BUDGET SUMMARY...

March 2016

Editorial

The downgrading of economic growth forecasts by the Office for Budget Responsibility left George Osborne with very little wriggle room in his second Budget of this Government. In order to balance the books, he could do little more than give with one hand and take away with the other, funding additional expenditure in areas such as education, flood defence and infrastructure projects by expenditure cuts and tax increases elsewhere, along with the inevitable forecast of revenues from further anti-avoidance measures.

The key to the distant and elusive goal of a Budget surplus is enhanced tax revenues through economic growth. With this in view, the Chancellor of the Exchequer delivered a Budget which many in the business community welcomed as well-meaning and helpful to enterprise. The doubling of Small Business Rate Relief underlined this focus, as did the further announced reduction in Corporation Tax to 17% from April 2020. A 17% headline Corporation Tax rate is indeed low by comparison with most countries in the developed world.

It is, however, clear that companies doing business in the UK which, even with such a modest tax rate, retain an appetite to avoid Corporation Tax will have limited opportunity to do so. The Base Erosion and Profit Shifting (BEPS) initiative has been supplemented by the announcement of further anti-avoidance measures in a number of areas, particularly where companies seek to use offshore structures to avoid tax. Thus, new rules are to be introduced to ensure that offshore property developers pay full tax on profit realised on UK property (regardless of whether they have a UK permanent establishment), for limitations to be introduced on the extent to which large companies can reduce their profits by interest expense and carried forward losses, and to strengthen the withholding tax regime on the payment of royalties. Combating tax avoidance successfully remains a key principle in the Government's fiscal policy and many of its policy costings assume a high level of success flowing from these initiatives.

This determination to tackle tax avoidance is exemplified by further measures announced in relation to "disguised remuneration schemes". The arrangements most commonly caught by the existing anti-avoidance provisions introduced in December 2011 are Employee Benefit Trusts (EBTs), where funds may have been "earmarked" for particular employees and their families and often made available by way of loan. Many employers who have previously implemented such schemes have taken the opportunity to negotiate with HMRC and pay tax with respect to these arrangements. For those who have not taken this opportunity, a new charge to tax will be imposed in relation to any loans outstanding at 5 April 2019 which have not already been taxed. This charge will even apply to loans in existence before the original 2011 anti-avoidance provisions were introduced, which seems both punitive and retroactive. Evidently, the Government has lost

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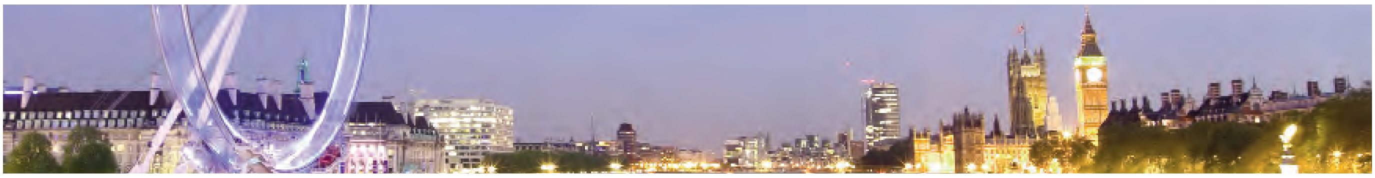


patience and wishes to force the issue to a conclusion.

For individuals, there was an unexpected but very welcome reduction in the 28% and 18% rates of Capital Gains Tax to 20% and 10%, the proviso being that the old rates will continue to apply to gains on residential property (when not eligible for the main residence relief) and carried interest profits. The tax benefit in achieving a return as gain rather than income will be even more stark from April 2016, with the increase in the effective rate on dividend income consequent upon the withdrawal of the deemed 10% tax credit. It is no coincidence that the Government is intent on restricting the circumstances in which certain transactions (including liquidations and share capital reductions) will be taxed as gain.

Finally, there was some rare good news in the Budget for non-domiciled taxpayers who, after the July 2015 Budget, may have been fearing a further pummelling. Those who will have been resident in at least 15 of the past 20 tax years by April 2017 will become "deemed domiciled" from 2017/18 and will be subject to UK tax on worldwide income and gains. In an unexpected development, it has been announced that there will be a "rebasing" of the cost of foreign assets and some transitional provisions to deliver certainty of tax treatment for remittances of historic income and gains.

