation is to the SME's advantage as it reduces the amount of aid which counts towards that €7.5m cap.
The way in which companies obtain benefits within the large company relief will be replaced with effect for qualifying expenditure incurred on or after 1 April 2016 by the RDEC. This measure ensures that, despite the fact that the large company relief expires from 1 April 2016, SMEs continue to get the same benefit so that the portion of expenditure claimable under the RDEC would not represent state aid.

Comment
Some SMEs conducting R&D activities rely on SME R&D relief. These companies will welcome this measure.

6.8 Tax relief for orchestras
As announced in the March 2015 Budget, the Government will provide tax relief to orchestras at a rate of 25% on qualifying expenditure from 1 April 2016.

The measure will enable eligible companies to claim tax relief for qualifying expenditure on orchestral concerts.

The relief for orchestral concerts will allow eligible companies engaged in the production of qualifying orchestral concerts, or a series of concerts, to claim an additional deduction of 25% of the qualifying expenditure in computing their taxable profits. Where that additional deduction results in a loss, that loss may be surrendered for a payable tax credit.

Comment
This is an extension of similar reliefs available for other ‘creative sector’ industries in the UK. The scheme will be welcomed by the companies eligible for the relief.

6.9 Extension of capital allowances on low emission business cars
The 100% first year allowance (FYA) for businesses purchasing low emission cars will be extended for a further three years to April 2021 and emissions rates are being updated.

The Government has announced that the 100% first year allowance (FYA) for businesses purchasing low emission cars will be extended until April 2021.

From April 2018, cars will qualify as low emissions cars if they have carbon dioxide emissions below 50 g/km (previously 75 g/km).

Also from April 2018, the carbon dioxide emission threshold for the main rate of capital allowances for business cars will be reduced from 130 g/km to 110 g/km.

There will be a further review of this area at Budget 2019.

Comment
The extension of the allowance is a positive announcement for businesses, and may encourage businesses to invest in low emission cars, helping to meet the Governments targets for the improvement of air quality, particularly in towns and cities.

6.10 Expiration of the business premises renovation allowance
The Government has confirmed that the business premises renovation allowance (BPRA) will expire in 2017.

The BPRA currently provides 100% tax relief to property owners on conversion or renovation works to unused business premises in order to bring them back to business use. The BPRA will expire on 31 March 2017 for corporation tax and 5 April 2017 for income tax, as legislated in Finance Act 2012.

The relief was originally intended to expire in April 2012 but was extended for a limited time only.

Comment
The announcement is as expected.
6.11 Tax treatment of plant and machinery leases

The Government will publish a discussion document in spring 2016 with respect to changes in the tax treatment of leases of plant and machinery.

In response to the International Accounting Standards Board’s new accounting standard for leases (IFRS 16), the Government has confirmed that a discussion document will be published in spring 2016 with options for changes to the tax treatment of leases of plant and machinery.

Comment

It will be interesting to see how HMRC anticipates the tax treatment changing in response to the new accounting standards. The simplest option may be for the tax treatment to follow the accounting treatment (as we are seeing for other areas of tax), but we await further details as to HMRC’s proposals.

6.12 Large businesses - requirement to publish tax strategies

The Government has confirmed that new measures will be introduced to improve large business tax compliance. These measures will have effect from the date of Royal Assent to Finance Bill 2016.

It was announced at Summer Budget 2015 that the Government would be introducing new measures to improve large business tax compliance. Since then, there has been a consultation which sought to refine the detail. The Government has now confirmed that four main areas must be covered in a tax strategy document:

- approach of the UK group to tax risk management and governance in relation to UK tax;
- attitude of the group towards tax planning so far as affecting UK tax;
- level of risk in relation to UK taxation that the group is prepared to accept; and
- approach of the group towards dealings with HMRC.

Qualifying large businesses will be required to publicly disclose their tax strategies on an annual basis. The non-publication of an identifiable tax strategy, or incomplete content, could lead to financial penalties.

The ‘large businesses’ that will be subject to this requirement are those which are subject to country by country reporting and those which have either group turnover greater than £200m or a balance sheet total greater than £2bn.

Comment

This is all part of an overall HMRC strategy to shape companies’ behaviour in relation to taxation and to increase transparency around attitudes towards tax planning. If they have not already done so, affected large businesses will need to ensure that they consider their tax strategies and how they will comply with the new requirements.

While this initiative is currently focused on large businesses, the expectation in time is that these requirements may well cascade down to small and medium sized enterprises (SMEs).

6.13 Offshore property traders and developers

Measures are being introduced to ensure that profits from trading in or developing UK land are subject to UK tax, whether or not the company to which profits arise is UK resident.

The Government has announced that measures will be introduced to ensure that profits from trading in or developing UK land are subject to UK tax, whether or not the company to which profits arise is UK resident. The proposed changes are complex, but essentially remove the current territorial restriction in UK legislation so that profit arising from dealing in or developing UK land with a view to disposing of it, is subject to UK tax regardless of company residence.

Legislation will be introduced to address this at a later stage of the 2016 Finance Bill. There are also targeted anti-avoidance rule provisions, which can apply between 16 March 2016 and the report stage of the 2016 Finance Bill, to prevent certain arrangements being entered into to circumvent the new rules before they are implemented.
In addition, HMRC will set up a new taskforce to ensure tax on UK property development profits is collected by identifying and investigating offshore businesses.

**Comment**

This proposal will impact property developers located overseas and may reduce the attractiveness of UK land to them.

Addressing tax leakage involving non-UK resident property developers seems to be a natural progression of tax legislation and anti-avoidance provisions. We will, however, have to wait and see how effective the taskforce will be in enforcing this and if a withholding tax is imposed.

### 6.14 Changes to the patent box regime

The Government will introduce legislation to reform the patent box regime to make it consistent with the nexus approach agreed through the OECD base erosion and profit shifting (BEPS) project.

The patent box regime in the UK is to be reformed in line with OECD recommendations, following their review of the tax effectiveness of a range of patent box regimes. The changes will mean that, subject to transitional arrangements, from 1 July 2016 the UK regime will operate using a nexus approach, which will link patent box benefits with the level of UK research and development (R&D) investment and activity undertaken. This will require companies to keep track of their expenditure on R&D activities relating to each patent.

The Government has stated that the relief will continue to be reviewed for effectiveness. It will also review the case for reducing the 10% tax rate under the regime, alongside the currently scheduled reductions in the main rate of corporation tax.

**Comment**

The modified patent box regime is likely to be more complex in its application, given the requirement to analyse R&D expenditure under the nexus approach.

However, the regime remains extremely favourable, and the modification to conform with the OECD approach will allow companies to continue to receive benefit from a regime which may have otherwise been abolished.

### 6.15 Changes to royalty withholding tax

The Government has announced changes to the rules regarding withholding tax to be deducted at source on royalty payments made to non-UK resident persons.

The changes will affect:

- royalty payments made on or after 17 March 2016 to non-UK resident connected persons under tax avoidance arrangements;
- royalty payments made on or after 17 March 2016 in respect of intellectual property (IP) to non-UK resident persons, where there is currently no obligation to deduct tax at source; and
- payments made on or after the date of Royal Assent of Finance Bill 2016, for which there will be a more clearly defined rule to determine whether a royalty has a UK source. A royalty that is connected with a permanent establishment (PE) in the UK, or an ‘avoided PE’ for the purposes of the diverted profits tax, will be treated as having a UK source.

**Comment**

The changes proposed by the Government are connected with the ongoing work to counter base erosion and profit shifting (BEPS) by multinational enterprises. One of the recommendations made by the OECD as a result of the BEPS project was for countries to adopt provisions to counter ‘treaty shopping’, either through the treaty itself or under domestic law. The UK Government has decided to tackle ‘treaty shopping’ in connection with royalty payments as part of domestic law. The changes will allow domestic law to disapply treaty benefits where abuse has been identified.

These changes leave little scope for pre-emptive action, as many multinational enterprises will have long-standing royalty arrangements in place which will now need to be examined to determine whether or not they may be caught by the new anti-abuse rules.
Additionally, royalty payments made by a non-UK resident company that has a UK permanent establishment will need to be examined to determine whether or not the royalty payment would be considered to be connected with the UK permanent establishment, giving rise to a UK withholding tax liability.

