Tax Newsletter

July 2015

Welcome to the Summer 2015 Budget edition of the Argenta Tax & Corporate Services Limited ('ATCSL') Tax Newsletter.

The first Conservative Budget since 1996 is one of immediate reform with more to come! The headlines are cuts to the welfare budget, the introduction of a living wage and a generous change to inheritance tax but this is very much a tax raising Budget. In the areas of business and pensions Mr Osborne has been quite canny in how he has achieved enormous savings. Simply bringing forward the payment date of corporation tax for large companies creates a very large "permanent" saving by speeding up the recognition of tax receipts. Likewise, with the tapering of the pension allowance, Mr Osborne is making a change that delivers lower tax relief today but defers lower tax receipts some way into the future.

Lloyd's underwriters are certainly affected by the changes, most notably the amendments to the pension rules, the reduction in the rate of corporation tax and the change to dividend taxation. Members will need to think carefully about the current structure of their underwriting vehicle and consider whether now is a time for change. Lloyd's (and HMRC) have been very helpful in allowing Members the utmost flexibility in being able to restructure underwriting activities as a tax free transaction. I would strongly recommend that the structure of your business is reviewed now to ensure you are in the best possible position at 1 January 2016 and subsequently 6 April 2016.

Key points:

Corporation Tax

- **Rate**

  The rate of corporation tax is being reduced. With effect from 1 April 2017 the rate falls from 20% to 19%. The rate will fall a further 1% to 18% with effect from 1 April 2020. This is welcome news and helps the UK's international competitiveness.

- **Payment**

  For accounting periods beginning on or after 1 April 2017, quarterly instalments will be brought forward to the third, sixth, ninth and twelfth months of the accounting period for groups with profits in excess of £20m. Those groups with a large number of entities could unwittingly be caught by this change.

- **Restriction of corporation tax relief for business goodwill amortisation**

  This measure removes corporation tax (CT) relief for companies who write off the cost of purchased goodwill and certain customer related intangible assets. This measure removes the tax relief that is available when structuring a business acquisition as a business and asset purchase so that goodwill can be recognised. This advantage is not generally available to companies who purchase the shares of the target company. Relief will still be available if the goodwill is sold.

  This change helps to put business purchases on an equal standing with share purchases.

ATCSL Comment:

The reduction in the rate improves the competitiveness of NameCos as an underwriting vehicle. Lloyd's underwriters are unlikely to be affected by the changes to the tax payment and intangibles rules. We would not expect Lloyd's underwriting capacity to fall within the new business goodwill rules.

Personal allowance increase

The government will increase the income tax personal allowance from £10,600 in 2015-16 to £11,000 in 2016-17. It will increase to £11,200 from 2017-18.

The amount people will have to earn before they pay tax at 40% will increase from £42,385 in 2015-16 to £43,000 in 2016-17.

Dividend taxation

The government will abolish the Dividend Tax Credit from April 2016 and introduce a new Dividend Tax 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.

ATCSL comment:

For UK taxpayers with dividend income greater than the £5,000 allowance they face an effective increase in tax of around 20%.

This will increase the tax burden for UK resident shareholders of NameCos. For those NameCos carrying distributable profits, shareholders should consider whether dividends should be paid prior to 6 April 2016.

This change will have no impact on non-UK owners of NameCos who do not pay UK tax on dividends.

Pensions tapered annual allowance

The measure will restrict pensions tax relief by introducing a tapered reduction in the amount of the annual allowance for individuals with income (including the value of any pension contributions) of over £150,000 and who have an income (excluding pension contributions) in excess of £110,000. In order to facilitate the taper, legislation will also be introduced to align pension input periods with the tax year as well as transitional rules to protect savers who might otherwise be affected by the alignment of their pension input periods.

A consultation, issued today, on possible wide-ranging reforms to pensions tax relief, which might even result in pensions being structured in a similar way to ISAs.

ATCSL comment:

This is bad news for high earners generally who may be limited to tax relief on only £10,000 of pension contributions per annum. It is also another blow for those who underwrite through LLPs. This limitation on pension relief follows closely the cap on income tax loss relief and other anti-avoidance measures introduced.

Inheritance tax

Mr Osborne confirmed the introduction of an additional, transferable nil rate band for IHT for the transfer on death of a residence to a direct descendent. A direct descendant means a child (including step-child, adopted child or foster child) and their lineal descendants. The additional relief will only be available on one property which must have been the deceased person’s residence at some point during their life. Executors may elect which property should qualify where there is more than one in the estate.

The nil rate band, above which individuals pay IHT at death at 40%, is currently £325,000 and Mr Osborne announced this limit will remain in place until 2020/21. The unused proportion of this nil rate band can be transferred to a surviving spouse on death. In 2017/18, individuals will be entitled to an additional main residence nil rate band of £100,000, this rises to £125,000 in 2018/19, £150,000 in 2019/20 and in 2020/21 the allowance will be £175,000. The allowance will then rise with CPI from 2021/22 onwards.

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Any unused proportion of the additional nil rate band will also be transferable to a spouse on death. By 2020/21, this will allow a married couple (or civil partners) to pass a home with a value of up to £1m on to direct descendants without paying IHT.

For those with a net estate worth in excess of £2m, the relief will be tapered by £1 for every £2 the net value exceeds that amount. This is the sting in the tail, and shows that the relief is aimed squarely at the moderately wealthy, who hold a large proportion of their wealth in their home, and will not benefit the very rich."

Property Tax

Individuals who receive rental income on residential properties (whether in the UK or overseas) and incur finance costs, such as mortgage interest will no longer be able to deduct finance costs from their property income to calculate taxable profits. Instead they will be able to take only a basic rate deduction from their income tax liability. The restriction will be phased in over four years starting in 2017/18.

Reform of the Wear and Tear Allowance

Landlords currently claim a 10% wear & tear allowance from rental income, regardless of expenditure. From April 2016, the government will replace the Wear and Tear Allowance with a new relief that allows all residential landlords to deduct the actual costs of replacing furnishings. Capital allowances will continue to apply for landlords of furnished holiday lets. The government will publish a technical consultation before the summer.

Non-Domiciles

With effect from 6 April 2017, non-UK domiciled individuals who have been UK resident for 15 of the previous 20 tax years will be deemed to be UK domiciled for all tax purposes (ie this will apply from the 16th consecutive year of UK residency).

In addition, individuals who have a UK domicile at birth and subsequently become domiciled overseas will revert to being UK domiciled for tax purposes if they become UK tax resident. UK domiciled individuals who have been UK tax resident for at least 15 tax years and then emigrate from the UK and establish a domicile of choice overseas will be deemed to be UK domiciled for 5 years after departure, instead of 3 years under the existing rules.

Eligibility of non-domicile status for UK born individuals

From April 2017, individuals who are born in the UK to parents who are domiciled here, will no longer be able to claim non-domicile status whilst they are resident in the UK.

Restricting finance cost relief for landlords

The government will restrict the relief on finance costs that individual landlords of residential property can get to the basic rate of tax. The restriction will be phased in over 4 years, starting from April 2017.

Insurance Premium Tax (IPT)

The standard rate of IPT increases from 6% to 9.5% from 1 November 2015. This may seem a large hike, but it brings the UK rate into line with European competitors.

For further details on the taxation services provided by ATCSL or any further information on the articles included in this newsletter please contact us:

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