TAX FACULTY

BUDGET 2016

18 MARCH 2016

BUDGET 2016 REPORT

The Chancellor of the Exchequer delivered his 2016 Budget on 16 March 2016.

This is a summary of the announcements on tax and related matters. It has been prepared by the ICAEW Tax Faculty team, with an overview by Frank Haskew, and edited by Jane Moore.

The Budget documents include details of changes which have been announced previously. This summary focuses on new announcements.

The Budget announcements and publications can be found on GOV.UK on the Budget 2016 home page. There is also a page with links to all the HMRC tax-related documents and announcements.

The main Budget documents are the Red Book, which summarises the Budget announcements and policy decisions, and the Overview of Tax Legislation and Rates (OOTLAR), which contains detailed Tax Information and Impact Notes (TIINs) on all the Budget and Finance Bill measures.

The 2016 Finance Bill (FB) will be published on 24 March 2016.

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Budget overview

If the old adage that a week is a long time in politics is true, then the 17 weeks since the Autumn Statement must seem like a lifetime. It certainly looked that way judging from the press comments. Back in November 2015 the Chancellor's star was burning brightly: he was credited with winning the general election earlier in the year and the economic outlook was looking quite rosy, with a steadily growing economy and a budget deficit that was slightly better than expected. However, less than four months later, a number of problems threatened to cast a long shadow over this Budget: the economy appeared to have slipped back, progress on taming the deficit continued to look elusive and, overshadowing all, there is the looming uncertainty of the EU referendum.

After the 2015 Autumn Statement we were expecting a blockbuster Budget, but events and the growing uncertainties clearly scaled back some ambitions. For example, proposals to undertake a major reform of pensions tax relief were kept firmly in the stable, although he announced a new lifetime ISA for those under 40 that might be a model for the pension of the future. In addition, the Chancellor made some major policy announcements that had not been predicted. These included a further reduction in the corporation tax (CT) rate to 17% from 2020, reductions in the capital gains tax (CGT) rates and an extension of entrepreneurs' relief (ER) to shareholding in unquoted companies. The Chancellor was at pains to stress his support for businesses, especially those in the SME sector, but the benefits of the cut in the CT rate were balanced by new measures designed to raise taxes on larger companies by restricting tax relief for losses and debt interest.

Truly it is not easy to be a Chancellor, but, after nearly six years in the job, if anyone knows how to make the most of his story it is probably George Osborne. Once again he delivered a breathless Budget peppered with such a barrage of statistics that it was sometimes difficult to keep up. In terms of style of delivery, he is a proving a worthy successor to Gordon Brown and, like his predecessor, one is left with a nagging doubt that there might be something nasty lurking in the vault.

Personal tax

As expected the Chancellor announced a further increase in the personal allowance, which will now rise to £11,500 in 2017/18. In addition, the higher rate threshold will increase from £43,000 in 2016/17 to £45,000 in 2017/18. Although he resisted the temptation to make major changes to the pension rules, he announced a new lifetime ISA for those under 40 that might serve as a model for the pension of the future,

Business taxes

As promised the government published a Business tax road map that outlines expected changes over the life of this parliament together with a timetable for implementation. The road map contains a package of measures that are primarily aimed at supporting small businesses. These include: reducing the business rates burden; cutting CT to 17% in 2020; reducing the higher rate of CGT from 28% to 20% and for basic rate tax taxpayers from 18% to 10%, and an extension of ER to shares in unquoted trading companies that have been held for three years, but subject to a £10m lifetime limit. Class 2 NICs will bite the dust from 2018.

The government is also introducing a number of measures to address deficiencies in the international tax regime that have been highlighted by the OECD Base Erosion and Profit Shifting (BEPS) project. These measures include limiting debt interest to 30% of a group's earnings; eliminating the tax advantage arising from multinationals' use of hybrid mismatch arrangements; extending the UK's withholding tax rights over royalties; and ensuring non-resident property developers pay tax in the UK on profits they make in the UK. The unexpected and unwelcome announcement was the restriction on loss relief that can be offset against future profits to 50% of the profits available for offset. The rule will apply from 1 April but only to profits in excess of £5m.

The government has also decided to move the stamp duty land tax (SDLT) charge for commercial property from the current slab system to a marginal rate system. The system will therefore now be similar to the SDLT system for residential property which was moved onto a marginal basis in 2014. However, according to the Red Book this change will yield £2.5bn over the lifetime of this parliament.

Making Tax Digital
The biggest shock in the Autumn Statement was the government's decision that businesses will be required to keep digital records and update HMRC "at least every quarter". While we support the move to digital, we have told the government at every available opportunity that the compulsory keeping of digital records is a step too far. However, it is clear that the government is determined to proceed with this proposal. It is also proposing that from 2018 businesses will be able to opt to pay tax as they go rather than on the existing six-monthly instalment mechanism.

Tax avoidance and evasion
The war on tax avoidance and evasion continues with a number of new measures announced to tackle specific problem areas. These include further measures to counter disguised remuneration through arrangements such as offshore benefit trusts, tackling VAT evasion by overseas sellers selling goods to UK customers, a crackdown on smuggling and more measures to tackle the hidden economy.

Fixing the public finances
Fixing the UK's finances and bringing the budget back into balance remains as elusive as ever. This looks increasingly like a major structural problem which has been with us now for many years: it started under Gordon Brown at around the turn of the century, went down a black hole after the 2008 financial crisis and has been struggling to get out of that hole ever since.

The UK is still a long way from getting back to a balanced budget. The OBR forecast that the government's net deficit for 2015/16 will be slightly lower at £72.2bn, but in the following three years the deficit will increase by a whopping £36.3bn. However, it will still come back into balance in 2019/20 due to a £14bn tightening in that year. Given that the estimates have changed this much in less than four months, the chances of hitting a balanced budget in 2019/20 look increasingly unlikely. We said in November 2015 that it would not take much to knock the UK's deficit reduction strategy off course and push the date when we return to surplus even further into the future. Less than four months later this concern has been realised.

In conclusion
With uncertainty casting a deep shadow over this Budget, a budget deficit that appears to be almost impossible to bring under control and a pressing need to keep the electorate onside in advance of the 23 June referendum, this was very much a 'safety first' Budget. Major changes were kept to a minimum but, like all good chancellors, George still managed to pull some rabbits out of the hat. The optimism contained within the 2015 Autumn Statement less than four months ago was tempered by the need to confront pressing political realities and lower growth hindering efforts to reduce the deficit. It was a creditable effort in more challenging circumstances, but the challenges in the next four months are likely to be even more daunting for the Chancellor.

Rates and allowances

The government has published a table of rates and allowances which can also be found as Annex B in the OOTLAR.

Personal allowance: future increases
The government proposes to increase the personal allowance to £12,500 by the end of the current parliament.

The personal allowance in 2016/17 is £11,000. This will increase to £11,500 for 2017/18, rather than the £11,200 previously-announced.

The age allowance for those born before 6 April 1938 is removed from 2016/17 onwards as announced in March 2015, following the increase in the standard personal allowance.

Higher rate threshold: increases
The government proposes to increase the higher rate tax threshold to £50,000 by the end of the current parliament.

The income tax basic rate band for 2016/17 is £32,000 with a 0% starting rate band of £5,000 for certain types of savings income.

The government previously announced that the 20% basic rate limit would be £32,000 for 2016/17 and £32,400 for 2017/18. The figure for 2016/17 is unchanged; the figure for 2017/18 has been revised upwards to £33,500. As a result, the higher rate threshold (ie, the personal allowance plus the basic rate band) will be £43,000 in 2016/17 and £45,000 in 2017/18. The national insurance contributions (NIC) upper earnings limit will also increase to remain aligned with the higher rate threshold.

