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Budget Bulletin

2016

The Budget background

This was Mr Osborne's third Budget within the space of a year, even if you disregard the quasi-budget measures announced in November's Autumn Statement. Since last March's pre-election Budget Mr Osborne has been quietly tightening the tax screws with, for example, the revisions to dividend taxation and a new employment tax in the guise of an apprenticeship levy.

Immediately before the Autumn Statement it looked as if Mr Osborne might not meet his ambitious target for eliminating the budget deficit by 2019/20. However, the Office for Budget Responsibility (OBR) rode to his rescue, finding an extra £27bn of net income that allowed him to avoid making previously planned changes to tax credits. Several commentators suggested that the OBR's November numbers looked somewhat optimistic and, almost since the day they were published, this has proved to be the case. Economic growth expectations have fallen; whereas the OBR expected 2016 growth to be 2.4% and 2017 to be 0.1% higher, it now says that growth will be only 2.0% this year and 2.2% next year. Last year produced economic growth of 2.2%, lower than the Autumn Statement estimate of 2.4%. The government deficit for 2016/17 is now predicted to be about £16.7bn less than 2015/16's (at £55.5bn), although this drop is less than the £23.6bn the OBR had forecast in November. Nevertheless, the Chancellor is still standing by his oft-repeated goal of eliminating the deficit by 2019/20.

Inflation, running at 0.3% on the CPI measure and 1.3% on the now discredited RPI yardstick, continues to assist the Chancellor by keeping down borrowing costs on index-linked gilts. The era of lower-for-longer interest rates has also helped: the government is currently able to borrow 10-year money via the gilts market at a rate of around 1.5%, despite growing concerns about Brexit.

The OBR's latest projections have removed some of the wriggle room created in November. As a result, the Chancellor has been forced to increase borrowing from the Autumn Statement projections for the three years from 2016/17 and target substantial increases in revenue for 2019/20 to maintain his projected £10bn+ budget surplus in that year.

So what did emerge from the 2016 Budget? As is often the case these days, much of the answer is to be found in the previous year's Autumn Statement or earlier announcements. However, alongside the normal crop of re-announcements Mr Osborne, like his predecessors, could not resist adding a few surprises on his big day - both good and bad.

The headlines

- A rise of £400 in the personal allowance to £11,000 for 2016/17 and a further increase to £11,500 in 2017/18.
- A £615 rise in the higher rate threshold for 2016/17, to £43,000 and a £2,000 increase in 2017/18 to £45,000, clawing back part of the under-indexation of earlier years.
- A cut in the rates of capital gains tax to 20% for higher and additional rate taxpayers and 10% for other taxpayers from 2016/17. However, the current rates of 28% and 18% will continue for gains on residential property and carried interest.
- A new Investors' Relief, similar to Entrepreneurs' Relief, for lifetime gains of up to £10 million on newly issued shares in unlisted trading companies.
- A new employer Class 1 National Insurance contribution (NIC) exemption for apprentices aged under 25 earning up to £827 a week.
- The introduction from April 2017 of a new Lifetime ISA for the under-40s, with a maximum annual contribution of £4,000 and a 25% government bonus.
- An increase in the main ISA allowance to £20,000 from 2017/18.
- Reform of business rates and a permanent doubling of the small business rates relief.
- Two new £1,000 tax allowances for trading income and property income, starting in 2017/18.

In this Bulletin we look at the impact of the main changes on various groups of taxpayers. The categorisation is inevitably rather arbitrary, so it pays to read all sections. Similarly, several of the tax planning points - such as those listed below in our 12 Quick Tax Tips - are universal.

12 quick tax tips

1. Don't waste your (or your partner's) £11,000 personal allowance.
2. Don't forget the new personal savings allowance, reducing tax on interest.
3. Think about how the new dividend allowance will affect you - for better or worse.
4. Don't ignore National Insurance contributions - they are really a tax at up to 25.8%.
5. Think marginal tax rates - the tax system creates 60% (and higher) marginal rates.
6. The dividend and savings changes warrant a review of who owns which investments.
7. ISAs should normally be your first port of call for investments and then deposits.
8. Check that you understand all future tax changes before investing in Buy to Let.
9. Trusts can save inheritance tax, but suffer the highest rates of CGT and income tax.
10. File your tax return on time to avoid penalties and the taxman's attention.
11. Never let the tax tail wag the investment dog.
12. Don't assume HMRC won't find out: automatic information exchange is spreading.

INVESTOR AND SAVERS

The Personal Allowance

Last year's Budget revealed that that the 2016/17 personal allowance would be £10,800, but the Summer Budget added a further £200 bringing the figure to a round £11,000. Similarly, the 2017/18 allowance was originally announced as £11,000 in Spring 2015, raised to £11,200 in July 2015 and increased again in this Budget to £11,500.

However, many people do not even use the current personal allowance (£10,600 in 2015/16), and in 2016/17 there will be a near £3,000 gap between the allowance and the unchanged starting point for National Insurance contributions (£8,060). At the other end of the income scale, some taxpayers will have no personal allowance in 2016/17 because their income exceeds £122,000, at which point their allowance is tapered to nil.

If you or your partner do not use the personal allowance, you could be paying more tax than necessary. There are several ways to make sure you maximise use of your allowances:

- Choose the right investments: some investments do not allow you to reclaim tax paid while others are designed to give capital gain, not income.
- Couples should consider rebalancing investments so that each has enough income to cover the personal allowance.
- Make sure that in retirement you (and your partner) each have enough pension income. On their own, neither state provision is enough, be it the basic state pension (£119.30 a week in 2016/17) or the new single-tier pension of up to £155.65 a week (for those reaching State Pension Age after 5 April 2016.

The Personal Savings Allowance

The personal savings allowance (PSA) was revealed in last year's Spring Budget, but only begins in 2016/17. Broadly speaking, if you are a:

- *basic rate taxpayer*, the first £1,000 of savings income you earn will be untaxed;
- *higher rate taxpayer*, the first £500 of savings income you earn will be untaxed;
- *additional rate taxpayer*, you will not receive any personal savings allowance.

