- enable dependants with drawdown or flexi-access drawdown pension who would currently have to use all of this fund before age 23 or pay 45% tax charges of up to 70% on any lump sum payment, to continue to access their funds as they wish after their 23rd birthday
- remove the rule on paying a charity lump sum death benefit out of drawdown pension funds and flexi-access drawdown funds where the member dies under the age of 75 because the equivalent tax-free payment may be made as another type of lump sum death benefit
- enable money purchase pensions in payment to be paid as a trivial commutation lump sum
- enable the full amount of dependants benefits to be paid as authorised payments where there are insufficient funds in a cash balance arrangement when the member dies

Government to consult on Pension Advice Allowance

The government is to consult on introducing a Pension Advice Allowance to enable members to withdraw money from defined contribution (DC) pensions to fund financial advice.

The measures would apply to members up to the age of 55. They would be allowed to withdraw up to £500 tax free from their DC scheme to redeem against the cost of advice.
The exact age at which people can do this will be determined through consultation.

The intention is also for the existing £150 Income Tax and National Insurance exemption for employer-arranged pension advice to be increased to £500.

Personal Taxes

Personal allowance and tax thresholds

The government has an objective to raise the personal allowance to £12,500 and the higher rate threshold to £50,000 by the end of this parliament.

The Budget included the announcement that the personal allowance for 2017/18 will increase to £11,500, and the basic rate limit will increase to £33,500 giving a higher rate threshold of £45,000.

Dividend tax

As already announced, the dividend tax credit will be replaced by a new £5,000 tax-free dividend allowance for all taxpayers from 6th April 2016. Dividends that exceed this allowance will be taxed as follows:

Basic rate band - 7.5%
Higher rate band - 32.5%
Additional rate band - 38.1%

Capital gains tax rates

For individuals, trusts and personal representatives who pay Capital Gains Tax (CGT) the rates of CGT will reduce from 6th April 2016. The 18% rate of CGT will reduce to 10% and the 28% rate to 20%, except in relation to gains accruing on the disposal of residential property (that do not qualify for private residence relief), and carried interest. The reduced rates apply to relevant gains accruing on or after 6th April 2016.

The government wants to create a strong enterprise and investment culture. Cutting the rates of CGT for most assets is intended to support companies to access the capital they need to expand and create jobs. Retaining the 28% and 18% rates for residential property is intended to provide an incentive for individuals to invest in companies over property.

Higher rates of Stamp Duty Land Tax (SDLT) on purchases of additional residential properties

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508156/SDLT_summary_of_responses_final_14032016.pdf

The introduction of higher rates of Stamp Duty Land Tax (SDLT) on purchases of additional residential properties is designed to try and redress the balance between those who are struggling to buy their first property and those who are able to invest in additional properties. The higher rates will be 3 percentage points above the current SDLT rates, and will take effect on and after 1st April 2016.

Alongside the Budget the government announced a few amendments to the original rules:

- To provide additional support for those moving home, those people who are moving from one main residence to another and are disposing of a previous main residence will have 36 months (rather than 18 as originally planned) to buy a new main residence before the higher rates apply assuming they retain their additional property.
- The higher rates will apply equally to all purchasers without an exemption for significant investors.
- 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 this policy.
- When applying the higher rates, a small 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. This is intended to provide flexibility for purchasers who may find it difficult to dispose of a share in a property quickly.

The government will legislate for the changes in Finance Bill 2016 and the higher rates will apply to purchases which complete on or after 1st April 2016.

HMRC will provide detailed guidance on the changes which will set out how they apply in practice.

Rent a Room Relief increase

As previously announced, from 6th April 2016 the level of Rent a Room relief, which provides for tax-free income that can be received from renting out a room or rooms in an individual's only or main residential property, will increase from £4,250 to £7,500 per year. It also increases the level if an individual rents out rooms in a guest house, bed and breakfast or similar, providing that it is their main residence.

Investments

ISA limit

From 6th April 2017 the ISA limit will increase to £20,000.

Lifetime ISA

The Lifetime ISA will be available from 6th April 2017 for savers aged between 18 and 40. Any savings made into the plan before age 50 is attained will attract a 25% bonus from the government – provided the funds are used to either purchase a first home or withdrawn after 60 i.e. for retirement. As with all ISAs, funds can be withdrawn without a tax charge.

The maximum contribution will be £4,000 a year with the total maximum contribution to the plan over a lifetime being £128,000 - a government bonus of £32,000 can then be added provided the funds are withdrawn for either of the above events.

Contributions to the Lifetime ISA must be within the overall ISA limit (£20,000 from 2017/18). Individuals can contribute into a Lifetime ISA alongside a Cash ISA, a Stocks and Shares ISA and an Innovative Finance ISA in one tax year provided they remain within the £20,000 pa limit.

Contributions may continue after age 50 BUT the government bonus will only be applied to contributions made up to the saver's 50th birthday, i.e. the bonus will be added to the fund at 50 but will be lost if the funds are withdrawn before the saver's 60th birthday or before their first time property purchase.

It will also be possible to transfer funds from other ISAs to the Lifetime ISA (this includes from the Help to Buy ISA).