In summary:

Year	Standard personal allowance	Basic rate band of 20% on income	Higher rate 40% threshold	Additional rate of 45% on income over
	£	£	£	£
2016/17	11,000	32,000	43,000	150,000
2017/18	11,500	33,500	45,000	150,000

Capital gains tax
From 6 April 2016 the 18% rate of CGT will be reduced to 10% and the 28% rate to 20% for chargeable gains (with certain exceptions). The 28% rate of CGT applied to gains chargeable to the annual tax on enveloped dwellings (ATED) will remained unchanged.

Corporation tax
The rate of CT is currently 20%. It will be reduced to 19% in 2017 and to 17% in 2020. The 17% rate from 1 April 2020 is a further 1% reduction from the previously announced 18%.

Personal and employment taxes

Income tax/NIC alignment
Following the call for evidence last year by the Office of Tax Simplification (OTS) on the alignment of income tax and NIC, to which we responded in TAXREP 63/15, the government is going to commission the OTS to review the impacts of moving employee NIC to an annual, cumulative and aggregated basis and moving employer NIC to a payroll basis.

On tax/NIC alignment our members have a range of views diverge on the merits of moving NIC to an annual, cumulative and aggregated basis, but everyone is united in saying that the outcome must result in real simplification and consequent ongoing cost reductions for all concerned.

Termination payments
From April 2018, the government will tighten the scope of the exemption for termination payments and align the tax and NIC rules.

Certain forms of termination payments are exempt from employee and employer NIC and the first £30,000 is income tax free. The first £30,000 of a termination payment will remain exempt from income tax and the full payment will be outside the scope of employee NIC.

Employer NIC will be aligned with the income tax treatment, so the elements of a termination payment over £30,000 will be subject to employer NIC if they are subject to income tax.

The rules on which types of payments will be treated as salary and which will be subject to the termination payment rules will be tightened and clarified. These changes include:

- all payments in lieu of notice (regardless of whether they are contractual or not) will be subject to income tax and NIC in the same way as other payments of earnings;
- certain contractual payments will not be able to be paid as damages – instead such payments will be treated as earnings and subject to tax and NIC; and
- the exemption for foreign service will be removed.

This follows a consultation to which we responded in TAXREP 58/15. The government will publish over the summer a technical consultation setting out the detail of the above changes.

Disguised remuneration
Disguised remuneration schemes often involve individuals being paid in loans through structures such as offshore employee benefit trusts (EBTs). In 2011, the government legislated to clamp down on the use of these schemes. Two further measures are being introduced now.

The first is that an additional targeted anti-avoidance rule (TAAR) which will take effect from 16 March 2016.

The second measure is aimed at those who used an EBT arrangement prior to 2011 and have yet to settle with HMRC. The measure will withdraw the transitional relief on investment returns after 30 November 2016. The relief was intended to work alongside the EBT settlement opportunity, which closed on 31 July 2015. Anyone who has not settled with HMRC on or before 30 November 2016 will not qualify for the relief.

More details on the whole package are included within policy papers published on 16 March 2016 including an overview of changes and technical note.

Salary sacrifice
We had thought that the government might make salary sacrifice ineffective for tax and NIC purposes in the Budget. Instead, no change has been announced; the Red Book merely notes at paragraph 1.147 that:

“Salary sacrifice arrangements enable employees to give up salary in return for benefits-in-kind that are often subject to more favourable tax treatment than salary. The government wants to encourage employers to offer certain benefits but is concerned about the growth of salary sacrifice schemes: clearance requests for salary sacrifice arrangements from employers to HMRC have increased by over 30% since 2010. The government is therefore considering limiting the range of benefits that attract income tax and NICs advantages when they are provided as part of salary sacrifice schemes. However, the government's intention is that pension saving, childcare and health-related benefits such as Cycle to Work should continue to benefit from income tax and NICs relief when provided through salary sacrifice arrangements."

So it is a case of 'watch this space'. We welcome the government's undertaking in the final sentence above, and we counsel against making changes that would disrupt employers' flexi-benefits schemes as we believe that these help to engender contented workforces.

Income tax: payments for taxable benefits-in-kind
Where an employee reimburses his or her employer for a benefit-in-kind (BiK), the value chargeable to tax is reduced. For certain benefits, the current rule is that if an employee receives something or some service at the same cost and under the same terms and conditions as a member of the public, then they will have struck a 'fair bargain' and no benefit will have arisen.

The government is concerned that some employers are using the 'fair bargain' rules to try to override the specific computational provisions applying to a range of BiKs. Legislation will make clear when the fair bargain rules can and cannot be used.

Payrolling employer-provided benefits: additional items
As from 6 April 2017, employers will be able to payroll non-cash vouchers and credit tokens. This extends the range of BiK that can be payrolled – presently non-cash vouchers and credit tokens are excluded from the list, along with living accommodation and loans.

Employer-provided pensions advice
In a welcome move, tax and NIC relief available for employer-arranged pensions advice will be increased from £150 to £500 from April 2017. The first £500 of any advice received will be eligible for the relief.

Travel and subsistence expenses
Last year there was a consultation aimed at modernising the tax rules for travel and subsistence (T&S) (to which we responded in TAXREP 61/15). We welcome the fact that the government, having analysed the responses, has concluded that, although complex in parts, the current T&S rules are generally well understood and work effectively for the majority of employees. It has decided not to make further changes to the T&S rules at this time.

As announced at March Budget 2015, tax relief for home to work T&S expenses for workers engaged through an employment intermediary will be restricted with a view to bringing the tax relief available to such workers into line with normal employees

Company car tax rates for 2017/18 to 2019/20
From April 2016 the 3% differential between diesel cars and petrol cars will be retained until April 2021.

From 6 April 2019, company car tax (CCT) bands will be:

- 16% for cars with emissions of 0-50g CO_2/km;
- 19% band for cars with emissions of 51-75g CO_2/km; and
- 22% for other low emission cars (76g–94g CO_2/km).

There will be a 3% increase for each rise in emissions of 5g CO_2/kg from 95g CO_2/km to the existing maximum of 37%. A table of rates for the three years 2017/18 to 2019/20 can be found in the OOTLAR.

From 6 April 2019, for cars without a CO_2 emissions figure, the appropriate percentages will be as follows:

- for the lowest band (cars with a cylinder capacity of up to 1,400cc), 23%;
- for cars in the medium band (cars with a cylinder capacity greater than 1,400cc but no more than 2,000cc), 34%; and
- for cars with a cylinder capacity greater than 2,000cc, unchanged at 37%.

The appropriate percentage for cars which have neither a CO_2 emissions figure nor an engine cylinder capacity and which cannot produce CO_2 emissions in any circumstances by being driven will be as follows:

- from 6 April 2017, 9%;
- from 6 April 2018, 13%; and
- from 6 April 2019, 16%.

From 6 April 2019 the appropriate percentage for cars first registered before 1 January 1998 will be as follows:

- for the lowest band (cars with a cylinder capacity of up to 1,400cc), 23%;
- for cars in the medium band (cars with a cylinder capacity greater than 1,400cc but no more than 2,000 cc), 34%; and
- for cars with a cylinder capacity greater than 2,000cc, unchanged at 37%.

From 2020/21, the government will continue to base CCT on the CO_2 emissions of cars and will consult on reform of the bands for ultra-low emission vehicles (below 75g of CO_2/km) to refocus incentives on the cleanest cars.

Van benefit charge for zero-emission vans
The 20% tapered rate of the van benefit charge for zero-emissions vans available for private use, which was going to increase to 40% in 2016/17, will instead remain at 20% for that year and 2017/18.

Income from sporting testimonials
From April 2017 all income from sporting testimonials and benefit matches for employed sportspersons will be liable to income tax and NIC subject to a one-off lifetime exemption of up to £100,000 of the income received from events held during a single testimonial or testimonial year from sporting testimonials that are not contractual or customary.

Apprenticeship levy
From April 2017, employers will receive a 10% top-up to their monthly apprenticeship levy contributions in England and this will be available for them to spend on apprenticeship training through their digital account. The government will set out further details on the operating model in April and draft funding rates will be published in June.