'Savings income' in this instance is primarily interest, but also includes gains made on offshore investment bonds. Although called an allowance, the PSA is actually a nil rate tax band, so it is not quite as generous as it seems. The PSA's arrival will mean that from 6 April 2016 banks and building societies will no longer deduct tax from interest and neither will National Savings & Investments from those products it currently pays net interest on (such as 65+ bonds). The Budget announced that from 2017/18 the removal of the requirement to deduct tax on interest payments would be extended to open-ended investment companies, authorised unit trusts, investment trust companies and peer-to-peer loans arrangements.

If you and your spouse/civil partner receive substantial interest income, it is worth checking that you both maximise the benefit of the PSA. However, at current miserably-low interest rates, you might also want to consider whether you could earn a higher income by choosing non-deposit investments.

The Dividend Allowance

The dividend allowance was a surprise announcement in last year's Summer Budget and also begins in 2016/17. It was part of a reform of dividend taxation, ultimately designed to raise more revenue. The main target was private company shareholders who use dividends rather than salary to extract profits and thereby avoid National Insurance contributions.

The allowance will mean that the first £5,000 of dividends you receive in a tax year will not be subject to any further tax, regardless of your marginal tax rate. Once the £5,000 allowance is exceeded, there is a higher tax charge than at present, as the table below shows, so you could ultimately pay more tax on dividend income, in spite of the new allowance. The existing 10% dividend tax credit will disappear from 6 April 2016, so those rates in the table for 2016/17 are the rates you will pay.

Marginal tax rate	**Tax on dividend received**		**More tax payable in 2016/17 if total dividends exceed**
	2015/16	**2016/17***	
Basic	0%	7.5%	£5,000
Higher	25%	32.5%	£21,667
Additional	30.56%	38.10%	£25,250

* *Above £5,000 dividend allowance on which 0% is chargeable*

Like the personal savings allowance, the dividend allowance is in reality a nil rate band, so up to £5,000 of dividends will not disappear from your tax calculations, even though they are taxed at 0%.

The Starting Rate Band

For 2015/16, the starting rate band for savings income was widened to £5,000 and the rate reduced from 10% to 0%. The Chancellor has made no changes to the band for 2016/17, despite introducing new dividend and personal savings allowances. The truth is that most people are not able to take advantage of the starting rate band: if your earnings and/or pension income exceed £16,000 in 2016/17, then that probably includes you. However, if you (or your partner) do qualify, you will need to ensure you have the right type of investment income to pay 0% tax.

Year end planning point

If you don't anticipate using all your personal allowance in 2016/17 think about creating more income by closing deposit accounts before 6 April and crystallising the interest in this tax year. But beware of early closure penalties and shutting down accounts with better interest rates than are available now!

For the coming tax year, think about who should own what in terms of investments and savings. The new allowances mean it is no longer simply a question of loading as much as possible on the lower rate taxpayer of a couple. In theory you will each be able to receive an income of up to £22,000 a year tax free in 2016/17, but only if you have the right mix of earnings, savings income and dividends.

Capital Gains Tax (CGT)

Capital gains are taxed as the top slice of income, but the rates are currently lower than those that apply to income not covered by allowances. From 6 April 2016 most rates will be cut by 8% so gains will generally be taxable at 10% to the extent they fall in the £32,000 wide basic rate band (2016/17) and 20% if they fall into the higher or additional rate bands. However, for gains on residential property (eg Buy to Let) and carried interest the 2015/16 tax rates of 28% and 18% will continue to apply. The CGT annual exemption for 2016/17 will remain unchanged at £11,100 because inflation (as measured by the Consumer Price Index) to last September was below zero.

The tax rates and annual exemption (per person, not per couple) mean that if you can arrange for your investment returns to be delivered in the form of capital gains rather than income, you will often pay little or no tax on your profits. While investment decisions should never be made on tax considerations alone, traditionally favouring capital gains over income when setting your investment goals has been a sensible approach. However, with the new dividend allowance, this will no longer automatically be the case, despite the CGT rate cuts.

Year end planning point
If you do not use your £11,100 annual exemption by Tuesday 5 April, you will lose it and a possible tax saving of over £3,100. If you have gains of over the exemption to realise, it is worth deferring the excess until after 5 April to gain another £11,100 exemption, benefit from the new CGT rates (if applicable) and defer the CGT bill until 31 January 2018.

Individual Savings Accounts (ISAs)

The annual ISA investment limit for 2016/17 will be unchanged at £15,240, but in 2017/18 will jump to £20,000. The limit for the Junior ISA (JISA), which is attracting more university-fee-planning investors, will stay at £4,080 for 2016/17. 6 April will see the launch of the Innovative ISA, which allows investment in peer-to-peer (P2P) lending. This potentially offers higher rates than the yields on cash ISAs, but without security of capital or any deposit protection scheme coverage. From the same date new flexibility will be introduced to cash ISAs, allowing you to replace any amount of withdrawn money without it counting towards your ISA allowance, provided the replacement occurs in the same tax year. This feature has been added because the arrival of the personal savings allowance, offering up to £1,000 of tax-free interest, has reduced or eliminated the benefits of a cash ISA for many savers.

Nevertheless, ISAs remain one of the simplest ways to save tax, with nothing to report or claim on your tax return. The annual limit may be modest, but over time substantial sums can build up: if you had maximised your ISA investment since they first became available in April 1999, you would by now have placed over £150,000 largely out of reach of UK taxes.

Remember ISAs are now inheritable by surviving spouses or civil partners, a process which is due to be simplified later in 2016 to avoid any income or CGT during the estate administration period.

Year end planning point
The forthcoming dividend and personal savings allowances mean that your ISAs may need to be reviewed. It makes sense to do this as part of any year end top up.

