Your guide to the 2015 Budget Statement

Chancellor George Osborne presented the 2015 Budget to the House of Commons on 18 March. This newsletter reports on the key announcements and recent measures most likely to affect your business and personal finances. For further advice, please contact us.

Inside...

Duties

Alcohol and tobacco

The duty rates on beer will decrease, reducing the price of a typical pint of beer by 1p. Other reductions in the duty rate will have the effect of reducing the price of a typical bottle of spirits by 18p and a typical litre of cider by 1p. These changes will take effect from 23 March 2015.

The duty on all tobacco products is increased by 2% above the rate of inflation (based on the RPI). This change took effect from 6pm on 18 March 2015.

Fuel duty

The fuel duty increase by RPI planned for 1 September 2015, due to be 0.54p per litre, will be cancelled.

'Britain is walking tall again', proclaims Chancellor

Chancellor George Osborne delivered his 2015 'pre-election' Budget in bullish mood. Proclaiming that 'Britain is walking tall again', the Chancellor announced that the national debt target has been met and predicted the 'end of austerity' a year early.

The Office for Budget Responsibility has revised economic growth slightly upwards from 2.4% to 2.5% for 2015, while inflation has been revised down to 0.2% and borrowing levels revised downwards from the previous Autumn Statement forecast, to £90.2bn for 2014/15.

However, despite assigning significant funds from bank asset sales and lower welfare bills to 'pay down the national debt', the Chancellor announced plans for further deficit reduction.

While keen to emphasise the benefits of 'sticking to the fiscal path', the Chancellor found room for a number of measures for individuals and businesses.

Among the headline measures for individuals was the announcement of plans to scrap annual tax returns, replacing them with 'digital tax accounts'. The income tax personal allowance will also see additional increases, rising to £10,800 next year and £11,000 from April 2017, while the higher rate threshold will see an above inflation rise from £42,385 to £43,300 by 2017/18. Meanwhile, the pension lifetime allowance will fall from £1.25m to £1m from 2016/17.

The Chancellor also unveiled some key reforms for savers, confirming that five million existing pensioners will be given access to their annuities from April 2016. In addition, cash ISAs are set to be made more flexible from the Autumn. A new Personal Savings Allowance will make the first £1,000 of interest on savings tax-free (£500 for higher rate taxpayers), while first time buyers will be offered a helping hand onto the property ladder, via a new Help to Buy: ISA.

Having already confirmed the launch of a business rates review in the run-up to the Budget, the Chancellor announced that the Annual Investment Allowance will not be cut to £25,000 in January 2016, with the limit instead being reviewed at the 2015 Autumn Statement. Additional news for businesses included further measures aimed at building a Northern Powerhouse and supporting regional growth, investment in science and tax cuts for the North Sea oil and gas industry.

Other measures announced included cuts in alcohol duties and a cancellation of September's planned fuel duty increase, a move which prompted the Chancellor to quip 'That's a tenner off the tank with the Tories'.

Business tax and investment incentives

Corporation tax

Financial year to	31 March 2016	31 March 2015
Taxable profits		
First £300,000	20%	20%
Next £1,200,000	20%	21.25%
Over £1,500,000	20%	21%

Annual Investment Allowance (AIA)

The maximum amount of the AIA is currently £500,000 for all qualifying expenditure on plant and machinery made from 1 April 2014 for corporation tax and 6 April 2014 for income tax. After 31 December 2015 the limit was set to be reduced to £25,000 but is now subject to further review. Transitional rules will apply.

Research and development (R&D)

The rate of the above the line credit will increase from 10% to 11% and the rate of the small and medium (SME) scheme will increase from 225% to 230%. These will take effect from 1 April 2015.

Legislation will be introduced to restrict qualifying expenditure for R&D tax credits so that the costs of materials incorporated in products that are sold are not eligible. This will be effective from 1 April 2015.

Farmers averaging

The period over which self-employed farmers can average their profits for income tax purposes is to be extended from two years to five. This measure will come into effect from 6 April 2016 following a consultation on the detailed design and implementation of the extension.

The end of the tax return

It was announced that by the end of the next Parliament, every individual and small business will be able to see and manage their tax affairs through a digital account, removing the need for annual tax returns.

Under the plans, by early 2016 all of the UK's five million small businesses and the first ten million individuals will have access to their own digital tax account. It is intended to be simple, personalised and secure, offering an increasing range of integrated services. The accounts should bring together in one place all the information that taxpayers need to understand their tax position. They will be able to register, file, pay and update their information, at any time of the year, using the digital device of their choice.