The introduction from April 2017 of an apprenticeship levy on employers with payrolls over £3m was announced at Autumn Statement 2015. We responded to the consultation on how the levy should work in ICAEW REP 51/16.

National minimum wage rates
Following the recommendations of the Low Pay Commission, the government will increase the national minimum wage (NMW) rates from October 2016. This includes the following increases:

- the rate for 21 to 24 year olds from £6.70 to £6.95 per hour,
- the rate for 18 to 20 year olds from £5.30 to £5.55 per hour,
- the rate for 16 to 17 year olds from £3.87 to £4.00 per hour,

- the rate for apprentices from £3.30 to £3.40 per hour, and
- the accommodation offset from £5.35 to £6.00 a day.

Alignment of the NMW and NLW cycles
From April 2017 the NMW and national living wage (NLW) cycles will be aligned so that both rates are amended in April each year.

Pensions and savings

Pensions: technical amendments
Pensions did not escape untouched but in the main the changes were tidying up or finessing previous changes, including:

- Increasing the existing £150 income tax and NIC relief for employer arranged pension advice to £500.
- A consultation on introducing a Pensions Advice Allowance allowing people to withdraw up to £500 tax free from their defined contribution pension to redeem against the cost of financial advice before age 55.
- Various technical amendments to support the Pension Freedom and Choice Reforms including changes in connection with serious ill-health lump sums, removing unnecessary legislation relating to charity lump sum death benefits, making top ups to fund dependants' death benefits authorised payments and legislating to allow commutation of defined contribution pensions already in payment where the total pension savings would be under £30,000.

Lifetime allowance
The reduction in the lifetime allowance from £1.25m to £1m effective from April 2016 was confirmed.

Dependant scheme pensions
The number of calculations needed to determine if a dependants' scheme pension exceeds the authorised limit will be reduced as promised in the Autumn Statement and there will be further consultations on the number of calculations required.

Bridging pensions
The introduction of a single tier state pension from April 2016 requires the alignment of the bridging pension rules to match. A bridging pension is one taken from a registered pension scheme to supplement an individual's income up to the level of the new state pension without incurring an unauthorised payments tax charge until the state pension can be drawn.

Pension dashboard
In recognition of the number of pension funds that an individual may acquire over their working lifetime, the government will ensure the industry designs, funds and launch a pensions dashboard by 2019. The intention is that each person will be able to view all their retirement savings in one place.

Lifetime ISA
There was much speculation before the Budget that tax relief on pension contributions would be abolished in favour of a pension ISA. In the event tax relief has been retained but a new type of ISA has been introduced from April 2017 to run alongside it.

The new ISA is a Lifetime ISA for those under 40 year olds in which people can save up to £4,000 per year and receive a bonus from the government of £1 for every £4 saved up to the age of 50. This is equivalent to giving basic rate tax relief on savings for retirement but unlike a pension scheme the funds could be withdrawn early. The bonus is paid when the funds are withdrawn to buy a first home or in retirement from age 60; if withdrawn early there is no bonus, other than if used to buy a first home, and a 5% charge is envisaged.

The government will liaise with the industry to explore the possibility of savers being able to borrow from their savings without losing the bonus provided the loan is repaid in full, similar to the 401k plans in the United States.

Consideration will also be given to allowing early withdrawal without loss of the bonus in specific lifetime events.

The Help to Buy ISA launched in December 2015 will run alongside the Lifetime ISA where the annual savings limit is £2,400 per annum. Funds can be transferred to the to the Lifetime ISA if desired but only one fund with bonus can be used as a house deposit. The £4,000 Lifetime ISA savings limit is in addition to the Help to Buy savings limit even if the accounts are combined.

Help to save
Prior to the Budget the prime minister announced a new Help to Save scheme for adults on low incomes whereby a 50% government bonus will be paid on savings of up to £50 per month. To qualify the individual must be in receipt of universal credit with minimum weekly household earnings equivalent to 16 hours at the NLW or be in receipt of tax credits. The accounts will be available by April 2018.

ISA limits
The overall annual ISA subscription will increase to £20,000 from April 2017.

ISAs of deceased person
Generally as soon as a person dies the tax exempt status of an ISA ends. This was changed to allow an inheriting surviving spouse to retain the ISA funds within the tax-exempt wrapper for deaths on or after 3 December 2014. Finance Bill 2016 will introduce measures allowing the tax free status to roll over into the administration period.

Payment of interest
Bank and building society interest will be paid gross from April 2016. The ability to pay interest gross will be extended to open-ended investment companies, authorised unit trusts, investment trust companies and peer to peer loans from April 2017.

Tax credits and state benefits

Tax credits and universal credit
No changes to tax credit or universal credit rates were announced.

The government is to extend business support to those claiming working tax credits and will trial face to face support from Jobcentre advisers. This support, which is already available to the self-employed claiming universal credit, is presumably linked to the ‘genuine self-employment’ tests which were introduced in April 2015.

The mentoring available under the New Enterprise Allowance is to be extended to self-employed universal credit claimants.

It is to be hoped that this will be genuine support offered by appropriately qualified staff and not related to sanctions.

Disability benefits
£4.4bn is being raised through changes to the entitlement rules for personal independence payment (PIP) which is replacing disability living allowance. This may prove to a controversial

measure. There is some additional support for employment and support allowance and universal credit claimants who have work-related requirements but the funds being made available for this are small by comparison.

RTI data and benefit claims
HMRC and the DWP are to make increasing use of real time information (RTI) data to check benefit claims; this seems a sensible move provided that the RTI data is used with care and an appreciation that it may be incorrect in certain cases.

Tax-free childcare
The government announced that it will go ahead with introducing tax-free childcare in early 2017. It will be rolled out gradually with the existing employer-supported childcare scheme remaining open until April 2018 under transitional arrangements.

Individuals will have complex decisions to make as to whether they should join the new scheme or continue with existing support for universal and tax credit claimants or childcare vouchers. HMRC intends to make a calculator available to help with this decision.

Business tax

Business tax road map
It was announced last year that the government would draw up a Business tax road map to follow on from the successful Corporate tax road map introduced in the last parliament.

There is a separate Budget document Business tax road map which sets out the proposals and contains three chapters, covering:

- what happened in the period from 2010 to date;
- the proposals for the, new, Business tax road map in the period to 2020 and beyond; and
- the road map timetable which shows the various reforms and the years in which they are to be introduced (although it is fair to say that the majority occur this year and next).

In his foreword to the latest road map David Gauke, Financial Secretary to the Treasury, writes:

“The new road map sets out plans for major business taxes to 2020 and beyond. It draws together the results of several major areas that we have reviewed, including the taxation of multinationals, the future of business rates, and the way we tax business energy use. And it outlines measures to support businesses, particularly small businesses, in the years to come.”

The road map is divided into three main sections:

1. reducing tax rates to drive growth including supporting small business;
2. tackling avoidance and aggressive tax planning and providing a level playing field; and
3. simplifying and modernising the tax regime.

The detailed provisions within these three sections are also covered in the Red Book but by reference to types of tax, or tax area, rather than the more ‘aspirational’ headings used in the road map itself. We have covered the detailed proposals in the relevant sections of this Budget summary.

Property and trading income allowances
Micro entrepreneurs will benefit from the new allowances for small amounts of trading or property income. Each allowance is £1,000.

Where income is below these levels, there will be no requirement for the business to register with HMRC. Where income exceeds £1,000, the allowances can be deducted instead of claiming expenses.

While this reduces administration and is relatively simple, it is not necessarily fair as low margin businesses will not benefit in the same way as (for example) somebody renting parking space on their driveway with minimal costs. Also, it should not be forgotten that many start-ups are loss-making and this relief could prevent many from registering and claiming the loss relief that they are entitled to.

Trading income received in non-monetary form
Legislation in Finance Bill 2016 to confirm that trading income received in non-monetary form is fully brought into account in calculating taxable profits for income tax and CT purposes. This will also apply to the calculation of taxable property income.