Overall, within quite severe fiscal constraints, the Chancellor was able to deliver a helpful Budget for business growth while maintaining the assault on tax avoidance. It was a sensible and prudent approach against the backdrop of some rather troubling economic statistics.

A. Personal Taxation

1. Income Tax Rates and Allowances

1.1 Income Tax Personal Allowance

The Income Tax Personal Allowance for 2016/17 will be £11,000 as previously announced, and will increase to £11,500 in the 2017/18 tax year, which is greater than the previously announced figure of £11,200.

The Government's aim is to increase the Personal Allowance to £12,500 by the end of this Parliament.

The Personal Allowance continues to be withdrawn from individuals with income in excess of £100,000, and those with income between £100,000 and £122,000 in 2016/17 (rising to £123,000 for 2017/18) will still suffer an effective rate of tax of 60% on the excess within that band.

1.2 Basic Rate Band

The Basic Rate Band which is currently set at £32,000 for 2016/17 will be increased to £33,500 for 2017/18, which is greater than the previously announced threshold of £32,400.

The net effect is that the Higher Rate threshold (where individuals start paying Income Tax at 40%) will be increased to £43,000 for 2016/17, in line with previous announcements, and to £45,000 in 2017/18, which is greater than the previously announced figure of £43,600.

The Government's aim is to increase the higher rate threshold to £50,000 by the end of this Parliament.

1.3 Additional Rate Band

The 45% Additional Rate of tax continues to apply to income in excess of £150,000.

1.4 Personal Savings Allowance ("PSA")

With effect from 6 April 2016 the PSA will apply a 0% rate to the first £1,000 of savings income, such as interest, received. This is reduced to £500 for taxpayers with Higher Rate income, and there is no PSA for taxpayers with Additional Rate income.

1.5 Dividend Allowance

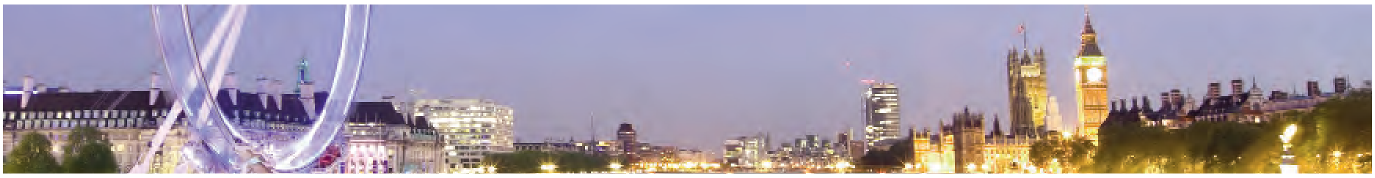
From April 2016 the dividend tax credit will be abolished and replaced with a new £5,000 Dividend Allowance. There are other consequential changes arising from the abolition of the tax credit as detailed in Section 6.

1.6 Property and Trading Income Allowances

It has been announced that there will be new £1,000 allowances for property income and trading income for the 2017/18 tax year. Individuals with income below these thresholds will not need to declare or pay tax on this income.

1.7 "English Votes for English Laws"

Under this somewhat misleading headline, measures are proposed to separate the main rates of income tax applying to non-savings, non-dividend income - income from employment trading, pensions and property - from those for savings income - dividends and interest. From 6 April 2016 the Scottish Parliament will have power to set the rates of tax on non-savings, non-dividend income for Scottish taxpayers at plus or minus 10% of the rates set for England.



From 5 April 2017, the Scottish Parliament will have full control over the rates and thresholds for non-savings and non-dividend income for Scottish taxpayers. The Westminster Parliament will continue to enjoy exclusive control over the Income Tax rates for savings and dividend income.

Despite the title, there appears to be no attempt to prevent Members of Parliament for Scottish constituencies from voting on the rates of Income Tax set at Westminster.

1.8 Capital Gains Tax ("CGT")

For disposals made on or after 6 April 2016 the higher rate of CGT will reduce from 28% to 20% and the basic rate from 18% to 10%.