Savers can withdraw their funds at any time but will not receive the government bonus and will incur a 5% charge if the withdrawal is not for the purchase of their first property or after they turn 60 (unless they are diagnosed with terminal ill health as per current pensions legislation). The government is also considering whether other specific lifetime events may allow funds to be withdrawn without the loss of the bonus.

A further area of consideration is around whether the saver can 'borrow' funds but then fully repay them to benefit from the maximum bonus in the future.

More details on these areas and the final rules are expected in the Autumn following consultation with industry.

Comment

This would appear to be one of the pension changes the Chancellor had been looking to make, eased in under ISA rules and initially to run alongside the current pension system. For young savers with one eye on a potential property purchase this may be the preferred option to the more traditional route of pension saving. It will be interesting to see whether similar flexibilities are offered to pension plans in the coming years and also whether the opt out rate amongst young people who have been auto enrolled increases as they reach the point where they need to contribute to their pension.

Help to Save scheme

The Chancellor has announced a savings scheme to help the lower paid to save, by providing a 50% government bonus on up to £50 of monthly savings. The scheme will start in April 2018 following consultation and will be open to 3.5 million adults in receipt of Universal Credit with minimum weekly household earnings equivalent to 16 hours at the National Living Wage, or those in receipt of Working Tax Credit.

The bonus will be paid after two years with an option to save for a further two years, meaning that people can save up to £2,400 and benefit from a maximum government bonus of £1,200. Funds can be used in any way the saver wishes.

As with the Lifetime ISA there are concerns that this measure could lead to higher levels of opt outs under auto enrolment.

Replacing ISA withdrawals (cash ISA or cash element of stocks & shares ISA)

As previously announced, the ability to make withdrawals from a cash ISA (or the cash element of a stocks and shares ISA) and replace them within the same tax year without affecting annual subscription limits will go ahead from 6th April 2016.

Any ISA investor could potentially benefit now that transfers between cash and stocks & shares ISAs are possible in either direction, i.e. a stocks and shares ISA could be transferred to a cash ISA first before making the withdrawal.

Help to Buy ISA (can be rolled over into a Lifetime ISA from April 2017)

The Help to Buy ISA became available from 1st December 2015. Gives 25% tax relief on savings up to £12,000 (ie. £3,000 Government contribution if £12,000 saved). The tax relief is only given when the first home is bought. It's a cash ISA so an investor can't invest in another cash ISA in the same tax year as a Help to Buy ISA. The maximum single initial premium is £1,000 plus maximum regular savings of £200 per month. Property values can't exceed £250,000 (£450,000 in London).

<u>Business issues</u>

Corporation Tax (CT)

Future CT rates are set as follows:

Financial Year commencing	**CT rate**
1st April 2016	20%
1st April 2017	19%
1st April 2018	19%
1st April 2019	19%
1st April 2020	17%*

*was to be 18% but a further reduction was announced in the Budget

Capital Gains Tax: changes to rules to extend availability of Entrepreneurs' Relief on associated disposals

This measure will affect individuals who realise gains on a disposal of a private asset, which is used in a business carried on by their partnership or company, when they retire or reduce their participation in their business.

The measure allows Entrepreneurs' Relief (ER) to be claimed on an 'associated disposal' of a privately-held asset when the accompanying disposal of business assets is to a family member. Relief can also be claimed in some cases where the disposal of business assets does not meet the present 5% minimum size condition.

The changes announced by this measure will be backdated to apply to associated disposals on or after 18th March 2015.

Capital Gains Tax: entrepreneurs' relief: changes to the treatment of joint ventures and partnerships

This measure affects individuals and trustees who realise gains on shares in a company which invests in a joint venture company.

The measure changes the definitions of a 'trading company' and a 'trading group' which apply for entrepreneurs' relief (ER) purposes. Where the new definitions apply, a fraction of the activities of a joint venture company will be treated as carried on by a company which holds shares in the joint venture company. Similarly, where the new definitions apply, trading activities of a company in its capacity as a partner in a firm will be taken into account in deciding whether the company is a trading company for entrepreneurs' relief purposes.
The changes announced by this measure will be backdated to apply to disposals on or after 18th March 2015.

Capital Gains Tax: lifetime limit on Employee Shareholder Status exemption

This measure affects individuals who receive shares under an Employee Shareholder Agreement.

The measure places a lifetime limit of £100,000 on the Capital Gains Tax (CGT) exempt gains that a person can make on the disposal of shares acquired under Employee Shareholder Agreements entered into after 16th March 2016.

Abolition of class 2 NI

Class 2 National Insurance contributions (NICs) are to be abolished from April 2018, which will reduce the NICs paid by self-employed individuals by an average of £134 a year and will end an outdated and complex feature of the NICs system.

Stamp Duty Land Tax on commercial properties

Stamp Duty Land Tax on non-residential property transactions is being reformed to reduce distortions, cutting the tax for many businesses purchasing property (0% on up to £150,000, 2% on next £100,000 and 5% on the amount above £250,000). This change is with effect from 17 March 2016.