The measure applies to transactions occurring on or after 16 March 2016. The legislation makes changes to Chapter 3, Part 2, Income Tax (Trading and Other Income) Act 2005 for income tax purposes and Chapter 3, Part 3, Corporation Tax Act 2009 for CT purposes.

This measure may have been triggered by the government's review of the sharing economy. The policy paper claims this a clarification rather than a change, based on case law established in the House of Lords decision in *Gold Coast Selection Trust Ltd v Humphrey* [1948] 30 TC 209, and is revenue neutral.

Capital allowances on business cars
The government will extend the 100% first year allowance (FYA) for low emission cars for a further three years from April 2018 to April 2021. However, the carbon dioxide emission threshold below which cars will be eligible for the FYA is to be reduced from 75g/km to 50g/km from April 2018.

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

These reductions continue to place pressure on manufacturers to produce lower emission cars and for purchasers to 'buy green'.

At Budget 2019, the government will review the case for the FYA and the emissions thresholds that should apply from 2021.

Extension of enhanced capital allowances for enterprise zones
When the regime of enhanced capital allowances (ECAs) for enterprise zones was created in 2012, they were originally planned to last for five years to 31 March 2017. This was subsequently extended by three years to 2020.

It has now been confirmed that ECAs will be available on new plant and machinery in all enterprise zones for eight years from the date that the site is established.

Enhanced capital allowances: energy-saving and water-efficient technologies
The list of designated energy-saving and water-efficient technologies qualifying for an ECA will be updated during summer 2016, subject to state aid approval.

Clarifying the tax treatment of partnerships
The government will consult on how partnerships calculate their tax liabilities. The consultation is planned to cover a number of areas where the taxation of partnerships could be viewed as uncertain and will include issues highlighted by the OTS in its review of partnerships.

No timeline has been given for this consultation, either in terms of its release, or when legislative changes might be made.

Lease accounting changes for plant and machinery

We can expect a consultation in spring 2016 with options for changing the tax treatment of leases of plant and machinery following the issue of the International Accounting Standards Board's new lease accounting standard (IFRS 16), which is effective for periods beginning on or after 1 January 2019.

More details and guidance concerning IFRS 16 can be found on the ICAEW website.

Business premises renovation allowance

The government has confirmed that the business premises renovation allowance scheme will expire on 31 March 2017 for CT and 5 April 2017 for income tax. This may provoke a flurry of regeneration projects that could qualify for the allowance before its expiry.

Repeal of the renewals allowance

It might be assumed that this repeal is driven by the introduction of the new deduction for the replacement of furniture that will be replacing the wear and tear allowance from April 2016. However, the policy paper suggests that it is driven by the fact that some businesses have recently claimed relief under the renewals allowance provisions for expenditure on very large and expensive items of equipment.

For expenditure incurred on or after 1 April 2016 for CT purposes and 6 April 2016 for income tax purposes, it is intended that relief for this type of expenditure will only be available in the form of capital allowances or relief for replacement furniture for residential landlords.

Self-employed NIC: Class 2 merged into Class 4

From April 2018, Class 2 NIC will be abolished. The government will reform Class 4 NIC, so that self-employed individuals continue to build entitlement to the state pension and other contributory benefits following the abolition of Class 2 NIC.

The Red Book says that "this represents an annual tax cut for 3.4 million self-employed people of £134 on average' and that 'this will allow millions of self-employed individuals to keep more of their money and invest it back into growing their business". This is a welcome statement as it suggests that although Class 4 will be made contributory and the structure of the new Class 4 as set out in HMRC's consultation document *The abolition of Class 2 National Insurance: Introducing a benefit test into Class 4 National Insurance for the self-employed* published on 9 December 2015 (to which we responded in TAXREP 46/16) is going to be similar to that for employees, the amount of NIC that the self-employed will be expected to pay will not appreciably increase.

The government intends to set out its plans for the contributory benefit tests in its response to the recent consultation on this reform, so watch this space.

Business rates

From 1 April 2017, changes to small business rates relief will see the relief permanently doubled (from 50% to 100%).

The taper threshold will increase from £12,000 to £15,000. The threshold for the higher rate will increase from £18,000 to £51,000.

The government claims that 600,000 small businesses will pay no rates at all with a further 50,000 benefiting from a tapered relief.

In addition, from April 2020, the annual uprating will be calculated in line with CPI rather than the current measure of RPI.

Off-payroll engagements in the public sector
From April 2017, individuals working through their own limited personal services company (PSC) in the public sector will no longer be responsible for deciding whether the intermediaries legislation (known as IR35) applies to their PSC and paying the relevant tax and NIC. Instead, the public sector engager, agency or other third party in the supply chain closest to the worker's PSC will have to decide if the worker would be an employee if they were not contracted to undertake the work via their PSC. If this applies, the engager will have to account for and pay the relevant tax and NIC liabilities through the PAYE RTI system. HMRC has published a technical note explaining the proposals with examples.

HMRC estimates that non-compliance with the IR35 rules is costing the taxpayer around £440m per year. The government recognises that the current rules are seen as complex and can create uncertainty so it will consult on a simpler set of tests and online tools that will provide a clear answer as to whether and when the new rules should apply.

We are already identifying practical problems with this new approach, such as where it may cause uncertainty or unfairness, and will be considering this in more detail in the coming weeks.

Enterprise investment scheme and venture capital trusts
Changes have been announced to ensure that the legislation on the enterprise investment scheme (EIS) and venture capital trusts (VCTs) introduced in Finance (No.2) Act 2015 works as intended.

The first change is to clarify the method for determining the five-year period for the average turnover amount and the relevant three preceding years for the operating costs conditions. It is proposed that the most recently filed accounts of the company will generally be used to determine the end date of the relevant period. However, if the end of the last accounts filling period falls more than 12 months before the date on which the investment is made, it is proposed that the five and three year periods end 12 months before the date the investment is made. This measure will apply retrospectively from 18 November 2015 (the date of Royal Assent to F (No. 2) Act 2015), although a company will be able to elect to apply the existing legislation to investments before 6 April 2016.

The second change is the introduction of a new condition to clarify the non-qualifying investments that a VCT can make for liquidity purposes. The investments will be those specified in s274(3A), Income Tax Act 2007 and this condition will apply from 6 April 2016.

As announced at Autumn Statement, all remaining energy generation activities (including the export of electricity and the production of gas or other fuel) will be excluded from the EIS, SEIS and VCTs schemes for investments made on or after 6 April 2016.

Finance Bill 2016 proposes legislation permitting HMRC to collect information from businesses that receive state aid through the tax system, and to share and publish that information. This follows new European Commission reporting requirements. The requirements are set out in Article 9 of Commission Regulation 651/2014 (General Block Exemption Regulation (GBER)). The new rules apply to all aid notified under either GBER or certain other state aid guidelines and take effect for state aid provided from 1 July 2016.

The EIS and VCTs are state aids falling within the EU reporting requirements and details of companies receiving total EIS/VCT investments above €500,000 will be published in due course. Details of individual EIS investors will not be published. HMRC will be providing further guidance and contacting VCTs shortly.

Further information can be found at http://europa.eu/rapid/press-release_IP-14-588_en.htm
http://ec.europa.eu/competition/publications/cpb/2014/004_en.pdf

Company tax

Reduction in corporation tax rates
The good news for incorporated businesses is the proposed reduction in CT rates to 17% from April 2020. This means that CT rates will be 19% for the financial years beginning 1 April 2017, 1 April 2018 and 1 April 2019, and 17% for the financial year beginning 1 April 2020. It had previously been legislated for, in s7, Finance (No.2) Act 2015, that the rate would be 18% from 2020.

Loans to participators
Small company owners who extract profits by way of dividends will generally pay more income tax from April 2016, when the previously-announced changes to the dividend tax rules commence.