The reduction does not universally apply and there are notable exceptions, specifically residential property (where Principal Private Residence relief is unavailable) and carried interests (See Section 7), where the previous rates will apply due to the application of a surcharge.

Entrepreneur's Relief is to be extended to long-term external investors in unlisted trading companies. Subject to meeting detailed criteria explained in Section 13, eligible investors will be able to access a lower rate of 10% on any gains subject to defined limits.

The Annual Exempt Amount for 2016/17 remains at £11,100.

1.9 Inheritance Tax ("IHT") Nil-Rate Band

The IHT nil-rate band remains at £325,000, with scope to transfer any unutilised nil rate band on death between spouses/civil partners. An additional residence nil-rate band may be available where a death occurs on or after 6 April 2017 if strict criteria are met. The operation of these new rules has been clarified in Budget 2016 (See Section 15).

1.10 National Insurance

It has been confirmed that from April 2018, Class 2 National Insurance Contributions paid by the self-employed will be abolished. This has repercussions for how the self-employed access contributory benefits and modifications to Class 4 National Insurance Contributions are anticipated. A consultation process is ongoing.

2. Pensions

As widely published in the run-up to the Budget, the Chancellor has not continued with a programme of radical reform to pension savings. This may be no more than a deferral of such changes, which the introduction of the Lifetime ISA may presage. We await the Autumn Statement and Budget 2017 with interest.

2.1 Pensions Consultation

In the 2015 Budget the Government released a consultation document entitled '*Strengthening the incentive to save: a consultation on pensions tax relief*'. They have released a summary of responses received. These are instructive but to cover them here is beyond the scope of this Briefing. It will be interesting to see what changes, if any, the Government decide to make as a result of this consultation and we may find out as early as the Autumn Statement once the referendum on the UK's continued membership of the EU is out of the way.

One measure that has been announced as an alternative, and supplementary, method of pension savings is the introduction of a Lifetime ISA for those aged under 40. This is covered in detail at 3.1.

2.2 Lifetime Allowance

As announced in the 2015 Budget, it has been confirmed that the Lifetime Allowance will be reduced from £1.25 million to £1 million from April 2016.

2.3 Pensions Flexibility - Amendments

It is, perhaps, unsurprising that with the large volume of changes made to pensions taxation in recent years, a number of anomalies exist within the legislation. Some relatively minor amendments have been announced to the rules on pensions flexibility to remove certain inconsistencies with the aim of making the system fairer and to '*ensure that pensions flexibility is working as intended*'.

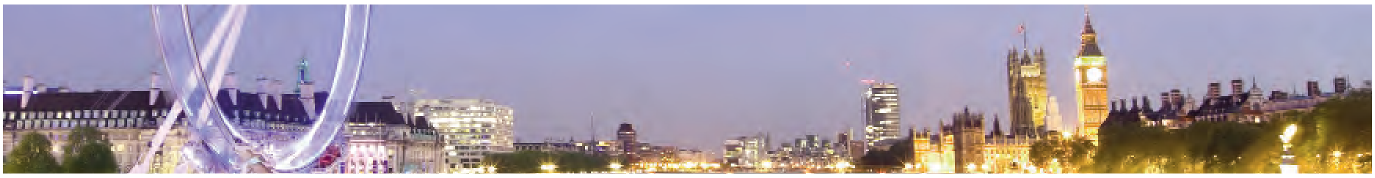
2.4 Serious Ill-Health Lump Sums

At present a serious ill-health lump sum for those aged under 75 may be withdrawn only if a pension has not been accessed. This rule will be relaxed to enable those aged under 75 who have less than a year to live, but who have already accessed their pension, to take a serious ill-health lump sum from any remaining funds.

Furthermore, anyone taking a serious ill-health lump sum after age 75 will now be taxed on that sum at their marginal rate of tax as opposed to the present rate of 45%.

