

Budget 2016 – stealth, wealth and dangerous cocktails

The Budget recipe is a familiar one: equal measures of sound bites and leaks from both sides of the House with a dash of media frenzy.

The Chancellor has been accused of introducing a raft of stealth taxes in previous Budgets and Autumn Statements.

Some of the Budget had already been announced such as the Help to Save scheme for those on in-work benefits. There were, however, a few big surprises. Most notably, changes to commercial property stamp duty, a reduction in capital gains tax rates, the introduction of sugar tax and the new Lifetime ISA.

There were two themes central to this Budget; supporting businesses and the next generation. This is already being referred to as The Millennials Budget.

The economy

Mr Osborne talked of a dangerous cocktail of risks; low productivity and growth. The Office of Budget Responsibility (OBR) was quoted by the Chancellor as saying that a vote to leave the EU on 23 June could lead to an extended period of uncertainty and have a negative impact on business and consumer confidence. This point led to a serious increase in noise levels within the House.

The Budget contained revised growth predictions which are unsurprising to many following the recent bleak global outlook. The OBR forecast growth in 2016 of 2% as against the previous prediction of 2.4%. Growth for 2017 is forecast to be 2.2% and 2.1% in 2018 down from 2.4% and 2.5% respectively. There is an inflation forecast of 0.7% for 2016 and 1.6% for next year.

The debt targets have been missed and debt as a share of GDP has been revised up in each of the next five years. The Chancellor announced that £3.5 billion of cuts in public spending is to be achieved by 2019/20.

Businesses

There has been a raft of changes introduced to the taxation of residential property in the past two years. This includes the additional rate of stamp duty land tax (SDLT) on buy-to-let properties or second homes which comes into effect on 1 April 2016. There were also changes to the 'slab' system of taxation. Those changes did not apply to commercial property, until now.

With effect from midnight tonight (16 March 2016), there will be an increase in SDLT rates for non-residential property. Those most likely to be affected are making an upfront payment on values of more than £150,000. The SDLT accounts for 2% of transaction values between £150,001 and £250,000 and 5% for any value over and above that. There is a new 2% rate for those entering into a leasehold transaction where the net present value (NPV) is above £5 million.

A surprise for some was the change to corporation tax, reducing to 17% by 2020/21. There were further measures to increase anti-avoidance most notably focused on the 'Google tax'.

The threshold for small business tax relief is being raised from £6,000 to a maximum of £15,000.

As is often the case, the Budget is just the headline. The real detail is contained in the 30 or more HM Revenue & Customs policy papers that are released the moment the Chancellor sits down.

Sweet surprises

Jamie Oliver is likely to be smiling whilst sipping on his no added sugar squash. The Chancellor has introduced a sugar tax on the soft drinks industry which will be introduced in 2018. This will be based on two bands of sugar content but fruit juice and milk-based drinks are exempt.

The proposed revenue from the sugar levy will be used to provide after-school activities in secondary schools. Home time from 2018 will be slightly later!

One of the big shock announcements was the introduction of a lower rate of capital gains tax (CGT) with effect from 6 April 2016. This will reduce the rate of CGT for higher rate taxpayers to 20% from 28% and down to 10% from 18% for basic rate taxpayers. Two major exceptions to this are any gains relating to residential property and carried interest.

This would seem to fit with the general policy objective to deter investment in residential property and direct it towards investment in business.

Infrastructure and devolution

Big projects will still be making the headlines with Crossrail 2 (North to South London) getting the rubber stamp. Flood defences will benefit from a 0.5% rise in Insurance Premium Tax.

Further investment is planned for HS3 (Manchester to Leeds), an additional lane on the M62 and other major motorway projects in the North of England.

For those coming to and from Wales, the cost of the Severn River crossing is set to halve by 2018.

Income tax and personal allowances

In April 2017 the personal tax-free allowance will rise to £11,500 and the higher rate tax threshold will increase to £45,000 from £42,385.

The amount you can save in an ISA will also increase from £15,240 to £20,000 from April 2017.

In advance of the Budget the national minimum wage was announced and is set to rise from £6.70 to £6.95 per hour for 21-24 year olds with National Living Wage workers receiving a minimum of £7.20 from April this year.

The Millennials

The next generation was a major theme throughout the Budget. There has been significant focus prior to the Chancellor's statement on pensions and whether or not the tax free lump sum would be denied. That all turned out to be a storm in a (sugar free) teacup.

Instead, we have the Lifetime ISA from April 2017. For those aged between 18 and 40, any savings placed into the Lifetime ISA will receive a 25% bonus from the Government. There is no maximum monthly contribution but it is capped at £4,000 per year.

These savings can be used either as a deposit on a property or as a 'flexible' pension. The savings can be withdrawn tax free after your 60th birthday. It can be withdrawn before 60 but incurs a 5% charge and loss of the Government bonus. It remains to be seen whether there is any 'means-testing' on the Government contribution.

Duties

Fuel duty is to be frozen for another year. Beer, cider and spirit duties are also frozen.

An interesting mix of measures and 2017 is set to be a busy year for the Exchequer but before all that, we have the EU referendum. Time will tell whether the Chancellor will need a stiff Ribena when he prepares his Autumn Statement.

Rebecca Fisher

Partner

+44 (0)20 8394 6218

Rebecca.Fisher@russell-cooke.co.uk

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