Taxpayers will get a real-time view of their tax affairs and see how their tax is calculated. They will also be able to check how much tax they owe or need to be repaid and see their options for paying securely. Digital accounts aim to give small businesses greater certainty and control over their tax position. Those which pay more than one tax (such as corporation tax, VAT and PAYE) will be able to take a single view of their total liabilities across all taxes.

HMRC will automatically use the information it holds, along with new data from third parties, to populate the digital accounts. Those who pay their tax through PAYE will have their income tax, national insurance contributions (NICs) and pension position shown in their digital accounts, including any interest from banks and building societies. Taxpayers will then be able to log-in to check and confirm that their details are complete and correct.

By 2020, businesses will be able to manage their taxes together as part of their day-to-day running, rather than something to be done separately. Their accounting software will be able to feed data straight into their digital tax account, so that some businesses will simply log-in to check their details and not need to send an annual return.

The digital account will show PAYE taxpayers how much tax they will pay via their employer. Those with complex tax affairs will be able to tell HMRC about additional income online and have it reflected in their digital tax account. Individuals and small businesses will have the option to 'pay as you go'. In addition, instead of making a number of payments across different taxes, they will be able to make just one. Taxpayers will be able to let agents manage their digital account on their behalf.

Over time, it is intended that the digital accounts will offer access to a range of other Government services. To begin with, individuals will be able to see how their NICs affect their state pension. Later in 2015, the Government will publish a road map and consult on how it will deliver the changes needed. Separate consultations will cover a new payment process to support digital accounts and reform of NICs for the self-employed.

National insurance contributions (NICs)

Class 1 – not contracted out	Employee (primary)	Employer (secondary)
Payable on weekly earnings of:		
Below £112 (lower earnings limit)	Nil	–
£112 - £155 (primary threshold)	*0%	–
Up to £156 (secondary threshold)	–	Nil
Above £156	–	13.8%
£155.01 - £815 (upper earnings limit)	**12%	–
£156.01 - £815 (upper secondary threshold - under 21s)	12%	0%
Above £815	**2%	–

*No NICs are actually payable but notional Class 1 NIC is deemed to have been paid; this protects contributory benefit entitlement. **Over state pension age, the employee contribution is generally nil.*

Employment Allowance		Up to £2,000 (per annum)
Class 1A	On relevant benefits	13.8%
Class 2	Self employed	£2.80 per week
	Small profits threshold	£5,965 per annum
Class 3	Voluntary	£14.10 per week
Class 4*	Self employed on annual profits	
	£8,060 - £42,385	*9%
	Excess over £42,385	*2%

**Exemption applies if state pension age was reached by 6 April 2015.*

Changes to employer NICs

From 6 April 2015 employers will no longer be required to pay Class 1 secondary NICs on earnings paid up to the upper secondary threshold to any employee under the age of 21. This will apply to both existing employees and new staff taken on by employers. No individual's state pension entitlement will be affected by the measure.

From April 2015 the £2,000 annual Employment Allowance for employer NICs will be extended to care and support workers.

From April 2016 employer NICs up to the upper secondary threshold for apprentices aged under 25 will be abolished.

Pensions and savings

Help to Buy: ISA

The Help to Buy: ISA will be available through banks and building societies and is designed for people saving for their first home. It has the following features:

- a monthly maximum saving limit of £200 with an opportunity to deposit an additional £1,000 when the account is first opened
- the Government will provide a tax-free contribution equal to 25% of the total amount saved in a Help to Buy: ISA (so for every £200 saved, the Government will contribute a bonus of £50)
- the maximum bonus is capped at £3,000 and there will be a minimum bonus amount of £400
- the bonus will apply to both the amount a person saves into their Help to Buy: ISA and the interest that is built up during the period it is open
- there is no limit on how long the account can remain open.

For basic rate taxpayers, this will be equivalent to saving free of tax for their first home. Accounts will be limited to one per person rather than one per home so those buying together can both receive a bonus.

The scheme is available for those saving to buy a first home in the UK worth up to £450,000 in London or £250,000 elsewhere.

Value Added Tax rates and thresholds

From	1 April 2015
Standard Rate	20%
VAT Fraction	1/6
Reduced Rate	5%
Current Turnover Limits	
Registration – last 12 months or next 30 days over	£82,000 from 01/04/15
Deregistration – next 12 months under	£80,000 from 01/04/15
Annual Accounting Scheme	£1,350,000
Cash Accounting Scheme	£1,350,000
Flat Rate Scheme	£150,000

Pensions and annuities

The Government announced its intention to reduce the pension lifetime allowance to £1m with effect from 6 April 2016. Fixed and individual protection regimes will be introduced alongside the reduction in the lifetime allowance to protect savers who think they may be affected by this change.

