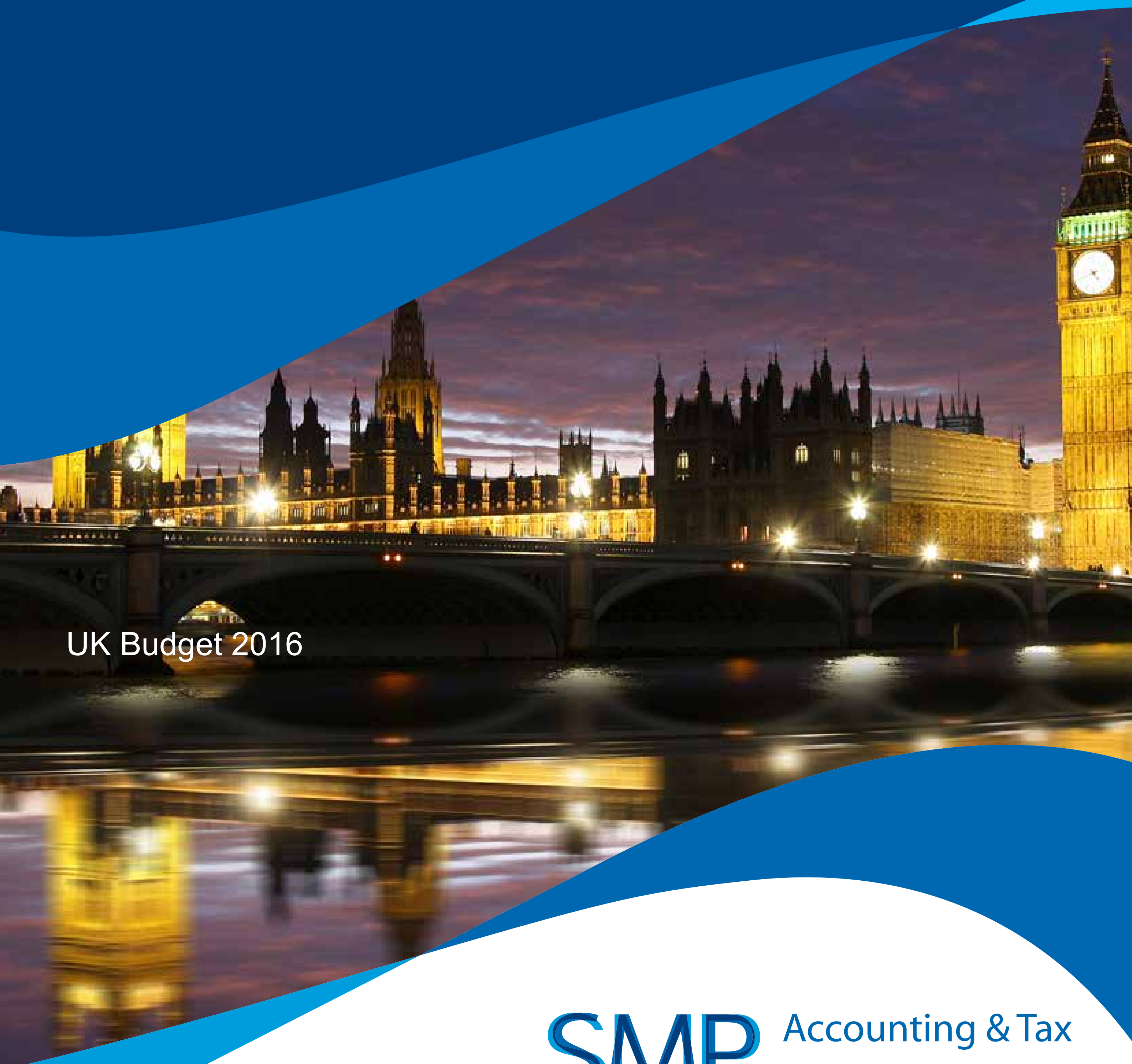

UK Budget 2016

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UK Budget 2016

On Wednesday 16th March 2016, the UK Chancellor of the Exchequer, George Osborne, gave the 2016 Budget Speech.