6.16 Restriction on deductibility of corporate interest expenses

Following the consultation on tax deductibility of corporate interest expenses published on 6 January 2016 the Government has announced that a limitation on interest relief for businesses with a net interest expense exceeding £2m will be introduced from 1 April 2017.

The Government will introduce a fixed ratio rule to limit corporation tax deductions for net interest expense to 30% of the group's UK earnings before interest, tax, depreciation and amortisation (EBITDA) from 1 April 2017.

There will also be a group ratio rule introduced, based on the net interest to EBITDA ratio for the worldwide group, which may be applied instead of the fixed ratio rule. This alternative rule is designed to prevent those groups with high external gearing for genuine commercial purposes from being adversely affected.

The rules will be subject to a de minimis group threshold of £2m of net UK interest expense. Consultation will take place on how the rules will cope with earnings volatility. There will also be measures to ensure the restrictions do not adversely affect the provision of private finance for certain public infrastructure in the UK where there are no material risks of BEPS.

Existing rules relating to the UK's worldwide debt cap will be repealed, with similar rules being integrated into the new interest restriction rules, such that a group's net UK interest deduction cannot exceed the global net third party expense of the group.

Comment

The rules relating to interest deductibility have been anticipated in connection with the on-going work to counter base erosion and profit shifting (BEPS) by multinational enterprises.

The UK’s generous regime on interest deductibility has long been an attractive feature for UK inbound investment. Introducing a limitation on interest deductions will now bring the UK regime more in line with various other jurisdictions and EU recommendations. It will be interesting to see how the new limitation interacts with the UK’s existing rules on transfer pricing and thin capitalisation, which already seek to disallow excessive interest deductions in UK entities. Affected groups will also be keen to understand how relief for any restricted interest costs can be obtained in the future.

The Government has stated that a level of 30% is sufficient to cover the commercial interest costs arising from UK economic activity for most businesses, but this percentage may seem arbitrary to many multinationals. There is also an issue with the impact on the effective tax rate of a multinational group if interest disallowed in the UK is fully taxable in the hands of the recipient.

These new rules will necessitate a review of multinational groups’ global financing arrangements over the coming months to determine whether any refinancing may be required.

6.17 Addressing hybrid mismatches

Following a consultation in December 2014, on tackling aggressive tax planning and implementing the agreed G20-OECD approach for addressing hybrid mismatch arrangements, measures to counteract hybrid mismatch outcomes from 1 January 2017 will be included in Finance Bill 2016.

Hybrid mismatch outcomes can arise from both hybrid financial instruments and hybrid entities. Measures to counteract domestic or cross-border transactions involving a mismatch in the tax treatment on payments within the UK or between the UK and another jurisdiction will apply from 1 January 2017. These measures will neutralise any tax mismatch created by changing the tax treatment of either the payer or the recipient. Budget 2016 has extended the legislation to also include hybrid mismatch arrangements involving permanent establishments.

These measures will counteract arrangements giving rise to a double tax deduction, by first seeking to deny a deduction in the parent company party to a hybrid arrangement, ‘primary response’, unless the local tax law applicable to the parent does not provide for this. If the primary response route is not effective, the ‘secondary
response’ will be to deny a deduction in the hybrid entity or permanent establishment party to the hybrid arrangement.

The measures will also counteract arrangements giving rise to a payment that is deductible in the paying entity but not taxed in the recipient, the primary response will be to deny a deduction to the payer, with a secondary response of bringing the receipt into tax if necessary.

**Comment**

The new measures relating to hybrid mismatch arrangements have been anticipated for some time, in connection with the ongoing work to counter base erosion and profit shifting (BEPS) by multinational enterprises. It is not surprising to see the Government continues to show its commitment to the recommendations made by the OECD in this context, and the extension of the rules to include permanent establishments will further restrict tax planning in this context.

Although certain UK to UK transactions will be within the scope of these rules, their impact is likely to be most significant on multinational groups, as the impact of these UK rules for them could be dependent on the tax treatment of payments or receipts in other countries. Therefore, a review may be a complex exercise that could lead to a significantly increased compliance burden.

### 6.18 Updates to transfer pricing guidelines

The Government will legislate to update the current link in the UK’s transfer pricing rules to the OECD transfer pricing guidelines agreed as part of the OECD’s BEPS project

Finance Bill 2016 legislates for an update to the current link in the UK’s transfer pricing rules to the OECD transfer pricing guidelines agreed as part of the OECD’s BEPS project, to ensure that the UK rules are consistent with the internationally agreed consensus on the application of transfer pricing principles. The changes will take effect for accounting periods beginning on or after 1 April 2016.

The Government has also announced an intended consultation on whether to introduce secondary adjustment rules to the UK’s transfer pricing legislation, to address the underlying cash benefit from incorrect transfer pricing and encourage broader compliance with the transfer pricing legislation.

**Comment**

The Government continues to demonstrate its commitment to implement changes arising from the OECD BEPS report findings. We can expect further changes to the guidelines in the future as the BEPS work continues, to ensure that anti-abuse measures in the legislation are adequate.

### 6.19 Fundamental changes to utilisation of brought forward losses

Brought forward losses arising after 1 April 2017 will be usable more widely, potentially against other income streams or by surrendering by group relief to other companies in a group. At the same time limitations will come into force restricting the offset of brought forward losses to 50% of company/group profits over £5m.

The Government will introduce two reforms from 1 April 2017.

- Losses arising on or after 1 April 2017 can be offset, when carried forward, against profits from other income streams and will be available for surrender to other group companies via group relief.
- Companies will only be able to offset losses against up to 50% of their profits above £5m against brought forward losses. For groups, the £5m allowance will apply to the group.

These changes will not apply to the North Sea ring-fenced corporation tax regime. The Government will consult on the design of the reforms in 2016, and will legislate for the measure in 2017.

**Comment**

This is a mixed bag. On the whole it is a welcome, unexpected bonus to UK group companies, where traditionally a group member may have accumulated trading losses, which may get trapped. It appears that the rules will only apply to losses arising after 1 April 2017.
The £5m limit will reportedly only affect the largest 1% of companies, but could have a significant impact on the financial sector.

6.20 Performance rewards received by asset managers: income or capital

The Government has confirmed that legislation will be introduced to determine when performance rewards received by asset managers should be taxed as income or capital.

Following previous announcements, the Government has confirmed that legislation will be introduced in Finance Bill 2016, with effect from 6 April 2016, to determine when performance awards received by asset managers may be taxed as capital gains.

Under the new rules, the presumption will be that an award received by an asset manager will be subject to income tax, unless the underlying fund undertakes long-term investment activity. Full CGT treatment will apply for average holding periods of 40 months or more rather than the 48 months previously specified. Certain asset classes will have their own rules such as venture capital and real estate.

Comment

Previously, amounts generally received by asset managers as, for example, carried interest would often receive CGT treatment. There has, though, been concern that some asset managers were using these rules to structure a performance reward as a capital receipt when it should have been taxed as income.

There is, however, a concern that introducing statutory rules to determine whether an award is taxed as a capital gain or not could unduly influence investment decisions by asset managers.

6.21 Capital allowances and leasing

Finance Bill 2016 will introduce legislation to prevent the use of lease arrangements to artificially lower the disposal value of plant and machinery or to obtain consideration not subject to income or corporation tax. The measures will have effect for agreements to take over lease obligations made on or after 25 November 2015.

As announced in Autumn Statement 2015, with effect from 25 November 2015, the Government will introduce legislation to counter two situations:

- where a company uses an artificially low disposal value for capital allowances, and a tax advantage is one of the main purposes of the arrangements, that value will not be accepted; and
- where consideration is received in a non-taxable form in return for agreeing to take over tax-deductible lease payments, the measures bring the receipts into tax as income.

Payments received for taking responsibility for tax-deductible lease-related payments will be treated as taxable income, unless otherwise brought into account as income or for capital allowance purposes.

Comment

This measure is consistent with the drive to close loopholes and prevent tax avoidance, an area where leasing and capital allowances have often featured.

6.22 Further restrictions on banking losses and amending for excluded entities

Utilising banking companies’ carried forward tax losses against future profits will be further restricted from 50% to 25%. The Government is also clarifying which banks and building societies should be within the banking rules by introducing excluded entities.

Amendments will be made to legislation to further restrict the proportion of a banking company’s annual taxable profit that can be offset by losses brought forward from before April 2015 from 50% to 25%. This restriction will apply from 1 April 2016, and will be subject to a £25m allowance for building societies and an exemption for new banks.