Lifetime ISAs

One of the Budget's big surprises was the announcement of the Lifetime ISA (almost certain to be called a LISA), to be launched in April 2017. Details of this will be subject to consultation, but the main features already decided are:

- Only those under the age of 40 will be eligible to invest.
- The maximum annual contribution will be £4,000 to which the government will add a 25% bonus, eg a £100 contribution will become worth £125 in the plan.
- Funds, including the government bonus, can be used to buy a first home (worth up to £450,000) at any time from 12 months after opening the account, and can be withdrawn tax-free with the government bonus from age 60 for use in retirement.
- Withdrawals can be made at any time for other purposes, but with the bonus element of the fund plus any interest or growth on it forfeited *and* a 5% charge applied.

The government will examine the possibility of allowing penalty-free repayable loans against the plan and allowing penalty-free access before age 60 for specific life events other than purchasing a first home. Monies built up in a Help to Buy ISA will be transferable into the new plan during 2017/18. Savers with both a Help to Buy ISA and a Lifetime ISA will only be able to use the government bonus from one of these schemes to buy their first home.

Venture Capital Trusts (VCTs) and Enterprise Investment Schemes (EISs)

VCTs and EISs have been subject to a range of rule changes in recent years, with some of the most significant being introduced last year in response to revised EU state aid rules. As a result, the nature of some schemes has changed; for example, VCTs can no longer make fresh investment in management buy-outs (MBOs).

Interest in VCTs and EISs has grown as more aggressive forms of tax planning, such as film leasing schemes, have come under sustained HMRC attack and pension opportunities have been further constrained. Unfortunately, the increased interest has met with some slowdown in supply as VCT and EIS providers have taken time to restructure their products in response to the latest legislative changes. One consequence has been that some recent issues have been over-subscribed in a matter of days.

Extension to Entrepreneurs' Relief

A new form of Entrepreneurs' Relief (ER), Investors' Relief (IR) will extend the benefits of ER to external investors in unlisted trading companies. IR will apply a 10% rate of Capital Gains Tax (CGT) to gains accruing on the disposal of ordinary shares in an unlisted trading company held by individuals, provided such shares were newly issued to the claimant and acquired for new consideration after 16 March 2016, and have been held for a period of at least three years starting from 6 April 2016. A person's qualifying gains for investors' relief will be subject to a lifetime cap of £10 million, which is in addition to the existing ER cap.

Pay later, not now?

For higher and additional rate taxpayers, there can be a case for considering the options for tax deferral, once the decision on which sector to invest in has been made. The potential advantages and disadvantages of tax deferral include:

- What would be going to the Treasury instead remains invested, enhancing potential returns.
- There is the possibility that tax rates will be lower when the investment is realised. The opposite risk that the 50% top tax rate will reappear under a new government is now realistically only an issue for 2020/21 and beyond.
- Some tax liability might disappear completely. For example, under current rules there is generally no capital gains tax on death.
- The investor may change their country of residence, giving rise to a lower tax rate or possible tax savings during the period of transition between the old and new homes. However, escaping the long arm of HMRC by going overseas has become more difficult with the new statutory residence test that was introduced three years ago.

There is a variety of tax deferral options available but, as ever, advice is needed in making the 'customer' a client of HMRC.

ESTATE PLANNERS

Nil Rate Band

The nil rate band reached its current level of £325,000 in April 2009. It has been frozen since then and the summer 2015 Budget extended the freeze until at least April 2020. Had the nil rate band been increased in line with inflation, it would be about £385,000 in the coming tax year.

A frozen nil rate band drags more estates into the IHT net and, if you are already caught, adds to the amount of tax that will be levied. Since April 2009, average UK house prices are up by about 32%, according to Nationwide, and UK share prices have risen by about 70% (March 2009 marked their low point in the wake of the financial crisis).

Main residence nil rate band

This first appeared in the Conservative's election manifesto, but when details were announced in the summer 2015 Budget what seemed a simple extra £175,000 of nil rate band for property owners turned out to be anything but straightforward and its full implementation has been deferred until April 2020. The Chairman of the House of Commons Treasury Committee complained that the proposed rules were so complex that "the main beneficiaries ….would be tax advisers and lawyers." However, no changes were announced in the Budget.

IHT yearly exemptions

The extended nil rate band freeze makes the yearly IHT exemptions all the more important:

- *The £3,000 annual exemption.* Any unused part of this exemption can be carried forward one tax year, but it must then be used *after* the £3,000 exemption for that year. So, for example, if you made a gift of £1,000 covered by the annual exemption in 2015/16, you can make gifts totalling £5,000 covered by the annual exemption in 2016/17 by 5 April 2017.
- *The £250 small gifts exemption.* You can make as many outright gifts of up to £250 per individual per tax year as you wish free of IHT, provided that the recipient does not also receive any part of your £3,000 annual exemption.
- *The normal expenditure exemption.* Any gift that you make is exempt from IHT if:
    - it forms part of your normal expenditure; and
    - taking one year with another it is made out of income; and
    - it leaves you with sufficient income to maintain your usual standard of living.

Year end planning point
If you are making an annual exemption gift by way of a cheque, remember that legally the gift is only made once the cheque is cleared. Tuesday April 5 is the final banking day of 2016/17, so a cheque given the previous weekend (2/3 April) will probably not clear in time.

Will review

The intestacy rules for England & Wales changed 18 months ago, bringing them more into line with what most people thought they were. However, relying upon intestacy to make the right decision on who gets what from your estate remains at best a risky option. A Will allows you to make your own choices, which should be reviewed regularly. If we can’t help you with this, we’ll refer you to someone who can.

In a similar vein, have you considered what happens to the death benefits under your pension arrangements? Among the many changes to pensions which took effect from 6 April 2015 was the start of a generous new set of rules about death benefits. IHT can now virtually be ignored and, if you die before age 75, there will generally be no other tax to pay on any fund passed to your beneficiaries, a situation strengthened by one technical change announced in the Budget. There is now a case for saying that pensions are best used as an estate planning vehicle, provided you can fund your retirement adequately from other sources (eg ISAs).