A further blow comes in the form of an increase in the rate of tax suffered on loans to participators. The rate of tax payable on such loans will increase from 25% to 32.5% for loans made and benefits conferred by close companies on or after 6 April 2016. This aligns the rate with the dividend upper rate.

Tax deductibility of corporate interest expense
There was a consultation on the tax deductibility of corporate interest last year to which Tax Faculty responded in ICAEW REP 07/16. We were concerned that changes to the existing rules, which have been a major and positive element of the UK tax regime, should have some backstop to the provisions so that the new rules should not apply if there is no BEPS in point.

The new provisions are not to be introduced until Finance Bill 2017 and the Business tax road map indicates that further consultation will be conducted on the detailed design of all aspects of the rules, sometime this summer.

The detailed proposals, at the moment, are

- a fixed ratio rule, limiting corporate tax deductions for net interest expense to 30% of a group's UK EBITDA;
- a group ratio rule, based on the external net interest to EBITDA ratio for the worldwide group (which will replace the current worldwide debt cap regime with a more limited net interest cap);
- a *de minimis* group threshold of £2m net UK interest expense;
- some rules to ensure that the restriction does not impede the provision of private finance for certain public infrastructure projects in the UK; and
- rules addressing volatility in earnings and interest in the rules.

Table 2.1 of the Red Book indicates that the extra income from this measure alone is anticipated to bring in £4bn in the period to 2020/21.

Large company CT payment date
The government will put back by two years the bringing-forward of CT payment dates for companies that have taxable profits over £20m. The proposal announced in the Summer Budget 2015 was that these companies would have to pay tax by instalments in the third, sixth, ninth and twelfth months of the year and the new dates would first affect tax receipts in the 2017/18 tax year. The start date has now been put back a further two years so the dates will first be brought forward in the 2019/20 year.

After two years there will be a normal one year's worth of payments in every fiscal year and the public finances will be unaffected.

But the impact of the change seems to have altered quite dramatically. The amounts of the additional payment in the two years that are affected, originally 2017/18 and 2018/19, and now 2019/20 and 2020/21, are shown below:

	Summer Budget 2015	Budget 2016
Year one	£4.5bn	£6bn
Year two	£3.1bn	£3.6bn

In the latest Table 2.1 the reduction in the earlier two years is shown as £6bn and £3.85bn so clearly the government thinks that the policy is going to have a significantly greater impact on the public finances that it imagined nine months ago: £9.6bn compared with £7.6bn.

Losses carried forward

The restriction in the relief for brought forward losses which currently only applies to banks is to be extended to businesses if they have profits in excess of £5m. If they do, then they will only be able to use the brought-forward losses in respect of 50% of the profit over that £5m threshold. It is not absolutely clear how the new rules will work but if a company has £10m losses and a profit in the subsequent year of £8m we imagine that there will be full loss relief up to the £5m profit and then only 50% relief for the excess £3m, ie £6.5m of loss relief.

The Business tax road map states that the existing law “can lead to a situation where a large company pays no tax in a year when it makes substantial profits”.

In our example the company has made £8m of profit and it would now have to pay tax on profits of £1.5m. But over the two years it has made a loss of £2m. It does not seem fair or reasonable to pay tax on profits that it has not realised.

There is also a proposal that losses incurred on or after 1 April 2017, when carried forward, will be available for use against profits from other profit streams or profits of other companies in the group.

Finally, the relief for banks’ pre-April 2015 losses will be reduced to 25% from the current 50%.

Withholding tax on royalty payments

Royalty payments to overseas persons for the use of intangible assets such as trademarks and brand names will be subject to withholding tax unless exempt under a double tax agreement or the EU Interest and Royalty Directive.

There will be a domestic law treaty abuse rule to counter conduit arrangements where the royalty payment is paid via a treaty country but ends up in a tax haven “for tax motivated and uncommercial reasons”.

The withholding will also apply to payments that are connected with the activities of UK permanent establishments of overseas companies.

Anti-hybrid rules

These are amongst the most complicated of the OECD BEPS proposals, 400 pages in the final conclusions published in October last year, and are designed to combat international groups that either set up entities, or have internal structures, such that there is a double tax deduction, in a cross border situation, or a deduction without a commensurate taxable amount in the other jurisdiction.

In the Red Book the impact of these measures is anticipated to be £750m over the next five years.

Large businesses required to publish their tax strategies
Following an announcement in the 2015 Summer Budget and subsequent consultation, large business will be required to publish their tax strategies to cover:

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

Oil and gas
Petroleum revenue tax was reduced from 50% to 35% in the March 2015 Budget and is now to be eliminated from 1 January 2016 and the supplementary charge is going to be reduced to 10%, also from 1 January 2016. This will save industry over £1bn in the next five years.

The ring fence CT will remain at 30%.

R&D tax relief
The R&D tax relief scheme for SMEs is a notified state aid and no one company can receive aid in excess of €7.5m for any one project.

When calculating the amount of aid received, the legislation in Chapter 8, Part 13, CTA 2009 currently ignores a notional amount for relief that could be received under the super deduction scheme for large companies as that scheme is not a state aid. The super-deduction scheme for large companies ends on 31 March 2016 and is replaced by the R&D expenditure credit (RDEC) (large companies can currently decide between claiming a super deduction or RDEC).

To ensure that SMEs continue to get the benefit of that notional reduction, changes will be made to the formula in s1114, CTA 2009 and the definition of notional relief in s1118,CTA 2009 for expenditure incurred on or after 1 April 2016.

Museums and galleries tax relief
The government proposes to introduce a new CT relief for the temporary touring and exhibition costs of museums and galleries. This will be another of the growing array of cultural reliefs.

The government will consult on the details over the summer 2016 with a view to implementing the relief from 1 April 2017.

Vaccine research relief
The vaccine research relief will end when its state aid approval runs out on 31 March 2017. This relief is now only available to large companies and is claimed by fewer than 10 companies a year.

OTS small companies review
The government has received the OTS's review of small companies and will accept or consider nearly all of its recommendations, including that the OTS continues to develop the design for a look-through taxation system and a new simple business model that protects the assets of the self-employed.

Capital gains tax

Change in rates of CGT
From 6 April 2016 the 18% rate of CGT will be reduced to 10%, The 28% rate, which applies to higher rate taxpayers or those whose gains exceed the basic rate band, will be reduced to 20%.

The 18% and 28% rates will continue to apply to chargeable gains arising on the disposal of residential properties that do not qualify for private residence relief, and to the receipt of carried interest. The rules to be announced will set out how to treat the position on the disposal of mixed use properties.

The 28% rate of CGT applied to ATED-related chargeable gains will remained unchanged.

Employee shareholder allowance
A lifetime limit of £100,000 will be introduced for the CGT exempt gains that a taxpayer can make on the disposal of shares acquired under employee shareholder agreements entered into after 16 March 2016. The blanket exemption was introduced in 2013 but it has now been decided that the exemption should be limited so any gains in excess of this limit will be charged to CGT.

Any past or future gains on such shares which were acquired under agreements made before midnight on 16 March 2016 will continue to qualify for the full exemption and will not count towards the new lifetime limit of £100,000.

Changes to entrepreneurs' relief
Finance Act 2015 introduced restrictions to entrepreneurs' relief (ER) as the government wished to clamp down on perceived abuse of the relief – but there were some unintended consequences including the loss of ER on the succession of family businesses.

Together with the CIOT, the Tax Faculty has been working with HMRC to try and reinstate the ER position where there is not an abuse of the system. Three of the areas looked at have been addressed in the Budget. We have been pleased to play a leading role in the very constructive and collaborative engagement with HMRC that has led to these changes.

The Finance Act 2015 changes were intended to prevent ER being claimed on contrived structures that were outside the policy intent of the relief. The changes focused on three main areas; joint ventures and partnerships, associated disposals and goodwill on incorporation. The breadth of the changes meant that ER was denied for some business owners that are carrying out genuine commercial activities of the type that ER is designed to promote.