In addition, the Government will amend the definition of an investment bank to ensure that it is targeted as intended.
Comment
The additional restriction on carried forward losses is likely to have an adverse impact on banks as and when they return to profit. The benefit of the tax losses will therefore be spread over longer periods of profitability of banks.

The amendment to the definition of a bank is welcome and should provide clarity on which entities the banking rules should apply to.

6.23 Insurance linked securities

The Government is consulting on a new tax regime for insurance linked securities (ILS) business with the aim of designing a regime that will encourage the location of this business in the UK.

ILS are an alternative form of risk mitigation for insurance and reinsurance firms. They offer a means of transferring risk to the capital markets and they provide protection buyers with cover, which is generally less exposed to counter-party default. Consultation proposals seek to establish a UK tax regime for ILS special purpose vehicles that means tax falls on the investors, rather than the vehicle itself, in a similar way to real estate investment trusts or securitisation vehicles. Consultation on regulations to bring this into effect will take place during 2016 with the aim of the regulations being finalised by the end of 2016.

Comment
The Government indicates that the use of ILS has grown very significantly in recent years and is now an established part of the global reinsurance market. Designing an appropriate tax regime that will encourage the location of this type of business in the UK can only reinforce the UK’s reputation as a significant player in the global financial and insurance market place.

6.24 Insurance companies carrying on long-term business

The Government is making amendments to rules introduced by Finance Act 2012 to ensure that they work as they were originally intended.

Amendments will be made to the rules introduced by Finance Act 2012 applying to insurance companies carrying on long-term business, to ensure that the rules and regime work as intended. The amendments will impact the tax treatment of intangible fixed asset debits, deemed income and trading losses in certain circumstances.

Comment
We will have to wait for further details before ascertaining the overall impact.

6.25 Partnerships and transfers of intangible assets

Amendments will be introduced to clarify the tax treatment on transfer of intangible fixed assets to partnerships, and the application of the corporation tax intangible fixed assets rules when calculating taxable profits of corporate partners.

These changes were announced in the Autumn Statement 2015, and will mean that the intangible fixed assets rules will apply to acquisitions and disposals of intangibles by partnerships in the same way as they do for companies. The definition of related parties is also aligned with that used for transfer pricing purposes when applying the market value rule.

The changes will apply to all transactions involving transfers of intangible fixed assets, taking place on or after 25 November 2015. For transactions that occurred before 25 November 2015, the measure will affect accounting debits and credits accruing on or after that date.

Comment
We expect that these changes will only apply in limited circumstances. However, groups currently holding or intending to hold intangibles through partnerships (including LLPs) should review their structures to determine if they are affected by the changes.
6.26 Taxation of corporate debt and derivative contracts

There are a number of revisions to the corporation tax loan relationship and derivative contract rules, where the application of the new UK GAAP to existing legislation has produced unintended tax consequences.

Legislation will be introduced to address three specific situations where the interactions with accounting rules or other parts of the tax rules may lead to unintended and unfair outcomes.

- The first situation concerns interest free and non-market loans made by individuals (or other non-corporates) or corporates resident in non-qualifying territories. Finance (No 2) Act 2015 brought in changes that essentially tax loan relationships and derivatives with reference to the profit and loss account. Under these developments, due to changes brought about by new UK GAAP there is now a possibility for companies to obtain tax relief on a notional finance cost that they have not actually incurred. These changes will remove this asymmetry, and restrict the borrower’s interest relief to the extent that the accounting credit on inception remains untaxed.
- Changes are also being introduced to avoid the creation of a foreign exchange exposure for corporation tax purposes where the position is hedged in the accounts under the Disregard Regulations.
- The final situation concerns the reversal of finance charges which have previously been restricted by transfer pricing adjustments. The changes ensure that credits will not be taxed to the extent that deductions for the debits have been restricted.

Based on the draft legislation issued on 9 December 2015 these changes will have effect for accounting periods commencing on or after 1 April 2016. Where a company’s accounting period straddles 1 April 2016, the new rules will apply for that part of the accounting period deemed to start on 1 April 2016.

Comment

These changes provide a welcome return to the alignment of the tax and accounting treatment in these three scenarios. However, it is disappointing that the changes will not have effect from 1 January 2016 (when the bulk of the new loan relationship rules will apply from), and this creates additional complexity.

6.27 Reform of the substantial shareholdings exemption

The Government has announced it will consult on the possible reform of the substantial shareholdings exemption (SSE) for corporate capital gains.

The SSE was introduced in 2002 and was designed to ensure that tax does not act as a deterrent to commercially desirable business sales or group restructuring. There have been significant developments in the UK and international corporate tax since its introduction. The Government will therefore consult on the extent to which the SSE is still delivering on its original policy objective and whether there could be changes to its design in order to increase its simplicity, coherence and international competitiveness.

Comment

Simplifying the existing substantial shareholding exemption would be welcomed as it would result in a more competitive regime in the UK by comparison with other jurisdictions.

6.28 Oil and gas taxes overhaul

A raft of measures is being introduced in relation to oil and gas taxes in response to difficulties facing the UK oil and gas sector.

Most notably, the Government will effectively abolish petroleum revenue tax (PRT) by permanently reducing the rate from 35% to 0% with effect for chargeable periods ending after 31 December 2015. In addition, the supplementary charge is to be halved to 10%, backdated to take effect from 1 January 2016.

Other headline announcements include the declaration that there will be a consultation on the application of new interest restriction rules to ensure there are no adverse effects to existing commercial arrangements within the ring fence. Additionally, it was confirmed that companies will be able to access tax relief on costs incurred where they retain decommission liabilities for an asset after a sale, a technical note will be issued by HMRC clarifying this point in due course.
Finally, HMRC is being given power to extend the definition of ‘relevant income’ for the cluster area and investment allowances. The aim of which is to allow tariff income to activate the allowances and further encourage investment in infrastructure. On the other hand, amendments have been made to anti-avoidance provisions in the onshore cluster area and investment allowances to update conditions which disqualify expenditure incurred on acquisition of an asset.

**Comment**
The reduction of PRT to 0% is described as permanent, but will be kept under review.

### 6.29 Extending averaging periods for farmers

As previously announced in the Autumn Statement in 2015, the averaging period for farmers has been extended to five years.

From April 2016, farmers will have the choice of averaging their profits for income tax purposes for a period of two or five years.

**Comment**
Farmers had campaigned for this change for some time and will welcome its formal confirmation.

### 6.30 Trading income received in non-monetary form

Legislation will be introduced to ensure that businesses account for non-monetary trading receipts at market value for tax purposes.

The Government has announced that it will legislate in Finance Bill 2016 to clarify that where trading receipts take the form of non-monetary assets, for example as a reciprocal exchange of services, they are brought into account for tax purposes at their market value. The measure will have effect for transactions entered into on or after 16 March 2016.

**Comment**
Although this change will bring welcome clarity to the taxation of non-monetary trading receipts, it is unclear how great the impact of the legislation will be, as accounting for non-monetary trading receipts at market value is already the practice that advisers would usually suggest. It is also unclear how often trading receipts take a non-monetary form and it will be interesting to see the policy details, which may reveal who this measure is aimed at.

### 6.31 Partnership taxation: proposals to clarify tax treatment

The Government will be launching a consultation on how partnerships calculate their tax liabilities. The proposed consultation will cover a range of areas where the taxation of partnerships could be seen as uncertain. This will include an issue that was raised by the Office of Tax Simplification’s (OTS) partnerships review.

**Comment**
In the OTS’s interim report published in January 2014, and their final report in January 2015, a number of the key areas of complexity faced by partnerships were raised, along with suggested recommendations to simplify some of these issues. At this stage it is unclear what specific areas of partnership taxation the consultation process will actually address and therefore we await further details to be released.
6.32 Preventing the tax advantages of converting income to capital

The Government has confirmed that it intends to amend existing legislation and introduce some new rules to tackle cases where it sees income being converted to capital in order to gain an income tax advantage, specifically in relation to company distributions.