BUSINESS OWNERS

Corporation Tax Rate

The rate of corporation tax remains at 20% for the financial year starting on 1 April 2016 – there is now no small profits rate (formerly smaller companies' rate). A cut to 19% is due next year, with the further reduction scheduled for 2020, originally to 18%, now to be to 17% following an announcement in the Budget.

The falling rate of corporation tax is one of the reasons why the Chancellor announced a reform of dividend taxation last summer. Lower corporation tax rates strengthen the case for incorporation as an attractive tax option for business people. Operating via a company creates the opportunity to draw income as dividends, free of NICs, and shelter profits at corporation tax rates rather than personal income tax rates of up to 45%. The higher rates of tax on dividends above the new £5,000 dividend allowance are designed to claw back some of the lost NICs revenue and discourage incorporation.

Capital Allowances

Capital allowances have been subject to a variety of changes in recent years. The Annual Investment Allowance (AIA), which gives 100% initial relief for investment in plant and machinery, was increased from £250,000 to £500,000 in the 2014 Budget, but from 1 January 2016 it was reduced down to £200,000.

Year end planning point
The reduction in the annual investment allowance (AIA) means that if your company's year end is 31 March, then you still have an AIA of £425,000 in your current financial year because the two different levels are pro-rated. For the new financial year from 1 April 2016, the new £200,000 ceiling will bite, so you might want to bring forward capital investment, if possible.

Pension changes

A raft of important pension changes for employers and employees take effect in the year starting on 6 April 2016.

- Auto-enrolment into pension arrangements began to be phased in three and a half years ago. During the first part of that period it was mostly the larger employers that had to put auto-enrolment in place. However, as the employer size shrunk (now to under 30 employees) more problems have begun to emerge. The Pensions Regulator handed out over 2,500 compliance notices and 1,000 fixed penalty notices in the last three months of 2015. About 500,000 employers are due to begin auto-enrolment in 2016.
- As happened last year, the earnings threshold for auto-enrolment will *not* rise in line with the personal allowance for the new tax year and will thus remain at £10,000.
- Changes to women's state pension age (SPA) continue to work through the system. On 6 April 2016 women's SPA will be around 63, on its way to 65 in November 2018. Two years later both men and women will share an SPA of 66.

- For those reaching their SPA on or after 6 April 2016, the new single-tier state pension regime will apply, replacing both the basic state pension and the state second pension (S2P) and its predecessors. Defined benefit scheme contracting out ends at the same time, leading to an increase in employer's National Insurance contributions, if there are still active members of such a scheme. Ironically the main employer hit by this change will be the public sector; most private sector schemes are now closed.

Further technical changes to pension flexibility will occur in summer 2016. For example, the tax treatment of serious ill-health lump sums will be aligned with that of lump sum death benefits, meaning that the serious ill-health lump sum can be paid tax-free (when the provider is content to do so) when someone aged under 75 has less than a year to live but has already accessed their pension. At age 75 or beyond, personal marginal rates of tax will apply.

Employer's National Insurance Contributions

2016/17 will see the start of a new incentive to employ apprentices. Class 1 employer's NICs will only be payable on the earnings above £827 a week for apprentices aged under 25. The apprentices' own contributions are not affected. This change is in addition to a similar exemption for under-21s, introduced in 2015/16.

The Employment Allowance, which currently pays nearly every employer up to £2,000 towards their National Insurance contribution bill, will change from 6 April 2016. The rebate will rise to a maximum of £3,000, but will no longer be payable if the sole employee is a director. Unsurprisingly, the new rules are said to have encouraged employment of lowly paid spouses and partners by one-person companies.

Dividends or salary...

Regular changes to National Insurance contributions and tax rates have altered the mathematics of the choice between dividends and salary, with the introduction of the new dividend tax rules from 2016/17 being the most recent revision to have an impact. For shareholder/directors able to choose between the two, and not caught by the IR35 personal company rules, a dividend remains the more efficient choice even if no dividend allowance is left, as the example below shows. However, a pension (within the annual allowance provisions) could avoid all immediate tax and NIC costs.

Make Mine a Dividend

A director/shareholder has £25,000 of gross profits in his company which he wishes to draw, either as bonus or dividend. Assuming the company pays corporation tax at the rate of 20% and the director already has annual income in excess of £43,000, of which dividends already account for more than the dividend allowance. The choice can be summarised thus:

	Bonus £		**Dividend £**	
	Higher rate	**Additional rate**	**Higher rate**	**Additional rate**
Marginal gross profit	25,000	25,000	25,000	25,000
Corporation tax @ 20%	N/A	N/A	(5,000)	(5,000)
Dividend	N/A	N/A	20,000	20,000
Employer's National Insurance Contributions £21,968 @ 13.8%^	(3,032)	(3,032)	N/A	N/A
Gross bonus	21,968	21,968	N/A	N/A
Director's NICs £21,968@ 2%	(439)	(439)	N/A	N/A
Income tax *	(8,787)	(9,886)	(6,500)	(7,620)
Net benefit to director	**12,742**	**11,643**	**13,500**	**12,380**

^ *The Employment Allowance is assumed to be used or unavailable.*

**Tax on dividends at 32.5% for higher rate taxpayer and 38.1% for additional rate taxpayer.*

….Or nothing at all?

For some business owners, the ultimate way to limit their tax bill is to choose to leave profits in the company rather than draw them either as dividend or salary. With the top rate of income tax currently at 45%, there is an obvious argument for allowing profits to stay within the company, where the maximum current tax rate is 20%.

This strategy has tax risks in terms of eligibility for CGT entrepreneurs' relief and inheritance tax business property relief. Money left in the company is also money exposed to creditors, so professional advice should be sought before turning a business into a money box.