We have provided below a summary of the headline points from the Budget for our International Clients.

Proposed changes to the Non-Domicile Rules

The government is undertaking major reforms to the taxation of non-UK domiciled individuals. The government intends to legislate for these reforms in the Finance Bill 2017.

As announced at Summer Budget 2015, from April 2017 non-UK domiciled individuals (non-doms) will be deemed UK domiciled for all tax purposes after they have been UK resident for 15 of the past 20 tax years. Additionally, individuals who were born in the UK and who have a UK domicile of origin will revert to their UK domiciled status for tax purposes whilst resident in the UK.

The government will also legislate to charge inheritance tax on all UK residential property indirectly held through an offshore structure from 6 April 2017, however the consultation document on these proposed changes has not yet been released.

The UK Government is currently consulting on how these changes will affect the tax treatment of non-UK resident trusts and has previously proposed that non-doms who have a non-UK resident trust set up before becoming deemed domiciled in the UK will not be taxed on income and gains retained in the trust.

Budget 2016 has confirmed that non-doms who become deemed-domiciled in April 2017 can treat the cost base of their non-UK based assets as being the market value of that asset on 6 April 2017. Individuals who expect to become deemed UK domicile under the 15 out of 20 year rule will be subject to transitional provision with regards to offshore funds to provide certainty on how amounts remitted to the UK will be taxed.

Income Tax

Rates and allowances

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

The UK personal allowance will be £11,000 in 2016-17, rising to £11,500 in 2017-18.

The higher rate threshold will be £43,000 in 2016-17, rising to £45,000 in 2017-18. The NICs Upper Earnings Limit will also increase to remain aligned with the higher rate threshold.

Dividend tax

As announced at Summer Budget 2015, the government will abolish the Dividend Tax Credit from April 2016 and introduce a new Dividends Allowance of £5,000 a year. The new rates of tax on dividend income above the allowance will be 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

National Insurance Contributions

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

Capital Gains Tax

Budget 2016 announces that, from 6 April 2016, the higher rate of Capital Gains Tax (CGT) will be reduced from 28% to 20%, and the basic rate will be reduced from 18% to 10%.

The 28% and 18% rates will continue to apply for chargeable gains on residential property.

Private Residence Relief will continue to ensure that an individual's main home is not subject to CGT.

Entrepreneurs' relief at 10% will be extended to long term investors in unlisted companies, where shares are held for a minimum of three years. This is subject to a separate lifetime limit of £10 million of gains.

Property Tax

Stamp Duty Land Tax: additional properties

As announced at the Autumn Statement 2015, the government will introduce higher rates of SDLT on purchases of additional residential properties from 1 April 2016.

The higher rates will be 3 percentage points above the current SDLT rates.

Purchasers will have 36 months to claim a refund of the higher rates if they buy a new main residence before disposing of their previous main residence. Purchasers will also have 36 months between selling a main residence and replacing it with another without having to pay the higher rates.

Stamp Duty Land Tax (SDLT): reform of non-residential rates

The government will change the calculation of SDLT on freehold and leasehold premium non-residential transactions so the rates apply to the portion of the purchase price within each band.

Rates and thresholds

Transaction value	SDLT %
Up to £150,000	0%
Between £150,001 and £250,000	2%
Over £250,000	5%

SDLT on non-residential leasehold rent transactions, where the rates already apply to the portion of the purchase price within each band, will be reformed to include a new 2% rate for leasehold transactions with a Net Present Value over £5 million. These changes will take effect on and after 17 March 2016.

Offshore property developers

The government will introduce legislation in Finance Bill 2016 to ensure offshore structures cannot be used to avoid UK tax on profits that are generated from developing UK property. This measure ensures that profits from trading in UK land are always subject to UK tax even if there is no UK permanent establishment. The double taxation agreements with Guernsey, the Isle of Man and Jersey are being amended. Legislation for this measure will be introduced at a later stage of Finance Bill 2016, following a brief consultation.