As part of the Autumn Statement 2015, a consultation was issued on company distributions, running from 9 December 2015 to 3 February 2016 and which focused on the following main areas of concern:

- retaining income in a company prior to sale;
- ‘moneyboxing’ or retaining income in a company prior to liquidation;
- ‘phoenixisms’ where one company is liquidated and another started undertaking the same business;
- the use of special purpose companies to allow liquidations at various stages;
- manipulating capital values of shares to allow a tax-free redemption; and
- exploitation of the ability for an unquoted company to acquire its own shares.

A full response to the consultation is expected this month.

Comment

Given the increased disparity between dividend tax rates (effectively increasing by 7.5%) and capital gains tax (decreasing by 8%) after 6 April 2016, it is not a surprise that the Government is concerned that individuals may look to maximise capital gains rather than dividends wherever possible, especially in owner-managed companies.

The consultation proposals were twofold: firstly, to tighten the existing transactions in securities anti-avoidance rules and secondly, to introduce a targeted anti-avoidance rule to prevent ‘phoenixism’.

The consultation also hinted that further legislation to tackle perceived avoidance in this area may be considered.

Smith & Williamson’s response to the consultation highlighted a number of issues with the proposals. In particular, our response highlighted some side effects of the proposals that may have a significant impact on commercial transactions, such as in the property sector.

6.33 Loans to participators tax rate to increase to 32.5%

Loans made to participators by close companies will be subject to a higher rate of tax, 32.5% (increased from 25%) for loans or benefits made available to participators from 6 April 2016.

A company participator tends to be a shareholder or loan creditor. Close companies are generally those with five or fewer participators that control the company. When a close company makes a loan to a participator it also has to effectively loan tax to HMRC until the loan is repaid.

The Government will increase the loans to participators tax rate to 32.5% from 25%, applicable to all loans made or benefits conferred by close companies from 6 April 2016. However, there is an exemption from this tax for close companies making loans or advances to charity trustees for charitable purposes.

Comment

This increase mirrors the increase to the upper rate of tax for dividends, and will continue to ensure that individuals do not gain a tax advantage by taking loans from their companies rather than remuneration or dividends.
7. Indirect taxes

7.1 VAT registration limits

The VAT registration and deregistration thresholds will be increased in line with inflation.

From 1 April 2016 the turnover limit, beyond which compulsory registration is required, will increase from £82,000 to £83,000.

The turnover limit below which a business may apply for deregistration will increase from £80,000 to £81,000.

Comment

These increases are in line with the usual £1,000 or £2,000 annual increases over the past decade.

7.2 VAT fraud - online sales of goods by overseas suppliers

New measures are being introduced to combat VAT fraud by non-EU businesses and online marketplaces who sell goods to UK consumers.

Overseas businesses who sell goods located in the UK to UK consumers are required to account for VAT on these supplies, but some suppliers, especially in the online sector, do not charge VAT and therefore create an unfair advantage against businesses trading in the UK.

HMRC will have the ability to direct overseas businesses to appoint a UK VAT representative to account for the tax, and greater flexibility to require security from an overseas business, either in addition to or instead of appointing a VAT representative. HMRC will also have the power to issue a notice to the online marketplace making them jointly and severally liable for the VAT debts of an overseas business in relation to sales made through that marketplace.

Comment

While the new measures will not be introduced automatically the powers will be available to HMRC where it considers there is non-compliance. HMRC should first seek compliance from the overseas business, but marketplace operators will need to be aware that unless they take appropriate action (such as the removal of non-compliant businesses) they could be held liable for the VAT.

7.3 Other VAT measures

The Government is proposing further VAT measures especially relating to fraud

Among the proposed new anti-VAT fraud measures, the Government will consult in the spring with a view to legislating in 2017 on a new penalty for participating in VAT fraud.

The Government has also published a consultation paper on additional record keeping and due diligence requirements for fulfilment houses to ensure that their overseas clients comply with the VAT rules. A domestic ‘reverse charge’ was also introduced from 1 February 2016 to combat VAT fraud in respect of wholesale supplies of electronic communications services.

7.4 Extension of the refund scheme for museums

The eligibility for the VAT refund scheme for museums and galleries will be broadened, which will support a wider range of free museums. The Government will also legislate to enable named non-departmental and similar bodies to claim VAT incurred on shared service arrangements in order to encourage public bodies to share back-office services.
7.5 **Insurance premium tax**

The standard rate of insurance premium tax (IPT) will be increased from 9.5% to 10% with effect from 1 October 2016.

The Chancellor commented, and the Government’s Budget commentary confirms, that the increase will help to pay for flood defences.

*Comment*

Although less than the media forecast of 12.5%, this increase still represents an uplift to the rate of 9.5%, which has only applied from 1 November 2015. The rate prior to then was 6%.

There is not yet any formal provision for the hypothecation of the additional tax, which will be raised by this measure.

7.6 **Stamp duty and stamp duty reserve tax - deep in the money options**

The higher stamp duty rate of 1.5% will apply to the higher of the market value or strike price of deep in the money options (DITMOs), which result in shares being transferred to a clearance service or depository receipt issuer. The new rate will apply to options entered into on or after 25 November 2015 and exercised on or after 23 March 2016.

When shares were sold on the exercise of an option, any stamp duty and stamp duty reserve tax (SDRT) liability was charged on the exercise price (the amount paid by the option-holder to purchase the shares under the option) as opposed to the option premium (the amount paid by the option-holder to enter into the option). This meant that acquiring shares under an option where the strike price was much lower than the market value (and the premium correspondingly higher) was more efficient from a stamp duty and SDRT perspective than a straightforward acquisition of the shares at market value. The introduction of this measure should prevent this method of avoiding either tax.

*Comment*

This measure was trailed at the Autumn Statement 2015 and we understand HMRC has been aware of this avoidance for some time and will have already discussed the issue with market participants. This measure is not unexpected and should help retain the Government’s tax base in this area.

7.7 **Energy and environment taxes**

A number of changes have been announced in relation to energy and environmental schemes and levies.

The Government announced a number of changes to environmental and energy schemes and levies and will be launching further consultations in this sector. The numerous announcements include:

- updating the list of designated energy-saving and water-efficient technologies qualifying for enhanced capital allowances (ECAs); and
- auctioning up to £730m support for offshore wind and other less established renewable technologies for projects generating electricity in 2021 to 2026.

*Comment*

This reflects the Government’s wish to simplify the numerous schemes and levies while encouraging investment in this sector.
8. General tax matters

8.1 Government continues evasion crackdown
The Government has tasked HMRC with collecting £27bn of tax that would otherwise have been evaded or lost to criminal attack in 2016-17.

In addition to measures already announced, such as introducing a new legal requirement from 2017 to correct past offshore non-compliance, to assist with the crackdown the government will consult on:

- preventing access to licences or services for businesses if they are not registered for tax;
- introducing new sanctions for those who repeatedly and deliberately seek to evade tax, including provisions to monitor such offenders; and
- introducing new powers that allow HMRC to interrogate data held by Money Service Businesses.

This is with a view to introducing new legislation in Finance Bill 2017.

Comment
We welcome efforts to crackdown on the hidden economy and any measures designed to assist this. The key is to ensure the measures are properly targeted at those deliberately evading their responsibilities.

8.2 Office of Tax Simplification recommendations for small companies
A range of proposals was put forward by the Office of Tax Simplification (OTS), including recommendations for the development of a new look-through system of taxation and the design of a new business model that protects self-employed individuals’ assets.

The Government has also signalled its intention to commission a review of the options available to simplify corporation tax computations, which should ease the administrative burdens of small companies.

As announced previously, the OTS will be established as a permanent office in statute from April 2016.

Comment
It will be interesting to see whether this new model will be optional. If it is, there will be an unintended complication that the small business will have to decide which method of taxing it will be used.

8.3 Government to clarify position on marketed tax avoidance
The Government has announced that it will consider providing further clarification on the persons and behaviours it is targeting in connection with marketed tax avoidance schemes and consult further on the disclosure of VAT schemes.

The Government will consider options to address the issue of who, in addition to the promoter, may be considered to be enablers of such schemes and make it clear that relying on generic third party legal advice provided by the promoter or other enabler does not constitute taking reasonable care.

The Government has also announced that it will also consult on updating the VAT disclosure of schemes regime by expanding the coverage to other indirect taxes and aligning it more closely with the disclosure of tax avoidance schemes regime.

This follows the announcement made previously that the Government will legislate to introduce a penalty of 60% of tax due to be levied in all cases successfully challenged by the general anti-abuse rule, which itself will be tweaked to improve its effectiveness in tackling marketed schemes.

