SUMMER BUDGET 2015

On 8th July, the Chancellor of the Exchequer, George Osborne, announced the first Conservative Budget in nearly 20 years. Here we have summarised the key changes impacting small businesses and personal taxpayers…

Summary for Small Businesses

Small business owners across the UK are cautiously welcoming the Summer Budget as the Chancellor's second financial statement in four months delivered some much-needed allowances for local businesses along with a few stings in the tail too.

BUSINESSES

Corporation Tax Cut

Corporation tax will fall further from 20% to 19% in 2017, and then to 18% in 2020; benefiting over a million businesses. Unfortunately, the rate of corporation tax for small and large businesses will remain unified under current plans.

Dividends

The Chancellor announced a major overhaul to the way that dividends are taxed. Currently dividends are treated as paid net of a 10% tax credit, and generally basic rate taxpayers do not pay tax on dividends.

From April 2016 the dividend tax credit will be abolished and replaced with a £5,000 Dividend Tax Allowance. This will mean that the first £5,000 of dividends received will be tax free, and then anything above this will be taxed at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers. This change will have a major effect on small owner managed companies where the owner takes a small salary and extracts the remainder of the profits in the form of dividends. It is expected that the tax burden for the owners of these businesses will increase.

Annual Investment Allowance (AIA)

The AIA allows businesses to claim tax relief for purchases of qualifying plant and machinery, subject to a number of rules and restrictions.

The AIA has been £500,000 since April 2014 and under the original proposals, it would have fallen to just £25,000 from 1st January 2016. However, in the Summer Budget it was announced that from 1st January 2016 the AIA would instead be £200,000.

Corporation Tax Relief on Goodwill Amortisation

When a limited company purchases the trade and assets of another business, an element of the purchase price often relates to the client relationships and/or the business reputation. This element is known as goodwill and under current rules this can be written off over a number of years and tax relief claimed. These rules were revised in the Budget and the result is that tax relief will not be available for goodwill purchased on or after 8th July 2015.

Lending

Survey evidence continues to suggest that small business have improved access to finance. The government will introduce final legislation implementing 2 major reforms to the SME lending market.

The first will require the UK's major banks to share credit information on their SME customers with other finance providers through designated Credit Reference Agencies. By having access to more credible information about small business applicants, the chances of success should be improved.

The second will require those same banks to offer SMEs they reject for finance the opportunity to be referred to a Finance Platform that can help match them with alternative lenders.

IR35

The government will engage with stakeholders this year on how to improve the effectiveness of existing intermediaries legislation (commonly known as 'IR35') which is designed to protect against disguised employment. Non-compliance in this area is estimated to cost over £400 million a year. A discussion document will be published after Summer Budget 2015.

Fuel Duty

The Chancellor also confirmed that there would be no change to the plans he set out for fuel duty in the Coalition's last Budget in March 2015. Fuel duty will therefore remain frozen this year.

PERSONAL

Tax Lock

For the duration of this parliament, the government has introduced legislation to provide that:

- the basic, higher and additional rates

of income tax will not increase above 20%, 40% and 45%

- the rates of income tax and Class 1 NICs will not rise
- increases to the Upper Earnings Limit (UEL) will not exceed the Higher Rate Tax Threshold
- the standard rate of VAT shall not exceed 20%
- the reduced rate of VAT shall not exceed 5%
- items cannot be removed from the current VAT reduced rates and VAT zero rates

Although the government has committed to these rates, the thresholds at which income tax and National Insurance apply can be subject to change.

Personal Allowance and the Basic Rate Band

The Personal Allowance is the amount people earn before they have to start paying tax. This will increase from £10,600 this year to £11,000 next year. The government has pledged to increase the Personal Allowance to £12,500 by 2020, and a law will be introduced so that once it reaches this level, people working 30 hours a week on the National Minimum Wage won't pay Income Tax at all. The higher rate threshold will increase from £42,385 this year to £43,000 next year.

Inheritance Tax

The government is striving to take the family home out of inheritance tax for all but the wealthiest with a new transferable nil-rate band, introduced from April 2017. This will apply when a main residence is passed on death to direct descendants, such as a child or grandchild.

The allowance will be up to £100,000 in 2017/18, up to £125,000 in 2018/19, up to £150,000 in 2019/20, and up to £175,000 in 2020/21. This is in addition to the inheritance tax nil/rate band, which is set at £325,000 for the estates of individuals. This creates an effective £500,000 inheritance tax threshold for estates in 2020/21. As with the current nil rate band, any unused main residence nil rate band will be transferred to a surviving spouse or civil partner and means the effective inheritance tax threshold will rise to £1 million in 2020/21.

Pensions: Reduced Annual Allowance for Top Earners

Under current rules individuals can get tax relief of up to £40,000 on pension contributions each year, this is known as the Annual Allowance. From April 2016, there will be a restriction on pensions tax relief for those with incomes (including pension contributions) above £150,000 by tapering away their Annual Allowance to a minimum of £10,000. The Annual Allowance is the limit on the amount of tax relieved pension saving that can be made by an individual or their employer each year. For every £2 of adjusted income over £150,000, an individual's Annual Allowance, will be reduced by £1, down to a minimum of £10,000.

LANDLORDS

Restricting Tax Relief for Wealthier Landlords

Currently, individual landlords can deduct their mortgage interest from their rental profits before they pay tax. Wealthier landlords are therefore receiving tax relief at 40% or possibly 45%. As a consequence, from April 2017 this will gradually be reduced and by 2020 relief will be capped at basic rate of 20%. The tax reduction will be calculated as 20% of the lower of:

- the finance costs not deducted from income in the tax year (i.e. 25% for 2017/18, 50% for 2018/19, 75% for 2019/20 and 100% thereafter),
- the profits of the property business in the tax year, or,
- the total income (excluding savings income and dividend income) that exceeds the personal allowance and blind person's allowance in the tax year.

For basic rate taxpayers there will be no change, but wealthier individuals may start to see an increase in their taxable rental profits and therefore possibly their tax bills from 2017 onwards.

Wear and Tear Allowance

The wear and tear allowance is available to landlords letting out furnished, residential property. Rather than claiming relief for replacing utensils, or repairing furniture, landlords can deduct an allowance calculated as a percentage of rents received. The allowance can be claimed irrespective of whether any items have actually been replaced. The wear and tear allowance relates to the additional furniture and fittings that make a property "furnished". It does not apply to the fixtures that are an integral part of the buildings. From April 2016, the 'wear and tear allowance' will be replaced by a new system that only allows landlords to deduct the actual costs of replacing furnishings.

Rent-a-Room Relief

Finally after 18 years, the government will increase the level of Rent-a-Room relief from £4,250 to £7,500 from April 2016. This will be welcome news to people renting rooms out, and potentially Bed & Breakfasts.

EMPLOYERS

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. Whilst this will be welcome news to employees, this could hit small businesses hard.

Employment Allowance

Employers are currently entitled to an Employment Allowance of up to £2,000 towards their Employer National Insurance Contributions bill. The allowance was due to expire on 5th April 2016 but it was announced today that it will continue beyond 5th April 2016 and will increase to £3,000. The increase in the Employment Allowance will mean firms will be able to continue to employ 4 workers full time on the new National Living Wage next year, without paying any employer's National Insurance.

Director-only Companies and the Employment Allowance

To ensure that the NICs Employment Allowance is focussed on businesses and charities that support employment, from April 2016, companies where the director is the sole employee will no longer be able to claim the Employment Allowance.

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Phone: 01743 366669

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