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Corporation Tax

Rates

The government will reduce the corporation tax rate to 19% from 1 April 2017 and to 17% from 1 April 2020.

Corporation tax: reform of loss relief

The government will introduce two reforms from April 2017. First, the current streaming rules will be made more flexible so that losses arising on or after 1 April 2017 will be useable, when carried forward, against profits from other income streams or other companies within a group.

Second, from 1 April 2017, companies will only be able to use losses carried forward against up to 50% of their profits above £5 million. For groups, the £5 million allowance will apply to the group. The government will consult on the design of the reforms in 2016, and will legislate for the measures in 2017.

Loans to participators

The loans to participators tax rate will be increased from 25% to 32.5% in April 2016, with effect for loans, advances and arrangements made on or after 6 April 2016.

Royalty Withholding Tax (WHT)

The government will change the deduction of tax at source regime to bring all international royalty payments arising in the UK within the charge to income tax, unless those taxing rights have been given up under a double taxation agreement or the EU Interest and Royalties Directive.

The reform has three parts:

- UK WHT will apply to a wider definition of royalty payments
- The UK will introduce domestic anti-treaty abuse provisions to prevent the use of conduit companies
- WHT will apply to payments that are attributable to a UK permanent establishment, even if the payment of the royalty is not made from the UK.

VAT

The government will increase the VAT registration threshold in line with inflation to £83,000 from 1 April 2016.

Administration

Pay as-you-go tax payments

From 2018 businesses, self-employed people and landlords who are keeping their records digitally and providing regular digital updates to HMRC will if they wish be able to adopt pay-as-you-go tax payments.

Simple Assessment

Following the consultation announced at the Autumn Statement 2015, the government will legislate to provide a new power to allow HMRC to make an assessment of a person's Income Tax and Capital Gains Tax liability without them first being required to complete a self-assessment return and where it has sufficient information about that individual to make the assessment.

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Avoidance and evasion

A new criminal offence for tax evasion

The government will introduce a new criminal offence that removes the need to prove intent for the most serious cases of failing to declare offshore income and gains.

New civil penalties for offshore tax evaders

The government will increase civil penalties for deliberate offshore tax evasion, including the introduction of a new penalty linked to the value of the asset on which tax was evaded and increased public naming of tax evaders.

New civil penalties for those who enable offshore evasion

The government will introduce civil penalties for those who enable offshore tax evasion, including public naming of those who have enabled the evasion.

A requirement to correct past offshore tax non-compliance

The government will introduce 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.

General Anti-Abuse Rule (GAAR)

The government will legislate to introduce a new penalty of 60% of tax due to be charged in all cases successfully tackled by the GAAR.

So what can we take away from this budget?

The proposed changes to the taxation of non-domiciled individuals will bring in far reaching reforms for individuals who are either already long term residents in the UK, or who have a UK domicile of origin and are looking to return to the UK.

It is still unclear exactly how these changes will be introduced but the proposal to rebase non-UK assets to their market value as at 6 April 2017, and to bring in transitional provisions for individuals who expect to become deemed UK domicile under the 15 out of 20 year rule, should provide further certainty once the details have been released.

Property continues to be under attack with increased SDLT, the inheritance tax changes and the changes for offshore property developers. On the plus side the reduced CGT rates and the on-going reduction in corporation tax are welcome announcements.

Once we receive further information on these areas we will be able to assess the impact that these changes will have on our clients.

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If you have any questions on the 2016 Budget or any other tax matters, please contact your usual SMP adviser or one of the contacts below.

Justin Scott
Tel: +44 (0) 1624 683 262
Email: justin.scott@smppartners.com

Tony Dowling
Tel: +44 (0) 1624 683 254
Email: tony.dowling@smppartners.com

Rachael Hooper
Tel: +44 (0) 1624 682 267
Email: rachael.hooper@smppartners.com

SMP Accounting & Tax

Clinch's House, Lord Street,
Douglas, Isle of Man IM99 1RZ
Tel: + 44 (0)1624 683 242
Fax: + 44 (0)1624 612 624
Email: info@smpaccountingandtax.com
www.smpaccountingandtax.com