2015 AUTUMN STATEMENT – more detail

We recently sent you our Autumn Statement summary. Draft legislation has now been published and we are enclosing further information with more detail on specific areas which we thought you might find helpful in answering any queries your clients may have.

The further details cover the following areas:

- Dividend allowance
- Personal savings allowance
- Employment taxes - trivial benefits
- Employment taxes - intermediaries and travel and subsistence
- Replacement of wear and tear allowance
- Non UK domiciles
- Simple assessment

Dividend allowance

Further details have been provided of the new rates of income tax on dividends and the new dividend allowance which will apply to dividends received on or after 6 April 2016.

The rates on income tax on dividends will be:

- 7.5% for dividend income within the basic rate band (ordinary rate)
- 32.5% for dividend income within the higher rate band (upper rate)
- 38.1% for dividend income within the additional rate band (additional rate)

There will also be a new dividend allowance of £5,000 where the tax rate will be 0% - the dividend nil rate. The dividend allowance applies to the first £5,000 of an individual's taxable dividend income and is in addition to the tax-free personal allowance.

Where an individual receives dividend income, from UK or non-UK resident companies, that would otherwise be chargeable at the dividend ordinary, upper or additional rate, and the income is less than or equal to £5,000, the dividend nil rate will apply to all of the dividend income. Where the dividend income is above £5,000, the lowest part of the dividend income will be chargeable at 0%, and anything received above £5,000 is taxed at the rate that would apply to that amount if the dividend nil rate did not exist.

In calculating the tax band into which any dividend income over the £5,000 allowance falls, savings and dividend income are treated as the highest part of an individual's income. Where an individual has both savings and dividend income, the dividend income is treated as the top slice.

Example

Patricia has a salary of £40,500 and dividend income of £7,000 in 2016/17. Her total income is therefore £47,500. The total of her personal allowance and basic rate band comes to £43,000. Therefore part of her dividend income would be taxed at the upper rate were it not for the operation of the new dividend nil rate.

So £5,000 will be taxed at 0% and £2,000 will be taxed at the upper rate of 32.5%.

As a result of these changes the dividend tax credit will be abolished for dividends paid on or after 6 April 2016.

Personal Savings Allowance (PSA)

We now have details of how the PSA will work and its interaction, if any, with the 0% starting rate.

The PSA will first take effect for the 2016/17 tax year and will apply to savings income (such as interest) paid to individuals. There are no changes to the definition of savings income which is defined in s18 ITA 2007.

The draft legislation introduces a new 0% rate (the 'savings nil rate'). This new nil rate will apply to savings income within an individual's PSA. An individual's PSA in a tax year will be £1,000, except where:

- they have higher rate income but no additional rate income in the year (in which case their PSA will be £500)
- they have any additional rate income in the year (in which case their PSA will be nil).

For this purpose, higher rate income is income on which tax is charged at the higher or dividend upper rate, or would be but for the operation of this new savings nil rate or the dividend nil rate (which will also be available from 6 April 2016). Additional rate income is income on which tax is charged at the additional or dividend additional rate, or would be but for the dividend nil rate.

Income that is within an individual's PSA will still count towards their basic or higher rate limits - and may therefore affect the level of PSA they are entitled to, and the rate of tax that is due on any savings income they receive in excess of this allowance.

Example

Edna has a salary of £42,500 and savings income of £1,000 in 2016/17. Her total income is therefore £43,500. The total of her personal allowance and basic rate band comes to £43,000. She thus has some income which would be taxed at higher rate were it not for the operation of the new savings nil rate.

She therefore is only entitled to a PSA of £500. So £500 will be taxed at 0% and £500 will be taxed at higher rate.

Alongside the introduction of the PSA, banks, building societies and NS&I will cease to deduct tax from account interest they pay to customers.

Interaction with existing 0% rate for savings income

Currently, some individuals qualify for a 0% starting rate of tax on savings income up to £5,000 (s12 ITA 2007). The government confirmed in the Autumn Statement that the £5,000 band will be kept at the same level for 2016/17. The rate is not available if taxable non-savings income (broadly earnings, pensions, trading profits and property income) exceeds the starting rate limit.

The draft legislation confirms that the starting rate will not use up any part of an individual's PSA.