Class 2 National Insurance Contributions

Class 2 NICs payable by the self-employed (currently £2.80 a week) will be abolished from April 2018. Class 4 NICs will be reformed so that self-employed individuals continue to build entitlement to the State Pension and other contributory benefits, but details must await a government response to a recent consultation on the subject.

Business rates

There will be a reform of business rates, with the small business rate relief being doubled to £12,000 and made permanent from April 2017.

EMPLOYEES

Company cars

The company car benefit scales undergo another uplift in 2016/17, but that hasn't stopped Mr Osborne setting out and, in part legislating for, changes running through to 2020/21.

Precise details for the later years are awaited, but we do know the picture for the next two tax years:

Tax Year	Changes
2016/17	• The 3% diesel supplement, which was to be scrapped in April 2016, will now remain in being until April 2021. • 2% will again be added to all scale charges (including the 0g/km-50g/km band). • The maximum charge will stay at 37% and will apply for petrol-engine and diesel engine cars with emissions of 200g/km and above.
2017/18	• 2% will again be added to all scale charges (including the 0g/km-50g/km band). • The maximum charge will stay at 37% and will apply for petrol-engine and diesel engine cars with emissions of 190g/km and above.

Once again the changes will increase the tax on low-emission cars significantly because the same 2% addition applies whether the existing (2015/16) charge is 9% or 35%. For example, the scale benefit charge on an Audi A1 1.0 TFSI with 97g/km emissions would rise from 14% in 2015/16 to 18% in 2017/18, an increase of over a quarter. At the other end of the scale, the scale benefit charge on an Audi A8 4.0 TFSI with 216g/km emissions will remain fixed at the maximum 37%.

If you are changing your car next year, think ahead of what it will cost you in tax terms – or maybe even take cash instead, if you have the option.

Year end planning point
If you currently enjoy 'free fuel' but your private mileage is modest, you could be better off paying your own way in 2016/17, even if your employer does not compensate you for the lost benefit. Fuel scale charges will be going up marginally, even though fuel prices have dropped sharply in the past year.

Pensions

The pensions landscape has altered dramatically in recent years and will continue to change:

- If you are not a member of a pension scheme offered by your employer, then at some point within the next two years you are likely to find yourself automatically enrolled in a pension arrangement, with contributions deducted from your pay and added to by your employer. You will be able to opt out, but generally this will only make sense if you have elected with HMRC for some form of transitional protection (including the new fixed protection to be introduced later this year).
- The new single-tier state pension starts in April 2016, replacing both the basic state pension and the second state pension (S2P). As a result, contracting out of S2P will disappear completely. The reform will create more losers than winners in the long term and will mean that if you are currently contracted out via a final salary pension scheme, your (and your employer's) National Insurance contributions will rise. Unless you work in the public sector, the benefits of your employer's pension may be adjusted to take account of the increase in those employer's contributions – assuming your employer chooses to continue the scheme.
- State pension ages (SPAs) are on the rise, with an increase to 67 due between April 2026 and March 2028. Another rise to 68 is now pencilled in for the mid-2030s. By 2050 – so if you are 34 or under now – you could be facing an SPA of 69.
- From 6 April 2016 there will be new rules which could effectively taper down the total amount of tax-efficient contributions that can be made to your pension arrangements if your overall income (not just earnings) exceeds £110,000. As a result, some employers are imposing a contribution ceiling of £10,000 – the new minimum annual allowance.
- From the same date the lifetime allowance – in effect the maximum tax-efficient value of pension benefits – will be cut by 20% to £1m. New transitional protections will become available and although final details will not appear until summer HMRC has introduced an interim claim procedure for those drawing benefits after 5 April 2016.

Year end planning point
The carry forward rules allow unused annual allowance to be carried forward for a maximum of three tax years. Thus 5 April is your last opportunity to rescue unused relief from 2012/13. With the new restrictions for high earners in 2016/17, acting before the end of the tax year could be more important than ever.

Salary sacrifice

National Insurance contributions (NICs) can cost up to 25.8% of gross pay – up to13.8% for the employer and 12% for the employee. The corollary is that avoiding NICs can save up to 25.8% of pay. A widely applied example of turning NICs to an advantage is in the use of salary sacrifice to pay pension contributions. Instead of the employee making personal contributions out of their net pay, the employee accepts a lower salary and the employer makes a pension contribution. If the employer passes on all of the NICs savings, the pension contribution could be up to almost 34% higher, as the example shows. An attack on this in the Budget had been expected by some commentators, but instead the government said that its "intention is that pension saving… should continue to benefit from income tax and NICs relief when provided through salary sacrifice arrangements."

A Worthwhile Sacrifice

	Personal Contribution		**Salary Sacrifice Employer Contribution (sacrificed amount + NIC saving)**	
Tax Rate	**20%**	**40%**	**20%**	**40%**
	£	**£**	**£**	**£**
Gross Salary	1,000	1,000	Nil	Nil
Employer Pension Contribution	Nil	Nil	1,138	1,138
Employer NI Contribution (13.8%)	138	138	Nil	Nil
Total Employer Outlay	1,138	1,138	1,138	1,138
Employee Salary	1,000	1,000	Nil	Nil
Less Income Tax	(200)	(400)		
Less NI Contributions (12%/2%)	(120)	(20)		
Net Pay = Net Pension Contribution	680	580		
Tax Relief	170	387		
Total Pension Contribution	**850**	**967**	**1,138**	**1,138**

Year end planning point

From 6 April 2016 the standard lifetime allowance will reduce again. However, there is still the possibility of claiming transitional protection if your pension benefits were worth over the current lifetime allowance of £1.25m at the date of the last change (6 April 2014), even if further contributions have been made. The claim must be made before 6 April 2017.