Comment
The Government seems determined to continue to tighten the screws on both those who market and those who use tax avoidance schemes. In contrast to measures to tackle evasion, which have a compliance yield target, there is no equivalence here, suggesting that this is as much about changing behaviours as raising money.
8.4 Additional powers for HMRC to monitor state aid

The Government is to permit HMRC to collect additional data on certain tax reliefs and allowances claimed by businesses that are subject to EU state aid rules.

This data will be shared with the European Commission as part of the UK’s contribution towards the monitoring of and compliance with state aid rules.

Legislation will be introduced in the Finance Bill to provide HMRC with additional powers from 1 July 2016 to obtain information to be provided by the beneficiary of the relief to qualify for it. It will be permitted to share this with the Commission through a legal gateway.

Comment

This represents an intention of the Government and the EU to ensure UK tax reliefs and allowances do not adversely impact competition, and are only used to correct market failures.

8.5 Government seeks to improve HMRC service to taxpayers

The Government is investing £71m to make it quicker and easier for taxpayers to contact HMRC, which is also continuing its drive to make tax digital.

The investment should provide HMRC with the capacity to respond to calls more quickly and on any day of the week. The money will also be used for a new secure email, online forum and webchat service for taxpayers, each of which should be in place from April 2017.

Comment

Improving HMRC’s service to taxpayers is long-awaited.

8.6 Making tax digital

The Government has further fleshed out its Making Tax Digital programme, promising consultations on key areas.

It has stated that self-employed individuals and landlords will be able to choose payment patterns that suit them best from a cash flow perspective. Measures to simplify the tax rules for persons who adopt the programme, which should be introduced from April 2018, will also be consulted on in 2016. HMRC is to consult on the detail, including on record keeping and earlier tax payment.

Comment

Some aspects of Making Tax Digital could increase compliance burdens for businesses and landlords, given the requirement to not only retain records digitally, but also to submit information to HMRC on a quarterly or more frequent basis. This will be an important area going forward, given the level of expenditure HMRC is incurring.

8.7 Moves to align national insurance contributions with income tax

The Government has acknowledged the OTS’s report on the alignment of income tax and NIC and has announced that the OTS will be engaged to consider the impact of potential NIC changes.

The OTS will be engaged to carry out a review of the impact of moving employees’ NIC to an annual, cumulative and aggregated basis and employers’ NIC to a payroll basis.

Comment

Any change which aligns the legislation for income tax and NIC will be welcomed. It will help employers to understand their obligations when dealing with complex matters and should help ease the administrative burden which the operation of payrolls places on employers.
9. Appendix: Rates and allowances

### Income tax, personal and age-related allowances (£ per year)

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>Change</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal allowance (born on or after 5 April 1938) (1)</td>
<td>10,600</td>
<td>(+400)</td>
<td>11,000</td>
</tr>
<tr>
<td>Personal allowance (born before 6 April 1938) (2)</td>
<td>10,660</td>
<td>(+340)</td>
<td>11,000</td>
</tr>
<tr>
<td>Income limit for full age-related allowances (2)</td>
<td>27,700</td>
<td>(-)</td>
<td>27,700</td>
</tr>
<tr>
<td>Married couple’s allowance (3)</td>
<td>8,355</td>
<td>(-)</td>
<td>8,355</td>
</tr>
<tr>
<td>Married couple’s allowance (3) - minimum amount</td>
<td>3,220</td>
<td>(-)</td>
<td>3,220</td>
</tr>
<tr>
<td>Transferable tax allowance (4)</td>
<td>1,060</td>
<td>(+40)</td>
<td>1,100</td>
</tr>
<tr>
<td>Blind person’s allowance</td>
<td>2,290</td>
<td>(-)</td>
<td>2,290</td>
</tr>
</tbody>
</table>

(1) The basic personal allowance is reduced by £1 for every £2 of ‘adjusted net income’ above £100,000. This is irrespective of age.
(2) Where ‘adjusted net income’ is above the income limit, the age-related allowance is reduced by £1 for every £2 of excess income, until it is reduced to the basic level. The reduction where ‘adjusted net income’ exceeds £100,000 applies as for the basic personal allowance.
(3) Available to people born before 6 April 1935. Tax relief is given at the rate of 10%.
(4) Amount of personal allowance spouses/civil partners born after 5 April 1935 can transfer to basic-rate tax paying spouse/civil partner.

### Income tax rates (£)

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>Change</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting savings rate 0% (1)</td>
<td>0-5,000</td>
<td>(-)</td>
<td>5,000</td>
</tr>
<tr>
<td>Basic rate 20% (2)</td>
<td>0-31,785</td>
<td>(+215)</td>
<td>32,000</td>
</tr>
<tr>
<td>Higher rate 40% (3)</td>
<td>31,786-150,000</td>
<td>(-215)</td>
<td>32,001-150,000</td>
</tr>
<tr>
<td>Additional higher rate 45% (4)</td>
<td>150,000+</td>
<td>(-)</td>
<td>150,000+</td>
</tr>
</tbody>
</table>

Rate of income tax for discretionary trusts and accumulation and maintenance trusts:

37.5% for dividend income in 2015/16; 38.1% for dividend income in 2016/17, 45% for non-dividend income.

(1) 0% starting rate for savings only where other income does not exceed the band.
(2) 10% for dividend income (effective rate of 0%) in 2015/16; 7.5% in 2016/17.
(3) 32.5% for dividend income (effective rate of 25%) in 2015/16. 32.5% in 2016/17.
(4) 37.5% for dividend income (effective rate of 30.56%) in 2015/16. 38.1% in 2016/17.

### Remittance basis charge

<table>
<thead>
<tr>
<th></th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK resident for less than 7 of the past 9 tax years</td>
<td>£nil</td>
</tr>
<tr>
<td>UK resident for at least 7 of the past 9 tax years</td>
<td>£30,000</td>
</tr>
<tr>
<td>UK resident for at least 12 of the past 14 tax years</td>
<td>£60,000</td>
</tr>
<tr>
<td>UK resident for at least 17 of the past 20 tax years</td>
<td>£90,000</td>
</tr>
</tbody>
</table>
CGT annual exempt amount (£ unless stated)

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>Change</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals</td>
<td>11,100</td>
<td>(-)</td>
<td>11,100</td>
</tr>
<tr>
<td>Most trustees</td>
<td>5,500</td>
<td>(-)</td>
<td>5,550</td>
</tr>
<tr>
<td>CGT rates - basic rate (1)</td>
<td>18%</td>
<td>(-8%)</td>
<td>10%</td>
</tr>
<tr>
<td>CGT rates - higher and additional rate and all trustees and personal representatives (2)</td>
<td>28%</td>
<td>(-8%)</td>
<td>20%</td>
</tr>
<tr>
<td>CGT entrepreneurs’ relief</td>
<td>10%</td>
<td>(-)</td>
<td>10%</td>
</tr>
<tr>
<td>Lifetime limit on gains (entrepreneurs)</td>
<td>10 million</td>
<td>(-)</td>
<td>10 million</td>
</tr>
<tr>
<td>Lifetime limit on gains (external investors)</td>
<td>N/A</td>
<td>(+10 million)</td>
<td>10 million</td>
</tr>
</tbody>
</table>

(1) 18% rate will continue to apply for disposals of residential property.
(2) 28% rate will continue to apply for disposals of residential property.