It is particularly helpful that the proposed amendments to the legislation will take effect from the date(s) of the original Finance Act 2015 measures, thereby ensuring that taxpayers who were caught out by the unintended effects will no longer be adversely affected.

As a result of these changes it may be necessary for some taxpayers to amend their 2015 self assessments.

The changes are announced in the Red Book at paras 2.189 to 2.191 with further detail in separate papers.

<u>Associated disposals</u>
Following Finance Act 2015 when a business was sold to a family member and there was an associated disposal of a personally owned business asset ER was not available on the gain on the asset. This change will be reversed in Finance Bill 2016 and will be backdated to 18 March 2015, the date Finance Act 2015 became effective.

Goodwill on incorporation
Following Finance Act 2015 the gain on the goodwill of a business sold to a company owned by the owner of the business is not eligible for ER. This change also prevented ER being claimed where the company was owned by a member of the family as part of a normal family succession. Finance Bill 2016 will allow gains on the goodwill to be eligible for ER provided the claimant owns less than 5% of the acquiring company in terms of shares and voting powers. If the transfer of the business to a new company is part of an arrangement to sell it to a new independent owner ER will be due even where the claimant owns more than 5% of the shares or voting powers. The change will be backdated to 3 December 2014.

Joint ventures and partnerships
Some genuine commercial structures were denied ER following Finance Act 2015, where tax avoidance is not the main motive Finance Bill 2016 will restore the availability of ER. The activities of a joint venture company are not treated as carried on by a company which holds the shares in it and all the activities of a corporate partner in a firm are treated as not being trading activities for ER due to the modification of the definition of a trading company and trading group in s165A, Taxation of Chargeable Gains Act 2002 (TCGA 1992) by s169S(4A), TCGA 1992. Finance Bill 2016 will introduce a new definition

Legislation will be introduced in Finance Bill 2016 to introduce new definitions of ‘trading company’ and ‘trading group’ for ER purposes. Where the new definitions apply, a company which holds shares in a joint venture company will be treated as carrying on a proportion of the activities of that company corresponding to the investing company’s fractional shareholding in it. Also, the activities of a corporate partner in a firm will be treated as having their true nature (trading or non-trading) when determining whether the company is a trading company. This change allows the activities of the joint venture company to flow through to the investing company and will be backdated to 18 March 2015.

Entrepreneurs’ relief for long-term investors
ER will be extended to external investors in unlisted trading companies. The new rules will apply to newly issued shares purchased on or after 17 March 2016 providing they are held continually for a minimum of three years from 6 April 2016. There will be separate lifetime allowance of £10m.

Employee share schemes
A rights issue which takes place on or after 6 April 2016 in respect of shares received on exercise of an EMI option will be treated in the same way for share identification purposes as other rights issues, so that the new shares will be treated as acquired at the same time as the original shares.

Employee shareholder status
An individual lifetime limit of £100,000 will apply to gains eligible for CGT exemption through employee shareholder status (ESS). This limit will apply to arrangements entered into on or after 17 March 2016, and will not apply to arrangements already in place.

This change is intended to enable employee shareholders to realise a significant growth in the value of their shares without paying any CGT, while helping to ensure that the status is not misused.

Inheritance tax

Inheritance tax changes
Some changes to inheritance tax (IHT) announced in 2015 have been confirmed and will be included in Finance Bill 2016.

Undrawn funds within a pension fund that has been designated for drawdown by the member but not actually drawn at the date of the member's death will not be liable to IHT. This measure will be backdated to deaths on or after 6 April 2011.

The residence nil rate band up to a maximum of £175,000 per person by the time it is fully introduced in April 2020, £350,000 for a couple on second death will still be available if the main residence has been downsized provided the downsizing was on or after 8 July 2015. The main residence at death or before downsizing has to be worth at least £350,000 for a couple to benefit from the maximum relief and it has to be bequeathed to direct descendants.

ESC F20 exempting certain compensation and ex gratia payments for World War II claims will be legislated in Finance Bill 2016 and extended to include a compensation scheme known as Child Survivor Fund.

Estate duty
Estate duty was replaced by capital transfer tax over half a century ago but it still crops up every now and again. Three measures relating to estate duty were included in the Budget.

The Budget announced a change such that IHT can no longer be paid at a lower rate than the estate duty that was deferred for chargeable events on or after 16 March 2016.

Where an item has been granted exemption from estate duty, granted when an item was of national importance, the exemption remains in place until the object is sold. Currently if the exempted item has been subject to a later conditional exemption from IHT on death then on the subsequent sale of the item the estate duty charge falls away and IHT is charged. If the conditional exemption from IHT is granted on a lifetime transfer the estate duty exemption runs parallel with the IHT exemption and on sale HMRC can choose whether to charge estate duty or IHT.

Finance Bill 2016 will allow HMRC to choose which tax to levy whether the conditional exemption to IHT was granted on death or on a lifetime transfer.

The deferred estate duty is only chargeable when an item is sold, there are currently no provisions for levying a charge when an item is lost. Finance Bill 2016 will include a provision to allow a charge to be raised on lost items but if the Commissioners are satisfied the loss was outside the owner's control there will be no charge.

The final estate duty related change is to bring various public galleries and museums back into the scope of the advantageous tax provisions provided by the IHT legislation. To encourage gifts to public collections Sch 3, IHTA 1984 lists certain bodies to whom gifts are exempt from IHT and CGT. As some local authorities have transferred ownership of their collections to charitable trusts the exemption has been lost. Finance Bill 2016 will bring the legislation up to speed with modern practices.

Stamp taxes

SDLT for non-residential and mixed use property
The rates of stamp duty land tax (SDLT) for non-residential and mixed-use property up to 16 March 2016 were:

Purchase price/lease premium or transfer value	SDLT rate
Up to £150,000 - if annual rent is under £1,000	Zero
Up to £150,000 – if annual rent is £1,000 or more	1%
Over £150,000 to £250,000	1%
Over £250,000 to £500,000	3%
Over £500,000	4%

This was a 'slab system' and is replaced by a 'slice system' from 17 March 2016.

For transactions on or after 17 March 2016, the 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%

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 is a revenue raising measure, set to raise over £500m annually from 2017/18. However, for those at the lower end, it should provide savings. The government claims that 43% of businesses will pay less tax as a result of the reform whereas 42% will pay the same amount. This is because the first £150,000 will be taxed at a 0% rate. The increase for lease premiums should also only affect larger transactions as it will apply where the net present value of the lease is more than £5m.

There are some transitional rules that allow for the purchaser to make an election for the rules not to apply if certain circumstances are met.

Higher rate of SDLT for additional residential properties
The introduction of a 3% surcharge on the purchase of additional residential properties was one of the more controversial measures announced at Autumn Statement 2015. ICAEW responded to the consultation published on 28 December 2015 in ICAEW REP 26/16.

The charge will apply from 1 April 2016 to purchases of second homes and additional residential properties. As a result of the consultation, some key changes are:

- the extension of the period from 18 months to 36 months where there is an overlap or gap in ownership;
- the abandonment of the proposed exemption for significant investors;

- a relief for a small (50% or less) share of property inherited within 36 months prior to the transaction; and
- an extension of the range of scenarios in which a married couple will be treated as separated.

Stamp duty and SDRT on deep in the money options
A measure was announced at Autumn Statement 2015 designed to prevent avoidance by using deep in the money options. The change was to charge the 1.5% higher rate of stamp duty or stamp duty reserve tax (SDRT) based on either their market value or the option strike price, whichever is higher, when shares were transferred to a clearance service or depositary receipt issuer as a result of the exercise of an option.

The change was to apply to options which are entered into on or after 25 November 2015 and exercised on or after Budget 2016. However, this has now changed to options which are entered into on or after 25 November 2015 and exercised on or after 23 March 2016.

