Tax update for Professionals
April 2016

Changes to Capital Gains Tax and Entrepreneurs' Relief
There has been an 8% reduction in the rates of Capital Gains Tax (to 20% for higher rate payers and 10% for basic rate payers), but not on sales of residential property or carried interest.
The Budget corrected some anomalies in recent changes to entrepreneurs' relief. These could improve the position for taxpayers who have incorporated their businesses since 3 December 2014 or have sold assets connected to a business disposed of to a family member since 18 March 2015. The adjustments only apply in certain circumstances, so it is worth revisiting relevant transactions to check whether the tax position has changed. Other changes apply for sales of companies holding shares in joint venture companies or corporate partners with shares in trading companies, meaning more investments could qualify as trading companies.
Finally, in certain circumstances, external investors in unlisted trading companies of which they are not directors or employees may be eligible for a 10% rate of Capital Gains Tax when they sell their shares. As with entrepreneurs' relief, there will be a lifetime cap of £10 million on eligible gains.

Tax on dividends and shareholder loans
From 6 April 2016 the rates of tax on dividend income have increased by 7.5% (to 7.5% for basic rate tax payers, 32.5% for the higher rate band and 38.1% for additional rate payers) with a 0% rate band introduced for the first £5,000 of dividends received. In line with this, the tax charge on overdrawn close company shareholder loan accounts has also been increased by 7.5% to 32.5%. This charge remains refundable once the loan has been cleared, but with the repayment not due until 9 months and a day after the end of the accounting period in which the loan is repaid, the cash flow implications need to be taken into account.

Company liquidations and other transactions in securities
6 April 2016 saw a change in how certain company distributions are taxed, with a targeted anti-avoidance rule moving certain distributions out of capital gains tax (tax rate between 10% and 28%) to the dividends tax regime (tax rates up to 38.1%). In particular this can now catch members' voluntary liquidations where shareholders intend to continue or re-start a similar business activity or where a separate company has been set up for a specific project. The changes are not as wide ranging as originally anticipated when the consultation in this area was launched.

Saving for the future – here comes LISA
The widely anticipated reform of the pensions system did not feature in the Budget, but there was an indication of how this could possibly develop in future with the introduction of the Lifetime Individual Savings Account (LISA). This will become available from April 2017 for adults under the age of 40, who will be able to contribute up to £4,000 pa, with a 25% Government top up. Savers will be able to withdraw funds at any time after the first 12 months to buy their first home and from age 60 for any purpose completely tax free. Charges will apply and the Government bonus will be lost if any other withdrawals are made.

Count down to Making Tax Digital
The phasing in of digital tax accounts starts in April 2018 for business below the VAT registration threshold and individuals with more that £10,000 secondary income. VAT registered business follow in April 2019 and companies in April 2020, so by 2020 pretty much everyone will be in the system. Taxpayers need to be prepared for this transition, which could mean a fundamental change in how they manage their accounting and tax affairs.

Additional residential property purchases
The additional 3% stamp duty land tax is now in force for acquisitions of additional residential property. There has been some relaxation of the original draft legislation to allow payments to be reclaimed if certain events occur within 36 months of the purchase of the second property. Contrary to earlier indications, though, there will be no exemption for large or corporate property investors.

Salary sacrifice
There is a shake up on the horizon for salary sacrifice arrangements with the Government announcing its intention to consult into their continued use. There is some consolation in the assurance that arrangements for pension saving, childcare arrangements and health-related benefits such as cycle to work schemes should continue to be available.

Off payroll working in the public sector
From April 2017 public sector bodies will become responsible for paying over the correct tax when they use the services of individuals operating through personal companies, taking over the responsibility for identifying the correct tax position from the worker's company.

Disguised remuneration schemes
A new targeted anti-avoidance rule has been introduced to tackle current and historic use of disguised remuneration schemes and transitional relief is to be withdrawn for taxpayers who have not reached a settlement with HMRC before 30 November 2016. Further measures will be introduced in 2017, and all outstanding loans or debts under such schemes will be taxed as earnings unless tax has already been settled or the loans have been repaid before 6 April 2019.

Annual Tax on Enveloped Dwellings
The annual charge on residential properties held by non-natural persons now applies for properties with a value of £500,000 or over, with these properties also subject to capital gains tax, rather than corporation tax, on disposal. The capital gains tax rate for these disposals remains at 28%. Annual returns are required even where exemptions are claimed; HMRC is trialling on-line filing for these. The normal filing date for returns is 30 April annually.

Corporation tax rates and loss relief
The single rate of corporation tax will fall to 19% on 1 April 2017 and to 17% on 1 April 2020. As always, when there is a reduction in tax rates companies will be looking for ways to accelerate deductible costs and defer profits until after the lower rates come into force.

In addition, companies carrying forward losses will have more flexibility to use losses that arise after 1 April 2017. There will, however, be a restriction for companies or groups with large profits, as there will be a 50% restriction on profits that can be sheltered by brought forward losses when the amount of group profit exceeds £5 million.

Tackling corporate tax avoidance
Various anti-avoidance measures are being introduced, particularly targeted at globally mobile companies. Payments of interest and overseas royalties could be affected, while property developers using offshore structures will be brought onto the charge to UK tax.

Whichever of these changes affect your clients Ensors have the tax specialists to help them.

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