Pay as you go tax payments

Businesses, the self-employed and landlords will be able to adopt pay-as-you-go tax payments, enabling them to choose payment patterns that suit them and better manage their cash flow.

Tackling disguised remuneration avoidance schemes

This measure will affect employers, companies and individuals using tax avoidance schemes that fall within the disguised remuneration legislation and employers, companies and individuals that used an Employee Benefit Trust (EBT) arrangement prior to 2011 and have yet to settle with HMRC.

As announced at Budget 2016 the government will bring forward a package of changes to tackle the use of disguised remuneration avoidance schemes. The first part of the package is being introduced in Finance Bill 2016 and the remainder of the package will follow in future Finance Bills.

This measure supports the government's commitment to tackling tax avoidance and ensures that those who have used disguised remuneration tax avoidance schemes pay their fair share of tax and National Insurance contributions (NICs).

Employment Allowance

Businesses will have their employer NI bill cut by another £1,000 from April 2016, as the Employment Allowance rises from £2,000 to £3,000. The Employment Allowance gives businesses and charities a cut in the employer NI they pay. This means, next year, businesses will be able to employ 4 people full time on the National Living Wage and pay no NI at all.

From April 2016, the Allowance will not be available to companies where the sole employee is the director of the company.

Restricting tax relief for wealthier landlords

Currently, individual landlords can deduct their costs – including mortgage interest – from their profits before they pay tax, giving them an advantage over other home buyers. Wealthier landlords receive tax relief at 40% and 45%. This tax relief will be restricted to 20% for all individuals by April 2020.

In addition, from April 2016, the 'wear and tear allowance', which allows landlords to reduce the tax they pay (regardless of whether they replace furnishings in their property) will also be replaced by a new system that only allows them to get tax relief when they replace furnishings.

Stamp Duty Land Tax: reform of charging provisions for non-residential property

This measure changes the rules for calculating the Stamp Duty Land Tax (SDLT) charged on purchases of non-residential properties and transactions involving a mixture of residential and non-residential properties. At present, SDLT is charged at a single percentage of the price paid for the property, depending on the rate band within which the purchase price falls. On and after 17th March 2016, SDLT will be charged at each rate on the portion of the purchase price which falls within each rate band. The new rates and thresholds for freehold purchases and leases premiums are:

Transaction Value Band	Rate
£0 - £150,000	0%
£150,001 - £250,000	2%
£250,000 +	5%

For new leasehold transactions, SDLT is already charged at each rate on the portion of the net present value (NPV) of the rent which falls within each band. On and after 17th March 2016 a new 2% rate for rent paid under a non-residential lease will be introduced where the NPV of the rent is above £5 million.

The new rates bands and thresholds for rent paid under a lease are:

Net present value of rent	Rate
£0 - £150,000	0%
£150,001 - £5,000,000	1%
£5,000,000 +	2%

This measure cuts the tax that many businesses pay when purchasing non-residential property, whilst ensuring those purchasing the most expensive non-residential properties make an important contribution to tackling the deficit.

Off-payroll working in the public sector: reforming the intermediaries legislation

The government announced at Budget 2016 that it will reform the intermediaries legislation (known as IR35) for public sector engagements. It will do this by moving the liability to pay the correct employment taxes from the worker's own company to the public sector body or agency / third party paying the company. In partnership with stakeholders, HMRC will develop a new tool that will make the decision on whether or not the rules should apply as simple as possible and provide certainty. A formal consultation will be published later.

Cutting business rates for all rate payers

From April 2017, small businesses that occupy property with a rateable value of £12,000 or less will pay no business rates. Currently, this 100% relief is available to businesses occupying a property (e.g. a shop or office) with a rateable value of £6,000 or less.

There will be a tapered rate of relief on properties worth up to £15,000.

Employers will pay National Insurance on pay-offs above £30,000 from April 2018

From April 2018 employers will now need to pay National Insurance contributions on pay-offs (for example, termination payments) above £30,000 where Income Tax is also due.
For people who lose their job, payments up to £30,000 will remain tax-free and they will not need to pay National Insurance on any of the payment.

Class 2 National Insurance contributions (NICs) for self-employed people will be scrapped from April 2018

Currently, self-employed people have to pay Class 2 NICs at £2.80 per week if they make a profit of £5,965 or over per year. They also pay Class 4 NICs if their profits are over £8,060 per year.

From April 2018, they will only need to pay one type of National Insurance on their profits, Class 4 NICs.

Paying Class 2 NICs currently enables self-employed people to build entitlement to the State Pension and other contributory benefits.

After April 2018, Class 4 NICs will also be reformed so self-employed people can continue to build benefit entitlement.

<u>Other</u>

National Living Wage

From April 2016, a new National Living Wage of £7.20 an hour for the over 25s will be introduced. This will rise to over £9 an hour by 2020.

Insurance Premium Tax (IPT)

From November 2015 the standard rate of Insurance Premium Tax was increased from 6% to 9.5%. The Budget announced that the standard rate of IPT will be increasing again by 0.5% to bring the rate up to 10% (lower than expected).

Do not act on this information alone! Individuals should seek independent financial advice before taking any action.

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