National insurance contributions

<table>
<thead>
<tr>
<th>Item</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower earnings limit, primary Class 1</td>
<td>£112 per week</td>
</tr>
<tr>
<td>Upper earnings limit, primary Class 1</td>
<td>£827 per week</td>
</tr>
<tr>
<td>Primary threshold</td>
<td>£155 per week</td>
</tr>
<tr>
<td>Secondary threshold</td>
<td>£156 per week</td>
</tr>
<tr>
<td>Employees’ primary Class 1 rate</td>
<td>12% of £155 to £827 per week</td>
</tr>
<tr>
<td></td>
<td>2% above £827 per week</td>
</tr>
<tr>
<td>Married women’s reduced rate*</td>
<td>5.85% of £155 to £827 per week</td>
</tr>
<tr>
<td></td>
<td>2% above £827 per week</td>
</tr>
<tr>
<td>Employers’ secondary Class 1 rate</td>
<td>13.8% above £156 per week</td>
</tr>
<tr>
<td>Employment allowance (per employer)</td>
<td>£3,000 per annum</td>
</tr>
<tr>
<td>Class 2 rate</td>
<td>£2.80 per week</td>
</tr>
<tr>
<td>Class 2 small earnings exception</td>
<td>£5,965 per annum</td>
</tr>
<tr>
<td>Special Class 2 rate for share fishermen</td>
<td>£3.45 per week</td>
</tr>
<tr>
<td>Special Class 2 rate for volunteer development workers</td>
<td>£5.60 per week</td>
</tr>
<tr>
<td>Class 3 rate</td>
<td>£14.10 per week</td>
</tr>
<tr>
<td>Class 4 lower profits limit</td>
<td>£8,060 per annum</td>
</tr>
<tr>
<td>Class 4 upper profits limit</td>
<td>£43,000 per annum</td>
</tr>
<tr>
<td>Class 4 rate</td>
<td>9% of £8,060 to £43,000 per annum</td>
</tr>
<tr>
<td></td>
<td>2% above £43,000 per annum</td>
</tr>
</tbody>
</table>

*For women married before 6 April 1977 who have elected to pay a reduced rate of Class 1 contributions.

ISAs

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£15,240</td>
<td>£15,240</td>
</tr>
</tbody>
</table>

Junior ISA and Child Trust Fund

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£4,080</td>
<td>£4,080</td>
</tr>
</tbody>
</table>
### IHT and pensions (£ unless stated)

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>Change</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>IHT threshold</td>
<td>325,000</td>
<td>-</td>
<td>325,000</td>
</tr>
<tr>
<td>Transferable nil rate band (1)</td>
<td>325,000</td>
<td>-</td>
<td>325,000</td>
</tr>
<tr>
<td>Lifetime rate</td>
<td>20%</td>
<td>-</td>
<td>20%</td>
</tr>
<tr>
<td>Standard death rate</td>
<td>40%</td>
<td>-</td>
<td>40%</td>
</tr>
<tr>
<td>Reduced death rate (2)</td>
<td>36%</td>
<td>-</td>
<td>36%</td>
</tr>
</tbody>
</table>

(1) The unused proportion of the nil rate band can be transferred to surviving spouse or civil partner.

(2) For deaths occurring on or after 5 April 2012, a reduced rate of 36% applies where a deceased individual has left 10% or more on a ‘component part’ of their net estate to charity.

### Pension scheme allowances (£)

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>Change</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension scheme annual allowance (1)</td>
<td>40,000</td>
<td>-</td>
<td>40,000</td>
</tr>
<tr>
<td>Pension scheme lifetime allowance</td>
<td>1,250,000</td>
<td>-</td>
<td>1,000,000</td>
</tr>
</tbody>
</table>

(1) From 6 April 2016 the annual allowance will be reduced by £1 for every £2 of income above £150,000 subject to a minimum allowance of £10,000.

### State pension and pension credit (£ per week)

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>Change</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State pension</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Category A or B basic state pension</td>
<td>115.95</td>
<td>(+3.35)</td>
<td>119.30</td>
</tr>
<tr>
<td>Category B basic state pension (lower)  - spouse or civil partner’s insurance</td>
<td>69.50</td>
<td>(+2.00)</td>
<td>71.50</td>
</tr>
<tr>
<td>Category C or D - non-contributory</td>
<td>69.50</td>
<td>(+2.00)</td>
<td>71.50</td>
</tr>
<tr>
<td>New State pension (individuals retiring after 5 April 2016)</td>
<td>N/A</td>
<td>(+155.65)</td>
<td>155.65</td>
</tr>
<tr>
<td><strong>Pension credit</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard minimum guarantee - single</td>
<td>151.20</td>
<td>(+4.40)</td>
<td>155.60</td>
</tr>
<tr>
<td>Standard minimum guarantee - couple</td>
<td>230.85</td>
<td>(+6.70)</td>
<td>237.55</td>
</tr>
<tr>
<td>Savings credit threshold - single</td>
<td>126.50</td>
<td>(+7.32)</td>
<td>133.82</td>
</tr>
<tr>
<td>Savings credit threshold - couple</td>
<td>201.80</td>
<td>(+11.17)</td>
<td>212.97</td>
</tr>
<tr>
<td>Savings credit maximum - single</td>
<td>14.82</td>
<td>(-1.75)</td>
<td>13.07</td>
</tr>
<tr>
<td>Savings credit maximum - couple</td>
<td>17.43</td>
<td>(-2.68)</td>
<td>14.75</td>
</tr>
</tbody>
</table>
### Working and child tax credits (£ per year unless stated)

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>Change</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Working tax credit</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic element</td>
<td>1,960</td>
<td>(-)</td>
<td>1,960</td>
</tr>
<tr>
<td>Couple and lone parent element</td>
<td>2,010</td>
<td>(-)</td>
<td>2,010</td>
</tr>
<tr>
<td>30-hour element</td>
<td>810</td>
<td>(-)</td>
<td>810</td>
</tr>
<tr>
<td>Disabled worker element</td>
<td>2,970</td>
<td>(-)</td>
<td>2,970</td>
</tr>
<tr>
<td>Severe disability element</td>
<td>1,275</td>
<td>(-)</td>
<td>1,275</td>
</tr>
<tr>
<td><strong>Childcare element of the working tax credit</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum eligible cost for one child (per week)</td>
<td>175</td>
<td>(-)</td>
<td>175</td>
</tr>
<tr>
<td>Maximum eligible cost for two or more children (per week)</td>
<td>300</td>
<td>(-)</td>
<td>300</td>
</tr>
<tr>
<td>Eligible costs covered</td>
<td>70%</td>
<td>(-)</td>
<td>70%</td>
</tr>
<tr>
<td><strong>Child tax credit</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family element</td>
<td>545</td>
<td>(-)</td>
<td>545</td>
</tr>
<tr>
<td>Child element</td>
<td>2,780</td>
<td>(-)</td>
<td>2,780</td>
</tr>
<tr>
<td>Disabled child element</td>
<td>3,140</td>
<td>(-)</td>
<td>3,140</td>
</tr>
<tr>
<td>Severely disabled child element</td>
<td>1,275</td>
<td>(-)</td>
<td>1,275</td>
</tr>
<tr>
<td><strong>Income thresholds and withdrawal rates</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First income threshold</td>
<td>6,420</td>
<td>(-)</td>
<td>6,420</td>
</tr>
<tr>
<td>First withdrawal rate</td>
<td>41%</td>
<td>(-)</td>
<td>41%</td>
</tr>
<tr>
<td>First threshold for those entitled to child tax credit only</td>
<td>16,105</td>
<td>(-)</td>
<td>16,105</td>
</tr>
<tr>
<td>Income disregard</td>
<td>5,000</td>
<td>(-2,500)</td>
<td>2,500</td>
</tr>
<tr>
<td>Income fall disregard</td>
<td>2,500</td>
<td>(-)</td>
<td>2,500</td>
</tr>
</tbody>
</table>

### Child benefit and guardian allowance rates (£ per week unless stated)

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>Change</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eldest/only child*</td>
<td>20.70</td>
<td>(-)</td>
<td>20.70</td>
</tr>
<tr>
<td>Other children*</td>
<td>13.70</td>
<td>(-)</td>
<td>13.70</td>
</tr>
<tr>
<td>Guardian’s allowance*</td>
<td>16.55</td>
<td>(-)</td>
<td>16.55</td>
</tr>
</tbody>
</table>

*A charge applies where either a claimant or their spouse or civil partner earns over £50,000, amounting to 1% of the benefit received for each £100 the higher earner’s earnings exceed £50,000.
### VAT

<table>
<thead>
<tr>
<th></th>
<th>from 1 April 15</th>
<th>from 1 April 16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard rate</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Registration threshold</td>
<td>£82,000</td>
<td>£83,000</td>
</tr>
<tr>
<td>Deregistration threshold</td>
<td>£80,000</td>
<td>£81,000</td>
</tr>
</tbody>
</table>

### Corporation tax on profits (£ per year unless stated)

<table>
<thead>
<tr>
<th>Financial year to</th>
<th>31 March 2016</th>
<th>Change</th>
<th>31 March 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main rate</td>
<td>20%</td>
<td>(-)</td>
<td>20%</td>
</tr>
</tbody>
</table>