RETIREES / AT RETIREMENT

The Pension Landscape in 2016

There have been many changes to pensions in the past few years, with another significant set of reforms about to take effect. These include:

- Three reductions in the standard lifetime allowance bring it down from £1.8m in 2011/12 to £1.25m now and £1m from 6 April 2016. This allowance effectively sets a tax-efficient ceiling for the value of pension benefits.
- Further increases to State Pension Age (SPA), both legislated for and planned. For women, SPA is now about 63.
- New rules, which have given much greater flexibility in drawing benefits from money purchase schemes, started on 6 April 2015 and have encouraged many people to turn their entire pension pot into (mostly taxable) cash. The new flexibility was accompanied by a more generous tax treatment of death benefits, further enhanced in the Budget, adding to the opportunities pensions offer for estate planning.
- The new single-tier state pension starts on 6 April 2016. While it will not affect you if you reach SPA before then, you now have the opportunity to top up your pre-April 2016 state pension by making new Class 3A National Insurance contributions before the 6 April 2017.

Interest Rates: Seven years of half a per cent with no end in sight

When the Bank of England base rate was cut to 0.5% on 5 March 2009, nobody anticipated that it would remain unchanged for the following seven years. Even now, the latest (February) Bank of England Inflation Report says that the money markets are not anticipating a rate rise until the end of this year with base rate failing to reach 1% until 2019. The recent cuts in interest rates to below zero in the Eurozone and Japan and a gloomier economic outlook have prompted the governor of the Bank of England, Mark Carney, to suggest the next move in UK rates could be downwards, although he has ruled out negative rates.

The main UK banks seem to have long since given up competing for deposits in this low interest rate environment. The best instant access rates for new accounts are now around 1.5%, leaving National Savings & Investments Income Bonds surprisingly competitive at 1.25% (1.26% AER). A similar picture emerges for cash ISAs, where again National Savings & Investments offers a competitive 1.25% instant access interest rate.

If low interest rates are a concern to you:

- Make sure you take maximum advantage of your new personal savings allowance.
- Maximise you cash ISAs, which pay interest tax free.
- Regularly check the interest rate on all your deposit accounts. Even though Bank of England base rate has been set in stone, deposit rates have not. It is especially important to watch accounts with bonus rates – once the bonus goes they can look very unattractive. Do not simply wait for the next statement: if you are only earning 0.1%, you need to know now.

- Be wary of tying your money up in a fixed term deposit for five or more years simply to achieve an interest rate close to 3%. A lot can happen in five years, but another half decade of 0.5% base rates looks very unlikely.
- Consider investing in UK equity income funds, where yields of 4% and more are widely available. You will lose capital security, but your initial income would be usefully higher and the new dividend allowance lets you receive £5,000 of dividends before paying any dividend tax, regardless of your personal tax rate.

Year end planning point
If you have not yet arranged an ISA or invested up to the 2015/16 maximum, think about doing so by 5 April. If you are unsure where to invest given current volatile conditions, you can always leave your money on deposit, even in a stocks and shares ISA. Just don't expect it to earn much interest. After 5 April, think about making your 2016/17 contribution early to maximise potential tax savings.

Drawing your pension

If you are due to start drawing an income from your pension plan, make sure that you come to us for advice about your options. When the new rules were first introduced the government launched Pension Wise to help people through the complexities, but this service only offers guidance, not personal advice: you will still have to make the final decisions. The Pension Wise guidance does not attempt to integrate pension choices with your other financial planning, eg estate planning.

If you think how long you might live with the cost of a wrong choice, it is clear that getting advice is the route to take. Please talk to us.

Year end planning point
The changes to the death benefit rules on pensions from 6 April 2015 should have prompted a review of the pension scheme and/or the expressions of wish regarding the recipients of pension death benefits. If you have not done so, now is the time. In theory your pension plan could provide income for future generations, as your beneficiaries will be able to pass the remaining fund to their children and so on down the line.

PARENTS

Child benefit

The High Income Child Benefit Charge – the child benefit tax – came into being a little over three years ago. If you or your partner has income of £60,000 or more in the current tax year, there will be a tax charge equal to your total child benefit unless you have taken a decision to stop benefit payment.

Between £50,000 and £60,000 of income, the tax charge is 1% of benefit for each £100 of income above £50,000. The result can be high marginal rates of tax in the £50,000-£60,000 income band. If you have three children eligible for child benefit, the marginal rate is 65%.

Year end planning point
As the child benefit tax charge is based on taxable income, you could reduce the impact of the tax by making a pension contribution.

Tax-free childcare payment

A new payment for working parents was announced just before the 2013 Budget, and was originally planned to be phased in from autumn 2015. This has now been put back to early 2017, when it will start to be phased in for parents of the youngest children. The new scheme will open to all eligible parents by the end of that year. It will pay 20% of childcare costs up to £2,000 per child, per year for children under 12. Over time the new system will replace the existing childcare vouchers system, which will now remain open for new entrants until April 2018. For couples the new payment will only be available if both partners are working at least 16 hours a week and each earning a minimum of just over £115 a week. An individual upper income limit of £100,000 will apply, £50,000 lower than previously proposed.

Junior ISAs

Junior ISAs (JISAs) were launched in November 2011 with an annual investment limit of £3,600, which has since been increased to £4,080 in 2015/16 (and 2016/17). JISAs can be invested in cash deposits and/or stocks and shares in any proportion and can usually be arranged for any child aged under 18 who was born before 1 September 2002 or after 2 January 2011. A child cannot have both a JISA and a Child Trust Fund account (which also has a £4,080 investment limit for 2015/16 and 2016/17). Since last April it has been possible to transfer Child Trust Fund accounts to JISAs, a move that may result in reduced fees and a wider investment choice.

University funding

The £9,000 a year maximum tuition fee for new students in England and Wales is for now a fact of student life. Even the limited maintenance grants system in England will end for new students in the 2016/17 academic year, meaning that all maintenance assistance will be by way of loans.