VAT and duties

VAT: fulfilment house due diligence scheme
The government has published a consultation on the 'fit and proper' standards that fulfilment houses will need to meet in order to operate. Fulfilment houses will have an obligation to register and maintain accurate records once online registration opens in 2018. They will also have to provide evidence of the due diligence they have undertaken to ensure overseas clients are following VAT rules.

VAT disclosure regime
There will be a consultation over the summer on reform of the VAT Disclosure Regime (VADR) to expand coverage to other indirect taxes and align more closely with the Disclosure of Tax Avoidance Schemes (DOTAS) model which covers direct taxes.

Penalty for participating in VAT fraud
A consultation in spring 2016 will propose a new penalty for participating in VAT fraud. If taken forward, legislation will be in Finance Bill 2017.

VAT: online marketplaces
Action is being taken to protect the UK market from unfair online competition, by giving HMRC strengthened operational powers to tackle the non-compliance from some overseas businesses that avoid paying UK VAT on sales of goods made to UK consumers via online marketplaces. It will get overseas businesses that are or should be VAT-registered in the UK to pay VAT due, either directly or through a VAT representative.

If an overseas business continues to be non-compliant, HMRC will be able to make the online marketplace jointly and severally liable for the unpaid VAT on goods sold through its online marketplace.

The measure will apply to online marketplaces that provide a facility for UK consumers to view and place orders for goods being offered for sale by overseas businesses. It will apply from the date of Royal Assent to Finance Bill 2016 in relation to sales made in the UK for VAT purposes, regardless of where the marketplace itself is operated or controlled from.

There will also be amendments to s48, VAT Act 1994 to provide HMRC with strengthened powers for directing the appointment of a VAT representative. This will include a requirement that the VAT representative is in the UK and will also provide more flexibility in respect of seeking a security.

These new measures will not apply automatically to all overseas businesses and/or online marketplaces. These are discretionary powers that will enable HMRC to target the most non-compliant overseas businesses and take the most appropriate action on a case by case basis. HMRC will use risk assessment tools to first identify those overseas businesses that are high risk and/or continue to be non-compliant with UK VAT rules.

Museum VAT refunds
The government will broaden the eligibility criteria for the VAT refund scheme for museums and galleries. On Budget day the Department for Culture, Media and Sport published guidance on the new criteria, which will enable support to a wider range of free museums from across the UK.

Soft drinks industry levy
The government will introduce a new soft drinks industry levy to be paid by producers and importers of soft drinks that contain added sugar. The levy will be charged on volumes according to total sugar content, with a main rate charge for drink above 5 grams of sugar per 100 millilitres and a higher rate for drinks with more than 8 grams of sugar per 100 millilitres.

There will be an exclusion for small operators and a consultation on the details over the summer, for legislation in Finance Bill 2017 and implementation from April 2018 onwards.

Alcohol duty rates
The duty rates on beer, spirits and most ciders will be frozen this year. The duty rates on most wines and higher strength sparkling cider will increase by RPI from 21 March 2016.

Alcohol strategy
A new alcohol strategy is being published, to modernise the alcohol taxes to tackle fraud and reduce burdens on alcohol businesses. Consultations on reform of procedures for the collection of alcohol duty and on the feasibility and impacts of specific anti-fraud measures will follow in 2016.

Tobacco duty rates
Duty rates on all tobacco products will increase by 2% above RPI inflation. Duty on hand-rolling tobacco will also increase by an additional 3% above this rate, to 5% above RPI. These changes will come into effect from 6pm on 16 March 2016.

Cigarettes: minimum excise tax
The government will introduce a minimum excise tax on cigarettes in Finance Bill 2017.

Heated tobacco products
The government will consult on the tax treatment of heated tobacco, which excludes e-cigarettes, later this year.

Tobacco fraud sanctions
Following the publication of the refreshed anti-illicit tobacco strategy last year, HMRC will consult on strengthening sanctions to tackle tobacco fraud.

Control of raw tobacco
An approval scheme will be introduced for users and dealers in raw tobacco, which will require those carrying out a ‘controlled activity’ in relation to raw tobacco to be approved by HMRC.

Tobacco smuggling enforcement
£31m is to be invested from 2016/17 to 2019/20 in a new group of Border Force officers and intelligence officials who will specialise in seizures of illicit tobacco being smuggled into the UK and prevent over £100m of tobacco tax evasion.

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

Gaming duty bands
Gaming duty bands will be increased in line with RPI for accounting periods starting on or after 1 April 2016.

Remote gaming duty: freeplays
The tax treatment of discounted and free gambling (freeplays) within Remote Gaming Duty will be amended to bring it into line with General Betting Duty with effect from 1 August 2017.

Horserace betting
The government has set out a timetable for replacing the current horserace betting levy by April 2017. This will give British horseracing the right to funds from offshore remote betting operators.

Fuel duty
The main rate of fuel duty for petrol and diesel will remain frozen at 57.95 pence per litre in 2016/2017.

Fuel duty incentives for aqua-methanol
A reduced duty rate of 7.90 pence per litre will apply to aqua-methanol from 1 October 2016. The impact of this incentive will be kept under review alongside other fuel duty differentials for alternatives to petrol and diesel.

VED rates and bands
From 1 April 2016, vehicle excise duty (VED) rates for cars, vans, motorcycles and motorcycle trade licences will increase by RPI.

HGV VED and road user levy rates and bands
From 1 April 2016, HGV and road user levy rates, including all other rates linked to the basic goods rate, will be frozen.

VED classic vehicle exemption
Classic vehicle VED exemption will be put on a permanent basis from 1 April 2017, so that from 1 April each year vehicles constructed more than 40 years before the 1 January of that year will automatically be exempt from paying VED.

Environmental taxes

Air passenger duty rates
All APD rates will increase by RPI from 1 April 2016 and again by RPI from 1 April 2017.

Reform of business energy taxes
Following consultation on simplification of the business energy efficiency tax landscape, the government will:

- Abolish the Carbon Reduction Commitment (CRC) energy efficiency scheme with effect from the end of the 2018/19 compliance year. Businesses will be required to surrender allowances for the final time in October 2019. The government will work with the devolved administrations on closure details for the reporting element of the scheme.
- Increase the main rates of Climate Change Levy (CCL) from 1 April 2019, to cover the cost of CRC abolition in a fiscally-neutral reform and incentivise energy efficiency in CCL-paying businesses (Finance Bill 2016).
- Increase the CCL discount for sectors with Climate Change Agreements to compensate equivalently for the increase in CCL main rates. The CCL discount for electricity will

increase from 90% to 93%, and the discount for gas will increase from 65% to 78% from 1 April 2019. The government will retain existing eligibility criteria for Climate Change Agreement schemes until at least 2023, with a target review to include a review of the buy-out price for periods 3 and 4 starting in 2016.

- Rebalance the main rates of CCL for different fuel types to reflect recent data on the fuel mix used in electricity generation. In the longer term, the government intends to rebalance rates further to deliver greater energy efficiency savings, to reach a 1:1 ratio of gas and electricity rates by 2025.
- Consult later in 2016 on a simplified energy and carbon reporting framework for introduction by April 2019.

Climate change levy main rates
Climate change levy (CCL) main rates will increase in line with RPI from 1 April 2017 and 1 April 2018.

CCL exemption on renewably-sourced electricity
The transitional period for electricity suppliers to apply the CCL exemption on renewably-sourced electricity generated before 1 August 2015 will end on 31 March 2018.

CRC energy efficiency scheme
Allowance prices for CRC compliance years 2016/17, 2017/18 and 2018/19 will increase in line with RPI.
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Carbon price support rates
Carbon price support (CPS) rates will continue to be capped at £18/tCO_2 to 2019/20. For 2020/21, the cap will be maintained in real terms and set at £18/tCO_2 plus RPI. This will continue to protect business competitiveness. The long-term direction for CPS rates and the Carbon Price Floor will be set out at Autumn Statement 2016.

Aggregates levy rate
The aggregates levy rate will remain frozen at £2 per tonne in 2016/17, to support the construction sector.