### Company taxes payable on profits from UK oil and gas production (%)

<table>
<thead>
<tr>
<th></th>
<th>Rates from 1 Jan 16</th>
<th>Rates from 1 Jan 17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ring-fence corporation tax main rate</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Supplementary charge</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Petroleum revenue tax</td>
<td>0*</td>
<td>0*</td>
</tr>
</tbody>
</table>

*Petroleum revenue tax is deductible in computing profits chargeable to ring-fence corporation tax and supplementary charge.*

### Capital allowances

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plant and machinery</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- annual investment allowance*</td>
<td>£500,000</td>
<td>£200,000</td>
</tr>
<tr>
<td>- annual allowance (main rate pool)</td>
<td>18%</td>
<td>18%</td>
</tr>
<tr>
<td>- long life assets (special rate pool)</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>- integral features</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Cars - CO2 emissions up to 75g/km</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Cars - CO2 emissions 76 - 95g/km</td>
<td>18%</td>
<td>18%</td>
</tr>
<tr>
<td>Cars - CO2 emissions 96 - 130g/km</td>
<td>18%</td>
<td>18%</td>
</tr>
<tr>
<td>Cars - CO2 emissions over 130g/km</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>New and unused zero-emission goods vehicles</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

*100% annual investment allowance up to stated limit for qualifying expenditure incurred on certain plant and machinery for each unlinked unincorporated business or corporate group. Expenditure over limit dealt with through standard regime. From 1 January 2016 this reduced to £200,000.

### Research and development tax relief (%)

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rates for deduction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SME rate</td>
<td>230</td>
<td>230</td>
</tr>
<tr>
<td>Large company rate</td>
<td>130</td>
<td>n/a</td>
</tr>
</tbody>
</table>

**R&D credit rates**

|                                      |         |         |
| SME rate (surrender of losses)       | 14.5    | 14.5    |
| Large company rate (taxable RDEC)    | 11      | 11      |
**Patent box (%)**

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective corporation tax rate on profits generated from qualifying intellectual property rights*</td>
<td>12%</td>
<td>11%</td>
</tr>
</tbody>
</table>

*The patent box regime phased in from April 2013 allows companies to claim 70% of the benefit in 2014/15, 80% in 2015/16, 90% in 2016/17 and 100% from 2017/18.

**Business rates (per £ of a business property’s rateable value)**

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard multiplier</td>
<td>49.3p</td>
<td>49.7p</td>
</tr>
<tr>
<td>Small business multiplier</td>
<td>48.0p</td>
<td>48.4p</td>
</tr>
</tbody>
</table>

**Bank levy (%)**

<table>
<thead>
<tr>
<th></th>
<th>Rates from 1 April 2015</th>
<th>Rates from 1 January 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term chargeable liabilities</td>
<td>0.21</td>
<td>0.18</td>
</tr>
<tr>
<td>Long-term chargeable equity and liabilities</td>
<td>0.105</td>
<td>0.09</td>
</tr>
</tbody>
</table>

**Stamp taxes and duties 2016/17**

**Stamp duty land tax (SDLT)**

**Transfers of land and buildings (consideration paid)**

<table>
<thead>
<tr>
<th>Rate</th>
<th>Residential</th>
<th>Rate</th>
<th>Non-residential</th>
</tr>
</thead>
<tbody>
<tr>
<td>Band at Value of total consideration</td>
<td>All at Value of total consideration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zero</td>
<td>£0-£125,000</td>
<td>Zero</td>
<td>£0-£150,000 (2)</td>
</tr>
<tr>
<td>2%</td>
<td>£125,001-£250,000</td>
<td>2%</td>
<td>£150,001-£250,000</td>
</tr>
<tr>
<td>5%</td>
<td>£250,001-£925,000</td>
<td>5%</td>
<td>Over £250,000</td>
</tr>
<tr>
<td>10% (1)</td>
<td>£925,001-£1,500,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>12% (1)</td>
<td>Over £1,500,000</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

(1) A 15% rate of tax applies to purchases after 20 March 2014 of residential properties for consideration over £500,000 by certain ‘non-natural persons’.

(2) Where annual rent is more than £1,000 a 1% rate applies.

(3) A 3% surcharge applies on the purchase of an additional residential property on or after 1 April 2016.

**New leases (lease duty)**

Duty on the premium is the same as for transfers of land (except that special rules apply for non-residential land and property premium where rent exceeds £1,000 annually). Duty on the rent is charged on the net present value (NPV). A % rate applies to the amount of NPV in excess of the threshold.

<table>
<thead>
<tr>
<th>Rate</th>
<th>Residential</th>
<th>Non-residential</th>
</tr>
</thead>
<tbody>
<tr>
<td>Band at NPV of rent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zero</td>
<td>£0-£125,000</td>
<td>£0-£150,000</td>
</tr>
<tr>
<td>1%</td>
<td>Over £125,000*</td>
<td>£150,001-£5,000,000*</td>
</tr>
<tr>
<td>2%</td>
<td>-</td>
<td>Over 5,000,000*</td>
</tr>
</tbody>
</table>

*The tax rate applies to the value which exceeds the nil rate band.*
Scotland land and buildings transaction tax (LBTT)

From 1 April 2015, LBTT will replace SDLT in Scotland.

<table>
<thead>
<tr>
<th>Rate</th>
<th>Residential</th>
<th>Non-residential</th>
</tr>
</thead>
<tbody>
<tr>
<td>Band at Value of total consideration</td>
<td>Band at Value of total consideration</td>
<td></td>
</tr>
<tr>
<td>Zero</td>
<td>£0-£145,000</td>
<td>Zero</td>
</tr>
<tr>
<td>2%</td>
<td>£145,001 - £250,000</td>
<td>3%</td>
</tr>
<tr>
<td>5%</td>
<td>£250,001 - £325,000</td>
<td>4.5%</td>
</tr>
<tr>
<td>10%</td>
<td>£325,001 - £750,000</td>
<td>-</td>
</tr>
<tr>
<td>12%</td>
<td>Over £750,000</td>
<td>-</td>
</tr>
</tbody>
</table>

Stamp duty reserve tax

The rate of stamp duty/stamp duty reserve tax on the transfer of shares and securities is unchanged at 0.5% standard rate and 1.5% higher rate for 2015/16. From 28 April 2014 shares quoted on ‘growth markets’ such as AIM are not subject to stamp duty.

Annual tax on enveloped dwellings

The tax is payable by 30 April of each tax year.

<table>
<thead>
<tr>
<th>Property value</th>
<th>2015/16</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than £500,000 but not more than £1,000,000</td>
<td>n/a</td>
<td>£3,500</td>
</tr>
<tr>
<td>More than £1,000,000 but not more than £2,000,000</td>
<td>£7,000</td>
<td>£7,000</td>
</tr>
<tr>
<td>More than £2,000,000 but not more than £5,000,000</td>
<td>£23,350</td>
<td>£23,350</td>
</tr>
<tr>
<td>More than £5,000,000 but not more than £10,000,000</td>
<td>£54,450</td>
<td>£54,450</td>
</tr>
<tr>
<td>More than £10,000,000 but not more than £20,000,000</td>
<td>£109,050</td>
<td>£109,050</td>
</tr>
<tr>
<td>Over £20,000,000</td>
<td>£218,200</td>
<td>£218,200</td>
</tr>
</tbody>
</table>

Air passenger duty rates (£)

<table>
<thead>
<tr>
<th>Band and distance of capital city of destination country in miles from London</th>
<th>In the lowest class of travel (reduced rate)</th>
<th>In other than the lowest class of travel (standard rate)</th>
<th>Higher rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>On and after 1 April 2015</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A (0-2,000)</td>
<td>13</td>
<td>26</td>
<td>78</td>
</tr>
<tr>
<td>B (over 2,000)</td>
<td>71</td>
<td>142</td>
<td>426</td>
</tr>
<tr>
<td>On and after 1 April 2016</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A (0-2,000)</td>
<td>13</td>
<td>26</td>
<td>78</td>
</tr>
<tr>
<td>B (over 2,000)</td>
<td>73</td>
<td>146</td>
<td>438</td>
</tr>
</tbody>
</table>

*Higher rate applies to flights on aircraft of 20 tonnes and above, with fewer than nineteen seats.*
### Environmental taxes

