



Budget 2016

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The Things You Need To Know

The Chancellor has his back against the wall this year trying to keep the peace with his own back benchers, keeping as many pro EU voters on side as possible and at the same time trying to balance the books of UK Plc against a backdrop of a slowing world economy!

Small businesses appear to be the 'winners' from this budget, of course it is all relative!

The key announcements:

- Overdrawn director's loans subject to a higher 32.5% corporation tax up from 25% to match the new higher rate dividend tax to prevent tax avoidance on new dividend tax.
- Planned reduction in corporation tax by April 2020 to 17%
- Micro entrepreneurs - £1,000 per year allowance for home traders and people renting part of their home
- From April 2017 Small business rate relief threshold rising from £6,000 to £15,000 and the higher rate rising from £18,000 to remove small businesses from rates permanently
- Commercial stamp duty 0% up to £150,000 from midnight tonight
- IPT (insurance premium tax) increase of 0.5% - money going to flood defences
- Fuel duty – Remains frozen for 6th year in a row (beer duty also frozen)
- From 2018 class 2 NICs abolished for self employed
- Capital Gains Tax cut from 28% to 20% and basic rate cut from 18% to 10%
- From 6 April 2016 the Dividend Tax Credit will be replaced by a new Dividend Allowance in the form of a 0% tax rate on the first £5,000 of dividend income per year.
- Pension reforms – New lifetime ISA from April 2017 anyone under 40 can save up to £4k per year and government will give you £1,000 until your 50. From April 2017 ISA limit increased to £20,000.
- Tax free allowance raised to £11,500 from April 2017. Higher rate threshold increased to £45,000 from April 2017

Comment & Analysis

It is more of the same with some further spending cuts and further tax rises as the Chancellor tries to get UK Plc to a budget surplus by 2019/20.

What about your business?

The increased directors loan tax (the so called Section 455 charge) from 25% to 32.5% is no surprise as otherwise it would have left wide open an opportunity to take directors loan rather than dividend to avoid the new higher dividend tax rate of 32.5% so a preventative measure rather than a new tax raising measure.

Further planned reductions to corporation tax to 17% are welcome but this is by 2020 and prior to that we have increased costs for things like auto enrolment and compliance changes so no real benefit, at least not for a while.

Small business rate reliefs have been extended and made permanent which should help if you are a small business that owns or rent a commercial premises.

And what will affect your personal budget?

If you have a (very) micro business trading online from home you may get a new small allowance of £1000 to remove you of any requirement to register or pay tax.

New lifetime ISA for those under 40 will help savers for those over 40 the ISA allowance increases to £20,000.

Other Changes

As always there are lots of announcements in the budget away from the headline grabbers and main taxes, here is a summary of the 'best of the rest':

- British economy growing faster than any other
- Global economy outlook weak, dangerous cocktail of risks
- Economy on track to deliver a surplus by 2019/20 of £10.4bn
- OBR (office for budget responsibility) growth forecast 2.0% in 2016 (reduced from 2.4%) then 2.2% in 2017 and 2.1% in 3 years after
- Unemployment with number claiming benefits at lowest level since Nov 1974
- OBR inflation forecast at 0.7% this year and 1.6% next year
- Further drive to save £3.5bn in government spending
- The disability budget will rise by more than £1bn but will be better targeted
- Richest 1% pay 28% of all taxes
- Business tax road map to be published so businesses can plan for the future
- Increased road projects going ahead in the north
- Crossrail 2 taken a stage further and HS3 rail link between Manchester and Leeds given green light
- Changing all schools to academies by 2020
- Sugar drinks – new sugar levy on soft drinks industry in 2 years' time, pure fruit juices and milk based drinks excluded. Money used for school sports funding and longer school days for secondary schools.
- Additional health funds for children
- From April 2017 restriction to interest tax deduction for large businesses – this is to combat large company tax avoidance
- Restriction of corporation tax losses for firms with profits over £5m

Things To Look Out For

Other changes going on not in today's budget but on their way:

- Changes to insolvency Laws from October 2016 will mean any creditor is able to purchase the right to pursue a director personally for any wrong doing and amounts owed. This is something that the insolvency practitioner may not always do because of cost and risk associated. The fund received from the creditor would be split between other creditors. This could mean higher risks for directors.
- Developments in company law will mean the introduction of a 'persons with significant control' register from April 2016 with an obligation file additional information at Companies House from June 2016. We will be taking care of these new requirements for all of our limited company clients.
- There is earmarked to be a review of the taxation of termination payments which may see an end to the £30,000 tax free exemption currently in place.
- IR35 legislation for contractors is also under the spotlight.
- The office for tax simplification keeps pressing the ideas for aligning various tax payment dates, due dates and thresholds and amounts. For example NI and income tax difference have got wider in recent times.
- There are also calls for a wholesale reduction in the amount of tax legislation which now runs to some 12,000 pages, in 1996 it was just over 900 pages!

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