2.5 Dependant's Drawdown

Where a member of a pension scheme dies leaving a child aged under 23, the child holds favoured



status as a dependant of the deceased and may receive a dependant's drawdown pension or dependant's flexi-access drawdown fund. At present, on attaining age 23, their status as a dependant ceases and any withdrawals made thereafter can be charged to tax at rates of up to 70%. This will be amended so that, on reaching age 23, the pension will become a nominee's pension and withdrawals will continue to be free of tax (if the deceased member died under age 75) or at the beneficiary's marginal rate of tax (if the deceased member died after age 75).

2.6 Charity Lump Sum Death Benefit

A lump sum may be paid to a nominated charity of a pension scheme member who dies without any dependants. At present, this is only paid as a tax free lump sum where it is paid out of a drawdown or flexi-access drawdown pension fund. The rules will be changed to give the same treatment to funds that have not been accessed.

Furthermore, it is necessary at present to pay a lump sum death benefit within 2 years of notifying the scheme administrator of an individual's death. Failure to do so causes any subsequent lump sum to be taxed at 45%. This requirement will be removed where the lump sum death benefit is paid to a charity.

2.7 Trivial Commutation Lump Sum

A trivial commutation lump sum may, at present, be paid from a defined benefits pension fund whether or not those funds have been accessed, whereas for a defined contributions pension it may only be paid from funds that have not been accessed. This anomaly will be removed so that a trivial commutation lump sum may also be paid from a defined contributions pension already in draw-down.

2.8 Cash Balance

Pension fund administrators are sometimes required to top-up a deceased member's fund in order to meet the entitlement of the beneficiaries to an un-crystallised lump sum death benefit. Legislation will be introduced to ensure the full payment, including the top-up element, is an authorised payment.

2.9 Inheritance Tax

As previously announced, legislation will be introduced to ensure that no Inheritance Tax arises when a pension scheme member designates funds for drawdown but does not draw all of the funds before their death. This will be backdated to deaths that occurred on or after 6 April 2011.

2.10 Increased Tax Relief on Employer Provided Pension Advice

Where employers arrange for their staff to receive pensions advice, tax and NIC relief is presently available on the first £150. It was announced in the Budget that this will be increased to £500.

3. ISAs

The ISA allowance will increase from £15,240 to £20,000 from 6 April 2017.

3.1 The Lifetime ISA

It has been announced that with effect from April 2017 a new tax advantaged savings account 'The Lifetime ISA' will be introduced, into which up to £4,000 per annum may be saved with the Government contributing a 25% bonus for every £1 deposited. Therefore, if the maximum of £4,000 were to be saved, a bonus of £1,000 would be payable.

The right to open a Lifetime ISA will be restricted to adults under 40 and, once open, contributions can continue to be made with the bonus paid until the account holder is 50 years old.

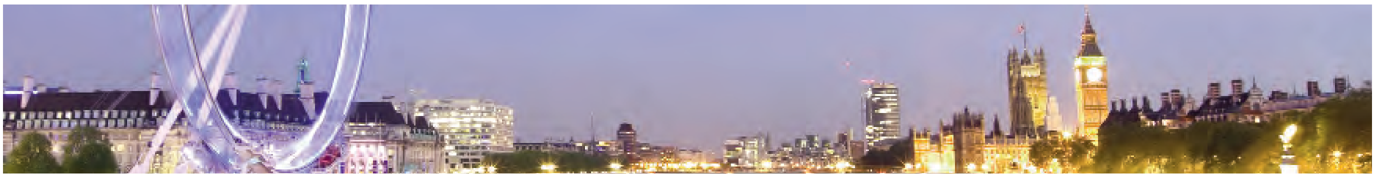
The quid pro quo for the bonus is that the purposes for which the funds may be applied (if the full benefit is to be preserved) will be restricted to: the purchase of a first home (provided the property is not valued at more than £450,000 and any purchase occurs 12 months or more after the account opening); or withdrawals from the age of 60 for any purpose. The Government is going to consider whether additional categories of permitted withdrawal for certain life events are appropriate, but it is clear that the diagnosis of terminal ill health will be one such circumstance.

The intention is that withdrawals may be made for non-permitted purposes at other times, but this would result in any bonus paid being clawed back (inclusive of any interest or capital appreciation that has arisen thereon), plus a penalty of 5%.