If you have children likely to go to university, it makes sense to consider your funding options. For example, JISAs are a potentially valuable tool to build up a fund by age 18. For those who prefer a greater degree of control over the student's access to the investment at age 18 (while retaining tax efficiency) collective investments held subject to an appropriate trust can look attractive, as could an offshore investment bond.

Despite these tax-efficient "pre-funding" opportunities, under the current rules some pundits consider that it makes sense to take the student fee loans while at university rather than pay fees from capital. That is because repayment only begins once earnings reach £21,000 and any debt is written off after 30 years from the April after graduation. The Office for Budget Responsibility projects that when the first 30 year period ends in 2048/49 the government will have to write of £20bn of debt.

University debt will add to the difficulties young people face in getting onto the now rapidly rising property ladder. Another reason, maybe, why parents and grandparents might like to consider tax-effective "pre-funding".

MAIN INCOME TAX ALLOWANCES AND RELIEFS

	2015/16	2016/17
	£	£
Personal allowance – standard	10,600	11,000
- Born before 6 April 1938 ¶	10,660	N/A
Personal allowance reduced if total income exceeds ∞	100,000	100,000
Transferable tax allowance (marriage allowance)§	1,060	1,100
Married couple's allowance* – minimum amount	3,220	3,220
– maximum amount	8,355	8,355
Maintenance to former spouse *	3,220	3,220
Married couple's allowance reduced if total income exceeds ¶	27,700	27,700
Employment termination lump sum limit	30,000	30,000

∞ For 2015/16 and 2016/17 the reduction is £1 for every £2 additional income over £100,000. As a result there is no personal allowance if total income exceeds £122,000 (£121,200 for 2015/16).

§ Available to spouses and civil partners born after 5 April 1935, provided neither party pays tax at above basic rate.

* Relief at 10%. Available only if at least one of the couple was born before 6 April 1935.

¶ For 2015/16 and, for the married couples allowance only in 2016/17, the reduction is £1 for every £2 additional income over the total income threshold. Standard allowance(s) **only** are available if total income exceeds:-

	2015/16	2016/17
	£	£
Taxpayer born before 6 April 1938[personal allowance]	27,820	N/A
Taxpayer born before 6 April 1935 [married couple's allowance]	38,090	37,970

INCOME TAX RATES

	2015/16	2016/17
	£	£
Starting rate	0%	0%
Starting rate on savings income	1-5,000	1-5,000
Personal savings allowance (for savings income)		
- Basic rate taxpayers	N/A	1,000
- Higher rate taxpayers	N/A	500
- Additional rate taxpayers	N/A	Nil
Basic rate	20%	20%
Maximum tax at basic rate+	6,357	6,400
Higher rate - 40%	31,786-150,000	32,001-150,000
Tax on first £150,000+	53,643	53,600
Additional rate on income over £150,000	45%	45%
Discretionary and accumulation trusts (except dividends)	45%	45%
Discretionary and accumulation trusts (dividends) °	37.5%*	38.1%
Tax credit attaching to dividends	10%	N/A
Dividend nil rate band (dividend allowance)	N/A	1-5,000
Basic rate on dividends	10%*	7.5%
Higher rate on dividends	32.5%*	32.5%
Additional rate on dividends	37.5%*	38.1%

High income child benefit charge	1% of benefit per £100 income between £50,000 and £60,000

\+ Assumes starting rate band not available and personal savings allowance is ignored. £5,400 on first £32,000 (£5,357 on first £31,785 in 2015/16) and £52,600 (£52,643 in 2015/16) on first £150,000 if full starting rate band is available.

° Up to the first £1,000 of gross income is generally taxed at the standard rate, ie. 20% or 7.5% as appropriate.

* 10% covered by dividend tax credit (2015/16 only)

CAR BENEFITS

The charge is based on a percentage of the car's "price". "Price" for this purpose is the list price at the time the car was first registered plus the price of extras.

For cars first registered after 31 December 1997 the charge, based on the car's "price", is graduated according to the level of the car's approved CO_2 emissions.

For petrol cars with an approved CO_2 emission figure.

CO2 g/km[1]	**% of price subject to tax[2]**		**CO2 g/km**	**% of price subject to tax[2]**		**CO2 g/km**	**% of price subject to tax[2]**	
	15-16	**16-17**		**15-16**	**16-17**		**15-16**	**16-17**
50 or less	5	7	125–9	20	22	170–4	29	31
51–75	9	11	130–4	21	23	175–9	30	32
76–94	13	15	135–9	22	24	180–4	31	33
95–99	14	16	140–4	23	25	185–9	32	34
100–4	15	17	145–9	24	26	190–4	33	35
105–9	16	18	150–4	25	27	195–9	34	36
110–4	17	19	155–9	26	28	200–4	35	37
115–9	18	20	160–4	27	29	205–9	36	37
120–4	19	21	165–9	28	30	210 and over	37	37

Notes

1. The exact CO_2 emissions figure should be rounded down to the nearest 5 g/km for levels of 95g/km or more.
2. For all diesels add 3%, subject to maximum charge of 37%.

CAR FUEL BENEFITS

For cars with an approved CO_2 emission figure, the benefit is based on a flat amount of £22,200 (£22,100 for 2015/16). To calculate the amount of the benefit the percentage figure in the above car benefits table (that is from 7% to 37%) is multiplied by £22,200. The percentage figures allow for a diesel fuel surcharge. For example, in 2016/17 a petrol car emitting 132 g/km would give rise to a fuel benefit of 23% of £22,200 = £5,106.

INHERITANCE TAX

	Cumulative chargeable transfers [gross]		**tax rate on death %**	**tax rate in lifetime* %**
	2015/16 £	**2016/17 £**		
Nil rate band+	325,000	325,000	0	0
Excess	No limit	No limit	40∞	20

* Chargeable lifetime transfers only.
+ On the death of a surviving spouse on or after 9 October 2007, their personal representatives may claim up to 100% of any unused proportion of the nil rate band of the first spouse to die (regardless of their date of death).
∞ 36% where at least 10% of net estate before deducting the charitable legacy is left to charity.