<table>
<thead>
<tr>
<th><strong>Landfill tax</strong></th>
<th>Rates from 1 April 2015</th>
<th>Rates from 1 April 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard rate</td>
<td>£82.60 per tonne</td>
<td>£84.40 per tonne</td>
</tr>
<tr>
<td>Lower rate</td>
<td>£2.60 per tonne</td>
<td>£2.65 per tonne</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Aggregates levy</strong></th>
<th>Rates from 1 April 2015</th>
<th>Rates from 1 April 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregates levy rate</td>
<td>£2.00 per tonne</td>
<td>£2.00 per tonne</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Climate change levy</strong></th>
<th>Rates from 1 April 2015</th>
<th>Rates from 1 April 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>0.554p per kWh</td>
<td>0.559p per kWh</td>
</tr>
<tr>
<td>Natural gas</td>
<td>0.193p per kWh</td>
<td>0.195p per kWh</td>
</tr>
<tr>
<td>Liquefied petroleum gas</td>
<td>1.240p per kg</td>
<td>1.251p per kg</td>
</tr>
<tr>
<td>Solid fuel</td>
<td>1.512p per kg</td>
<td>1.5126p per kg</td>
</tr>
</tbody>
</table>

### Alcohol duty rates (£)

<table>
<thead>
<tr>
<th>Product and basis of duty</th>
<th>from 23 March 2015</th>
<th>from 21 March 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate per litre of pure alcohol</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spirits</td>
<td>27.66</td>
<td>27.66</td>
</tr>
<tr>
<td>Spirits-based, ready to drink</td>
<td>27.66</td>
<td>27.66</td>
</tr>
<tr>
<td>Wine and made wine:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>exceeding 22% alcohol by volume (abv)</td>
<td>27.66</td>
<td>27.66</td>
</tr>
<tr>
<td>Rate per hectolitre % of alcohol in the beer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General beer duty</td>
<td>18.37</td>
<td>18.37</td>
</tr>
<tr>
<td>Additional high strength duty exceeding 7.5% abv</td>
<td>5.48</td>
<td>5.48</td>
</tr>
<tr>
<td>Lower strength beer duty - beer exceeding 1.2% but not exceeding 2.8% abv</td>
<td>8.10</td>
<td>8.10</td>
</tr>
<tr>
<td>Rate per hectolitre of product</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Still cider and perry:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>exceeding 1.2% - not exceeding 7.5% abv</td>
<td>38.87</td>
<td>38.87</td>
</tr>
<tr>
<td>exceeding 7.5% - not exceeding 8.5% abv</td>
<td>58.75</td>
<td>58.75</td>
</tr>
<tr>
<td>Sparkling cider and perry:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>exceeding 1.2% - not exceeding 5.5% abv</td>
<td>38.87</td>
<td>38.87</td>
</tr>
<tr>
<td>exceeding 5.5% - not exceeding 8.5% abv</td>
<td>264.61</td>
<td>268.99</td>
</tr>
<tr>
<td>Wine and made wine:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>exceeding 1.2% - not exceeding 4% abv</td>
<td>84.21</td>
<td>85.60</td>
</tr>
<tr>
<td>exceeding 4% - not exceeding 5.5% abv</td>
<td>115.80</td>
<td>117.72</td>
</tr>
<tr>
<td>Still wine and made wine:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>exceeding 5.5% - not exceeding 15% abv</td>
<td>273.31</td>
<td>277.84</td>
</tr>
<tr>
<td>Wine and made wine:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>exceeding 15% - not exceeding 22% abv</td>
<td>364.37</td>
<td>370.41</td>
</tr>
<tr>
<td>Sparkling wine and made wine:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>exceeding 5.5% - not exceeding 8.5% abv</td>
<td>264.61</td>
<td>268.99</td>
</tr>
<tr>
<td>exceeding 8.5% - not exceeding 15% abv</td>
<td>350.07</td>
<td>355.87</td>
</tr>
</tbody>
</table>
### Tobacco duty rates

<table>
<thead>
<tr>
<th>Product</th>
<th>from 6pm 18 March 2015</th>
<th>from 6pm 18 March 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>16.5% of the retail price plus £184.49 per thousand cigarettes</td>
<td>price plus £196.42 per thousand cigarettes</td>
</tr>
<tr>
<td>Cigarettes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cigars</td>
<td>£236.37 per kg</td>
<td>£245.01 per kg</td>
</tr>
<tr>
<td>Hand-rolling tobacco</td>
<td>£185.74 per kg</td>
<td>£198.10 per kg</td>
</tr>
<tr>
<td>Other smoking tobacco and chewing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>tobacco</td>
<td>£103.91 per kg</td>
<td>£107.71 per kg</td>
</tr>
</tbody>
</table>

### Gambling tax rates (%)

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>General betting duty</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>General betting duty - sports spread bets</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>General betting duty - financial spread bets</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Bingo duty</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Remote gaming duty</td>
<td></td>
<td>15</td>
</tr>
<tr>
<td>Pool betting duty</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Lottery duty (% of ticket value)</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Machine games duty</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- maximum cost per play not more than 20p and maximum cash prize not more than £10 (type 1 machines)</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>- all others (cost per play not more than £5)</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>- all others (cost per play can exceed £5)</td>
<td>25</td>
<td>25</td>
</tr>
</tbody>
</table>

### Fuel duty rates 2016/17 (pence per litre unless stated)

<table>
<thead>
<tr>
<th>Fuel type</th>
<th>From 23 March 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ultra-low sulphur petrol/diesel</td>
<td>57.95</td>
</tr>
<tr>
<td>Sulphur-free petrol/diesel</td>
<td>57.95</td>
</tr>
<tr>
<td>Biodiesel</td>
<td>57.95</td>
</tr>
<tr>
<td>Bioethanol</td>
<td>57.95</td>
</tr>
<tr>
<td>Liquefied petroleum gas used as road fuel</td>
<td>31.61p per kg</td>
</tr>
<tr>
<td>Natural gas used as road fuel</td>
<td>24.70p per kg</td>
</tr>
<tr>
<td>Rebated gas oil (red diesel)</td>
<td>11.14</td>
</tr>
<tr>
<td>Fuel oil</td>
<td>10.70</td>
</tr>
</tbody>
</table>

*Fuel duty rates have remained frozen since 6pm on 23 March 2011.*
Vehicle excise duty for cars registered on or after 1 March 2001 (£)

<table>
<thead>
<tr>
<th>VED band/CO2 emissions (g/km)</th>
<th>Standard rate (1) 2016/17 (2)</th>
<th>First-year rate (1) 2016/17 (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A (Up to 100)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B (101-110)</td>
<td>20</td>
<td>0</td>
</tr>
<tr>
<td>C (111-120)</td>
<td>30</td>
<td>0</td>
</tr>
<tr>
<td>D (121-130)</td>
<td>110</td>
<td>0</td>
</tr>
<tr>
<td>E (131-140)</td>
<td>130</td>
<td>130</td>
</tr>
<tr>
<td>F (141-150)</td>
<td>145</td>
<td>145</td>
</tr>
<tr>
<td>G (151-165)</td>
<td>185</td>
<td>185</td>
</tr>
<tr>
<td>H (166-175)</td>
<td>210</td>
<td>300</td>
</tr>
<tr>
<td>I (176-185)</td>
<td>230</td>
<td>355</td>
</tr>
<tr>
<td>J (186-200)</td>
<td>270</td>
<td>500</td>
</tr>
<tr>
<td>K (3) (201-225)</td>
<td>295</td>
<td>650</td>
</tr>
<tr>
<td>L (226-255)</td>
<td>500</td>
<td>885</td>
</tr>
<tr>
<td>M (Over 255)</td>
<td>515</td>
<td>1,120</td>
</tr>
</tbody>
</table>

(1) Alternative fuel discount: £10 all cars.
(2) 2016/17 rates take effect from 1 April 2016.
(3) Includes cars emitting over 225g/km registered before 23 March 2006.

Vehicle excise duty for cars and vans registered before 1 March 2001 (£)

<table>
<thead>
<tr>
<th>VED band</th>
<th>2016/17 rate</th>
<th>2016/17 rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 1549cc</td>
<td>145</td>
<td>145</td>
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<tr>
<td>Over 1549cc</td>
<td>230</td>
<td>235</td>
</tr>
</tbody>
</table>