

July 2015 Budget Update on Significant Changes

Introduction

There have been several significant changes proposed in the July 2015 summer budget that we feel you should be made aware of. In recent years most changes have related to small increases and decreases in tax rates, 1% here, 2% there and virtually no change in the way things work.

This year's budget has been described as the most significant shake up for 20 years. So here is a brief summary of the changes we think will be most relevant to our clients. If you think any of the information below is a cause for concern please feel free to give us a call and speak to a member of the team.

Corporation Tax

Corporation tax rates

Firstly some good news, tax rates for company profits are set to drop over the next few years as shown in the table below:

Years commencing on or after	1 st April 2016 (current rate)	1 st April 2017	1 st April 2020
Tax rate	20%	19%	18%

Annual investment allowance (AIA)

You may have heard us mention AIA in meetings or letters when discussing corporation tax. This is an allowance for capital expenditure which provides 100% relief on the cost of items of qualifying plant and machinery purchased in the company's financial year.

Normally these costs would only attract 18% allowance on a reducing balance method, so you can see the AIA is quite generous. HM Revenue and Customs (HMRC) have been a little indecisive as to what the level of allowance should be and have been changing it once a year since its introduction.

The current total allowance is £500,000 for assets purchased between April 2014 and December 2015. This will drop to £200,000 on 1st January 2016 and hopefully remain consistent for the next 2 years.

Research and development relief

The rate of relief available for expenditure on research and development projects has increased from 225% to 230%, so for every £100 spent £230 can be deducted from the company profit when calculating corporation tax.

HMRC are also offering a “clearance” scheme which will allow us to get confirmation that your expenditure qualifies before we make the claim.

It is very difficult for accountants to identify research and development expenditure, so please let us know if you feel you could take advantage of this relief.

National insurance employment allowance

All employers have been entitled to an allowance of up to £2,000 on employer’s national insurance. This is set to increase in 2016 to £3,000. The only negative side to this change is that companies with only a single director on the payroll will no longer be eligible to make the claim.

Other points of interest

Minimum wage will rise to £9 by 2020 for employees over the age of 25. The rate will be £7.20 from April 2016.

The new limit for 100% allowance on low emission vehicles has been reduced to 75g/km of CO2.

Donations to Community Amateur Sports Clubs are now an allowable expense.

The rate of tax on overdrawn director’s loan accounts may increase to match the new tax rates on dividends. The rate is currently 25% but it is likely this may go up to 32.5%. You may want to think about bringing down that balance before this happens.