Aggregates levy utilities exemption
There will be a consultation on a new exemption from the aggregates levy for aggregate which is an unavoidable by-product of laying pipes for utilities, with a view to legislating in Finance Bill 2017.

Landfill tax rates
The standard and lower rates of Landfill Tax will increase in line with RPI, rounded to the nearest 5 pence, from 1 April 2017 and again from 1 April 2018.

Landfill tax: scope
HMRC will consult later this year on the definition of a taxable landfill disposal, with the intention of changing the definition in Finance Bill 2017. This change aims to bring clarity and certainty to the tax without affecting its intended scope.

Landfill tax: tackling waste crime
Additional funding will be made available over the next five years for HMRC to increase compliance activity across the waste supply chain, enabling the government to better tackle waste crime.

Changes to the Landfill Communities Fund
At Autumn Statement 2015, the government announced reforms to the Landfill Communities Fund, including simplification of record-keeping requirements and changes to the scheme's objectives. The scheme's regulator, ENTRUST, will publish guidance shortly setting out the requirement for landfill operators to make a greater contribution to the fund from April 2016.

Avoidance, evasion and compliance

Table 2.1 of the Red Book evaluates the various measures in the Budget and anticipates that they will bring in more than £8bn of revenue over the next five years. The separate Business tax road map publication, at Table 1.B on page 11, indicates that a selected range of anti-avoidance measures introduced since 2010 will, by 2020, have brought in nearly £11bn.

Government has set HMRC a compliance yield target of £27bn for 2016/17.

Tackling marketed tax avoidance
The government is going to consider what constitutes reasonable care in avoidance penalty cases and consider options to address the issue of those who enable tax avoidance schemes. It will also be consulting over the summer on potential changes to the VAT disclosure regime.

Serial avoiders
There will be measures in Finance Bill 2016 to include a special reporting requirement and a penalty on those whose latest return is inaccurate due to use of a defeated scheme; publication of these avoiders' names; and, for those who persistently abuse reliefs, restrictions on their access to certain tax reliefs for a period.

General anti-abuse rule
There is to be a new penalty of 60% of tax due which will be charged in all cases when the GAAR is held to be in point. There are also going to be small changes to the GAAR procedure to improve its ability to tackle marketed avoidance schemes.

Tackling the hidden economy
The government will consult over the summer on three initiatives to tackle the hidden economy:

- Making access to licenses or services for businesses conditional on them being registered for tax. This will include consideration of what services or licenses could be conditional on registration, and ways to minimise burdens on business.
- New sanctions on those who repeatedly and deliberately participate in the hidden economy, including penalties and monitoring of repeat offenders. Consultation will take place in the summer.
- New powers to enable HMRC to gather data held by money service businesses for tax compliance purposes. This is ahead of potential legislation in Finance Bill 2017.

Legislation in Finance Bill 2016 will extend HMRC's powers to obtain data from online intermediaries and electronic payment providers to find those operating in the hidden economy.

Requirement to correct past offshore tax non-compliance
There will be a new legal requirement to correct past offshore non-compliance within a defined period of time with new sanctions for those who fail to do so. Legislation is planned for Finance Bill 2017.

Administration

HMRC customer service
There is to be an investment of £71m to improve the service which HMRC offers to individuals and small businesses. There is a promise of improved call waiting times, 7 day a week phone and webchat, and a new secure email service. There is to be a dedicated phone service and online forum for new businesses and the self-employed. 800 new staff are to be recruited into HMRC contact centres.

These improvements will be very welcome if they materialise. It is not clear how this funding ties in with the reallocation of resources to customer service announced in June 2015.

It is to be hoped that the level of service being provided to taxpayers' agents will also improve and that there will be an agent dedicated line into the Employer Unit and an improvement in the service level on the Corporation Tax phone lines. Online access to digital tax accounts through agent online self-serve (AOSS) needs to be rolled out at least at the same time as the services are made available to taxpayers, which has not been the case to date.

Making Tax Digital

There was no specific reference to making tax digital in the Budget. Consultation documents with further details of the proposals are expected to be issued later in 2016.

The consultations are expected to cover:

- keeping digital records and reporting to HMRC;
- greater use of third party data to prepopulate digital tax accounts;
- the legal framework for digital tax accounts;
- the penalty regime; and
- simpler payment.

In the meantime, it was announced that:

- From April 2018, businesses and landlords who are keeping digital tax records and updating HMRC quarterly will be able to adopt 'pay as you go' tax payments.
- The government will explore options to simplify the tax rules for businesses to facilitate digital updates and minimise the need for tax adjustments.
- The power for HMRC to make an assessment of an individual's liability to income tax or CGT (a simple assessment) without the need for a self assessment tax return where HMRC has sufficient information about the individual's income is to be enacted, largely as previously announced. In response to representations, HMRC has extended the time limit to dispute or appeal such assessments to 60 days (previously 30 days) – this is a welcome move.

OTS: next reviews

The government will commission the OTS to review the impacts of moving employee NICs to an annual, cumulative and aggregated basis and moving employer NICs to a payroll basis. It will also commission the OTS to review the options to simplify the computation of CT. The Terms of Reference for both reviews will be published shortly.

Devolution of taxes

No Budget (or Autumn Statement) would now be complete without further commitments to tax devolution. The Chancellor's pet phrase is now 'devolution revolution', and devolution proposals occupy a significant chunk of the Budget Red Book.

Tax devolution is now firmly established and has cross party political support throughout the UK. However, it's one thing to be given the power to change tax rates. It's quite another to use them – witness for example the reluctance of the Scottish parliament to change the Scottish rates of income tax. Alternatively, if the UK government is still driving the tax policy this is also likely to drive the direction of tax devolution. Take for example the change in the basis of calculating SDLT on commercial property announced in the Budget from a slab rate basis to a marginal rate basis: what should Wales now do when it introduces its own version of SDLT? Follow the UK's lead? There is a danger that devolution will add massively to the complication of the overall UK tax system and result in significant implementation costs, but there will be a reluctance to actually use the new powers.

Northern Ireland
The proposal originally announced in the 2015 Budget to devolve the setting of the CT rate to Northern Ireland is, as expected, likely to result in the Northern Ireland Assembly setting the rate at 12.5%, the same as that south of the border. While this should help make Northern Ireland more competitive with the Republic of Ireland, it is no longer the big deal it once was. Why? Because the Chancellor has been steadily closing the gap between the UK and Irish CT rates. In 2010, the UK main rate of CT was 28% but, by 2020, the UK CT rate will be down to 17%, bringing the difference between the two rates down from 15.5% to only 4.5%. The Chancellor's message seems pretty clear: if you cannot beat Ireland then the next best thing is to join them.

Scotland
The Smith Commission proposed further devolution of tax powers to Scotland and these powers are included in the Scotland Bill currently before parliament and which should complete its parliamentary passage within the next few weeks. Under clause 13 of the Bill, the Scottish parliament will have the power to set income tax rates. Powers are also granted to devolved air passenger duty and aggregates levy. However, unlike Northern Ireland the CT rate is not being devolved.

Wales
The government confirmed its commitment to delivering Welsh rates of income tax. Under the original proposals for devolution of tax powers to Wales, the devolution of income tax powers to Wales would only proceed if approved by the Welsh people in a referendum. Now, that requirement has been dropped and the approach now appears to be: you will have income tax devolution whether you want it or not. This power would therefore put Wales in a broadly similar position to Scotland.

England
The devolution agenda for England continues, but with the exception of business rates it is not based on a devolution of tax powers. This is perhaps not surprising as, if tax powers are being devolved from the UK level, the result will be that what were once UK tax powers will only apply in England. Given this ultimate outcome of devolution, it is therefore no surprise to find that the UK government proposes to amend the rules so that, where the main rate of Scottish income tax has been devolved to Scotland, the main rate of income tax for the rest of the UK will be decided only by MPs from England, Wales and Northern Ireland. As further taxes are devolved we can expect more of such measures.