Nunn Hayward

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Issue 4 – January 2016

Chancellor's stamp duty changes are 'ill-designed', says IFS

The Institute for Fiscal Studies (IFS) has criticised the changes to Stamp Duty Land Tax (SDLT) announced by Chancellor George Osborne in the Autumn Statement and Spending Review.

From 1 April 2016, higher rates of SDLT will be charged on purchases of additional residential properties (above £40,000), such as buy-to-lets and second homes. The higher rates will be three percentage points above the current SDLT rates.

Osborne claims the new property tax will net the Treasury almost £1 billion by 2021, money which will be used to help fund the construction of new homes. The additional stamp duty will not apply to caravans, mobile homes or houseboats.

However, in his review of the Chancellor's statement, IFS director Paul Johnson said: 'The increase... of nearly £1 billion on second homes and buy-to-let properties is ill-designed, not least because it reintroduces, albeit on a small scale, a cliff edge into the Stamp Duty schedule a mere year after the Chancellor made much of abolishing cliff edges in the Stamp Duty schedule'. The Association of Residential Letting Agents described the measure as 'catastrophic news for the private rental sector'.

Additionally, as announced in the July Budget, from 2017 landlords will only receive the basic rate of tax relief of 20% on mortgage payments.

Buy-to-let landlords will also be affected by a future change to the capital gains tax (CGT) rules, which means that from April 2019 they will have to pay any CGT due within 30 days of selling a property, rather than waiting until the end of the tax year.

The IFS denied that the Autumn Statement signalled the 'end of austerity', suggesting that 'very significant' spending cuts would still need to be implemented before the end of the Parliament.

However, the think tank responded more positively to other measures announced by the Chancellor. Paul Johnson commented: 'The changes to local Government financing and devolution are genuinely radical and could transform both the role of local Government and the UK's fiscal architecture.'

If you think you may be affected by the proposed changes to SDLT, please do not hesitate to contact us. We will be delighted to assist you.

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Looking ahead: key changes in 2016

In addition to the reduction in the Annual Investment Allowance, 2016 sees numerous changes to employment and tax legislation, which may have a significant impact on your business and your personal finances. Here we look ahead to some of the key reforms planned for 2016/17.

Dividend taxation

Dividends are another area on the Chancellor's radar, with significant changes due to come into effect in April. The Dividend Tax Credit is set to be replaced by a new tax-free Dividend Allowance. This means that for the 2016/17 tax year the first £5,000 of dividend income will be taxed at 0%, regardless of the level of non-dividend income.

Headline rates of dividend tax are also set to change. From April 2016 tax must be paid on dividends over the £5,000 threshold at the following rates: 7.5% on dividend income within the basic rate band; 32.5% on dividend income within the higher rate band; and 38.1% on dividend income within the additional rate band.

Tax and property

In addition to the proposed 3% surcharge on second properties outlined above, a number of other changes to property tax are also planned for the new tax year, including the replacement of the Wear and Tear Allowance with a new relief that permits all residential landlords to deduct the actual costs of replacing furnishings. Meanwhile, the level of rent-a-room relief will rise from £4,250 to £7,500.

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Personal allowances and savings

The basic income tax personal allowance will increase to £11,000 for 2016/17, while the basic rate limit will rise to £32,000. The higher personal allowance for those born before 6 April 1938 will be removed with effect from 2016/17.

As announced in the March 2015 Budget, the 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.

Pensions

However, the news may not be so positive for some pension savers, with the pension lifetime allowance scheduled to fall from £1.25 million to £1 million from 6 April 2016. Furthermore, the annual allowance for those earning over £150,000 is being tapered away to a minimum of £10,000.

The National Living Wage (NLW)

The NLW is set to come into force on 1 April 2016, with the rate beginning at £7.20 an hour for employees aged 25 and above. Currently, the National Minimum Wage stands at £6.70 per hour for workers aged 21 and over.

Employer national insurance

To help offset the cost of the NLW, small firms are set to benefit from a 50% increase in the Employment Allowance from April 2016, which will rise to £3,000. Meanwhile, employer national insurance contributions up to the upper earnings limit will be abolished for apprentices aged under 25.

Other news in brief

Government proposes Benefit-in-Kind tax relaxation

The Government intends to relax the rules on the taxation of Benefits-in-Kind (BiK) for employees, it has been revealed.

HMRC to clamp down on offshore tax evasion penalties in 2016

HM Revenue and Customs has issued a warning to those with offshore assets that they will face tougher sanctions if they fail to declare their tax affairs.

New Help to Buy ISAs launch with interest of up to 4%

The new Help to Buy ISA scheme, announced by the Chancellor in the March Budget, has come into effect, with various banks and building societies launching their products onto the market.

For more on these visit our website **www.nhllp.com**

ESSENTIAL TAX DATES FOR JANUARY

1 January
Due date for payment of Corporation Tax for period ended 31 March 2015.

14 January
Due date for income tax for the CT61 quarter to 31 December 2015.

19/22 January
Quarter 3 2015/16 PAYE remittance due.

31 January
First self assessment payment on account for 2015/16.
Capital gains tax payment for 2014/15.
Balancing payment - 2014/15 income tax/Class 4 NICs.
Last day to renew 2015/16 tax credits.
Last day to pay any balance of 2013/14 tax and Class 4 NICs to avoid an automatic 5% late payment penalty.
Deadline for amending 2014 Tax Return.
Last day to file the 2015 Tax Return online without incurring penalties.

Quote of the month

'Even with these increases in average wealth, working-age households are at risk of being less wealthy at each age than those born a decade earlier.'

Dave Innes, research economist at the IFS, commenting on a recent report examining changing trends in the distribution of household wealth.