Example
A pensioner has a pension of £11,000 and savings of £6,000. The personal allowance is £11,000 which removes any tax liability on the pension. The PSA is £1,000 as the total income of the pensioner (£17,000) is below the point at which higher rate income tax applies so this is taxed at 0%. The remaining £5,000 will still receive the benefit of the s12 ITA 0% rate.

Trusts

There is no reference to any revised treatment of either interest or dividends for trusts. Therefore at this stage we infer that a trust will not be eligible for the savings allowance or the dividend allowance. However there will be no tax deduction at source on interest received by a trust from banks, building societies and NS&I.

Employment taxes - trivial benefits

HMRC had gone quiet on whether an exemption would be introduced to remove trivial benefits in kind from taxation and NIC. Draft legislation has now been published for a measure which will have effect from 6 April 2016. The exemption sets out a number of conditions that must be met for a benefit to be exempt, including an upper limit per individual benefit of £50.

Qualifying trivial BiKs provided to directors and other office holders of close companies will be subject to an annual cap of £300. Where the director's or other office holder's family or household member is also an employee of the company, they will be subject to a £300 cap in their own right. This is a change from the original proposals and addresses a potential loophole.

Employment taxes - intermediaries and travel and subsistence

As announced in the Autumn Statement, the government will legislate to restrict tax relief for travel and subsistence expenses for workers engaged through an employment intermediary, such as a recruitment agency or a personal service company.

No relief will be allowed for home to work travel and subsistence where a worker:

- personally provides services to another person
- is employed through an employment intermediary
- is under (the right of) the supervision, direction or control of any person, in the manner in which they undertake their work.

Employment intermediary will be defined as a person, other than the worker or the client, who carries on a business (whether or not with a view to profit and whether or not in conjunction with any other business) of supplying labour.

Where a personal service company is also within the scope of the IR35 legislation this measure will only apply to those contracts where a deemed employment payment is made, or would be made if all the individual's remuneration was not being taken as employment income. In these circumstances the supervision, direction or control test will not be used.

This change will take effect from 6 April 2016.

Replacement of wear and tear allowance

The wear and tear allowance for fully furnished properties will be replaced with a relief that enables all landlords of residential dwelling houses to deduct the costs they actually incur on replacing furnishings, appliances and kitchenware in the property. The relief will be available for expenditure incurred on or after 1 April 2016 for corporation tax and on or after 6 April 2016 for income tax.

This measure will give relief for the cost of replacing furnishings to a wider range of property businesses as currently there is no tax relief for the replacement of furnishings in partly furnished or unfurnished properties.

Examples of eligible capital expenditure are:

- furniture
- furnishings
- appliances (including white goods)
- kitchenware

but would exclude items which are fixtures.

However the relief is limited to the cost of an equivalent item if there is an improvement on the old item. The deduction will not be available for furnished holiday lettings or where rent-a-room relief is claimed.

Non UK domiciles

In the Summer Budget, the government announced its intention to abolish non-UK domicile status for certain long term residents from April 2017. This will only apply where an individual has been resident for at least 15 out of the last 20 tax years. Such individuals will be treated as deemed UK domicile for all tax purposes.

In addition, those who had a domicile in the UK at the date of their birth will revert to having a UK domicile for tax purposes if they become resident again in the UK, even if under general law they have acquired a domicile in another country.

Draft legislation has now been issued for IHT.

There was a consultation which ended on 11 November 2015, but the government has not yet published its response to the consultation with regard to income tax and CGT. It will do so in early 2016 together with drafts of any necessary amendments to legislation.

Simple assessment

In March 2015 the government published 'Making Tax Easier: The end of the tax return' setting out a vision to modernise the tax system by replacing tax returns with digital tax accounts for millions of individuals and businesses. At the same time they set out plans to introduce legislation to remove the need for customers to complete a tax return with information that HMRC already holds.

Draft legislation has been issued for inclusion in the 2016 Finance Bill. The legislation will enable HMRC to send a 'Simple Assessment' notice to customers with straightforward tax affairs which will set out their tax liability without the need for the person to submit a self-assessment return. This will reduce the number of individuals with straightforward affairs having to send a tax return to HMRC.