CAPITAL GAINS TAX

Main exemptions and reliefs

	2015/16 £	**2016/17 £**
Annual exemption	11,100*	11,100*
Principal private residence exemption	No limit	No limit
Chattels exemption	£6,000	£6,000
Entrepreneurs' relief	Lifetime cumulative limit £10,000,000. Gains taxed at 10%	Lifetime cumulative limit £10,000,000. Gains taxed at 10%
Investors' relief	N/A	Lifetime cumulative limit £10,000,000. Gains taxed at 10%

* Reduced by at least 50% for most trusts.

Rates of tax

	2015/16	**2016/17**
Individuals: Gains on residential property and carried interest Other gains	18% on gains within basic rate band, 28% for gains in higher and additional rate bands 18% on gains within basic rate band, 28% for gains in higher and additional rate bands	18% on gains within basic rate band, 28% for gains in higher and additional rate bands 10% on gains within basic rate band, 20% for gains in higher and additional rate bands
Trusts: Gains on residential property and carried interest Other gains	28% 28%	28% 20%

STAMP DUTY LAND TAX, LAND AND BUILDINGS TRANSACTION TAX AND SAMP DUTY

Residential	Rate¶	Commercial (from 17/3/2016)	Rate
£125,000 or less	Nil	£150,000 or less	Nil
£125,001 to £250,000	2%	£150,001 to £250,000	2%
£250,001 to £925,000*	5%	Over £250,000	5%
£925,001 to £1,500,000*	10%		
Over £1,500,000*	12%		
** 15% for purchases over £500,000 by certain non-natural persons* ¶ *All rates increased by 3% for purchase of additional residential property from 1 April 2016 if value is £40,000 or more*			

Scotland: LBTT (on *slice* of value)

Residential	Rate¶	Commercial	Rate
£145,000 or less	Nil	£150,000 or less	Nil
£145,001 to £250,000	2%	£150,001 to £350,000	3%
£250,001 to £325,000	5%	Over £350, 000	4.5%
£325,001 to £750,000*	10%		
Over £750,000*	12%		
** 15% for purchases over £500,000 by certain non-natural persons* ¶ *All rates increased by 3% for purchase of additional residential property from 1 April 2016 if value is £40,000 or more*			

UK Stamp Duty (including SDRT)

Stocks and marketable securities:	0.5%
No stamp duty charge unless the duty exceeds £5	

CORPORATION TAX

	Year Ending 31 March	
	2016	**2017**
Main rate	20%	20%

TAX-PRIVILEGED INVESTMENTS (MAXIMUM INVESTMENT)

	2015/16 £	**2016/17 £**
ISA		
Overall per tax year:	15,240	15,240
Maximum in cash for 16 and 17 year olds	15,240	15,240
Junior ISA	4,080	4,080
ENTERPRISE INVESTMENT SCHEME (30% income tax relief)	1,000,000*	1,000,000*
Maximum carry back to previous tax year for income tax relief	1,000,000	1,000,000
SEED ENTERPRISE INVESTMENT SCHEME (50% income tax relief)	100,000¶	100,000¶
VENTURE CAPITAL TRUST (30% income tax relief)	200,000	200,000

* No limit for CGT reinvestment relief.

¶ 50% CGT reinvestment exemption in 2015/16 and 2016/17

PENSIONS

	2015/16	**2016/17**
Lifetime allowance*	£1,250,000	£1,000,000
Lifetime allowance charge: Excess drawn as cash Excess drawn as income	 55% of excess 25% of excess	
Annual allowance	£80,000°	£40,000¶
Money purchase annual allowance	£20,000°	£10,000
Annual allowance charge	20%-45% of excess	
Max. relievable personal contribution	100% relevant UK earnings *or* £3,600 gross if greater	

* May be increased under 2006, 2012 or 2014 or forthcoming 2016 transitional protection provisions

° Subject to transitional provisions

¶ Subject to 50% taper down to a minimum of £10,000 based on adjusted net income in excess of £150,000, if threshold income exceeds £110,000

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee				
	2015/16		**2016/17**	
	Employee	**Employer**	**Employee**	**Employer**
Main NIC rate	12%	13.8%	12%	13.8%
No NICs on first: Under 21* 21* & over	 £155 pw £155 pw	 £815 pw £156 pw	 £155 pw £155 pw	 £827 pw £156 pw
Main NIC charged up to	£815 pw	No limit	£827 pw	No limit
Additional NIC rate on earnings over	2% £815 pw	N/A	2% £827 pw	N/A
Certain married women	5.85%	13.8%	5.85%	13.8%

* 25 for apprentices in 2016/17 only

Contracted Out Rebates	**2015/16**		**2016/17**	
Rebate on	£112.01 – £770 pw		N/A	
Salary-related scheme only	1.4.%	3.4%		

Limits and Thresholds	**2015/16**		**2016/17**	
	Weekly £	**Yearly £**	**Weekly £**	**Yearly £**
Lower earnings limit	112	5,824	112	5,824
Primary earnings threshold	155	8,060	155	8,060
Secondary earnings threshold	156	8,112	156	8,112
Upper secondary threshold – U21s*	815	42,385	827	43,000
Upper accrual point	770	40,040	N/A	N/A
Upper earnings limit	815	42,385	827	43,000

* Under 25 for apprentices in 2016/17 only

Self-employed and non-employed	**2015/16**	**2016/17**
Class 2		
Flat rate Small profits threshold	£2.80 pw £5,965 pa	£2.80 pw £5,965 pa
Class 4 (*Unless over state pension age on 6 April)*		
On profits	£8,060 – £42,385 pa: 9% Over £42,385 pa: 2%	£8,060 – £43,000 pa: 9% Over £43,000 pa: 2%
Class 3 (Voluntary)		
Flat rate	£14.10 pw	£14.10 pw

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