Changes will be made with effect from April 2016 to allow people who are already receiving income from an annuity to sell that income to a third party as and when they choose.

Income tax and personal allowances

Income Tax Rates	2015/16	2014/15
Basic rate band – income up to	£31,785	£31,865
Starting rate for savings	*0%	*10%
Basic rate	20%	20%
Dividend ordinary rate	10%	10%
Higher rate – income over	£31,785	£31,865
Higher rate	40%	40%
Dividend upper rate	32.5%	32.5%
Additional rate – income over	£150,000	£150,000
Additional rate	45%	45%
Dividend additional rate	37.5%	37.5%
Starting rate limit (savings income)	*£5,000	*£2,880

If an individual's taxable non-savings income exceeds the starting rate limit, then the starting rate limit for savings will not be available for savings income.

Personal Allowances	2015/16	2014/15
Personal Allowance (PA)		
Born after 5 April 1948	£10,600	£10,000
Born after 5 April 1938 and before 6 April 1948	*£10,600	*£10,500
Born before 6 April 1938	*£10,660	*£10,660
Married couple's allowance (MCA)		
Either partner born before 6 April 1935 (relief restricted to 10%)	*£8,355	*£8,165
Transferable Tax Allowance		
for certain married couples and civil partners born after 5 April 1935 (relief 20%)	£1,060	–

**Allowances for those born before 6 April 1948 are reduced by £1 for every £2 that adjusted net income exceeds £27,700 (£27,000) to a minimum PA of £10,600 (£10,000) and to a minimum MCA of £3,220 (£3,140).*
Where adjusted net income exceeds £100,000, PA is reduced in the same way until it is nil regardless of the individual's date of birth.

Vehicle excise duty

VED rates from 1 April 2015

Band	CO_2 (g/km)	First Year Rate £	Standard Rate: Petrol & Diesel £	Standard Rate: Alternative Fuels £
A	Up to 100	0	0	0
B	101 - 110	0	20	10
C	111 - 120	0	30	20
D	121 - 130	0	110	100
E	131 - 140	130	130	120
F	141 - 150	145	145	135
G	151 - 165	180	180	170
H	166 - 175	295	205	195
I	176 - 185	350	225	215
J	186 - 200	490	265	255
K*	201 - 225	640	290	280
L	226 - 255	870	490	480
M	Over 255	1,100	505	495

**includes cars emitting over 225g/km registered before 23 March 2006.*

Personal Savings Allowance

With effect from April 2016, a tax-free Personal Savings Allowance is to be introduced for interest income. This will apply for up to £1,000 of a basic rate taxpayer's savings income and up to £500 of a higher rate taxpayer's savings income each year. It will not be available for additional rate taxpayers, but will be in addition to the tax advantages currently available to savers from ISAs.

From April 2016 banks and building societies will no longer automatically take 20% in income tax from the interest earned on individuals' non-ISA savings.

Entrepreneurs' relief

Associated disposals

Legislation will be introduced in the 2015 Finance Bill to prevent claims to entrepreneurs' relief in respect of gains on disposals of privately-held assets used in a business unless they are associated with a significant material disposal (i.e. a disposal of at least a 5% shareholding in the company or of at least a 5% share in the assets of the partnership carrying on the business). These changes have effect for disposals on or after 18 March 2015.

Joint ventures and partnerships

It was announced that legislation will be introduced to prevent claims to entrepreneurs' relief in respect of gains on shares in certain companies which invest in joint venture companies, or which are members of partnerships. The new rule will deny relief where the investing company has no trade (or no relevant trade) of its own. These changes have effect for disposals on or after 18 March 2015.

Goodwill

As announced in the Autumn Statement 2014, legislation will be introduced to prevent claims to entrepreneurs' relief in respect of gains on business goodwill, where the goodwill has been disposed of to a limited company which is related to the claimant. Following consultation, the legislation has been revised to allow entrepreneurs' relief to be claimed by partners in a firm who do not hold or acquire any stake in the successor company. These changes affect transactions on or after 3 December 2014.

Academics

There is to be a consultation on the capital gains tax (CGT) treatment of gains made by academics on disposals of shares in 'spin-out' companies. Any necessary legislation will be introduced in a future Finance Bill.