There is the suggestion that individuals may be able to borrow against the value of a Lifetime ISA, on the proviso that the borrowings are repaid, as an alternative to removing funds from the wrapper for non-permitted purposes and incurring charges.

The introduction of the Lifetime ISA will ultimately render the 'Help to Buy ISA' redundant, though people will be able to continue to open one until 30 November 2019 and make contributions until 2029.

Individuals with Help to Buy ISAs will not be prohibited from opening Lifetime ISAs, but, to the



extent that saved funds are used to acquire a first property, an individual holding both types of accounts will only be able to use the Government bonus from one of the accounts.

During 2017/18, existing Help to Buy ISA account holders will have the option of transferring their accumulated savings into a Lifetime ISA without this counting towards the annual allowance of £4,000. Thereafter transfers from a Help to Buy ISA to a Lifetime ISA would be treated as using some of this allowance.

The ostensible reason for the introduction of the Lifetime ISA is to help young people who, we are told, do not save enough because 'they feel they have to choose between saving for their first home and retirement'. A cynic might suggest that the root causes of a failure to save are rather more fundamental than this, and might view the Lifetime ISA as a precursor to the phasing out of more generous pension reliefs when the political landscape permits, perhaps once the distraction of the EU referendum has passed.

By contrast with undrawn pension funds it is noteworthy that Lifetime ISA will not benefit from favoured IHT treatment, and would form part of the individual's taxable estate on death.

3.2 Multiple ISAs

Eligible individuals are entitled to open a Lifetime ISA each year, in addition to a cash ISA, stocks and shares ISA, and an Innovative Finance ISA. The £20,000 overall limit applies to contributions made in total across any combination of ISAs that may be held.

4. Venture Capital Schemes

As announced in the Autumn Statement 2015, after 5 April 2016, Venture Capital Trusts (VCTs), Enterprise Investment Schemes (EISs) and Seed Enterprise Investment Schemes (SEISs) will not be allowed to invest in any remaining energy generation activities.

5. Farmers Averaging

As announced in last year's Autumn Statement, the averaging period for self-employed farmers is to be extended from two to five years. At present, the profits of two consecutive years can be averaged if one of them does not exceed 70% of the other. A marginal relief is given if the percentage is between 70% and 75%.

From 2016/17, relief may instead be claimed by averaging over a five year period, at the taxpayer's option. A claim will be made for the fifth year, and claims for 2016/17 (as the fifth year) will be possible. Averaging will be applied if one or more of the years shows a loss, otherwise the average of the first four years profits will be compared to the profit of the fifth year, and averaging applied where one is less than 75% of the other. Once a two or five year averaging claim has been made for a particular year, it will not be possible to make a claim for an earlier year. Finally, the existing marginal relief will be removed, so that where the later year is 2016/17 or a subsequent year, full two year averaging will be available when the profit of one year does not exceed 75% of the other.

6. Dividends

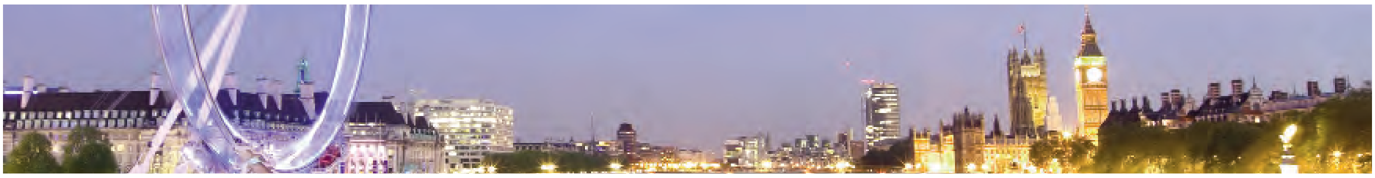
As previously announced, from April 2016, dividends above the Dividend Tax Allowance of £5,000, will be taxed at 7.5% for basic rate taxpayers, and 32.5%, or 38.1%, for higher and additional rate taxpayers, respectively. This measure is forecast to produce £2.5 billion in the first year (2016/17).

Following the change to the dividend rates, a measure is to be introduced from 6 April 2016 to ensure that the rate of tax chargeable on loans to participators continues to mirror the dividend higher rate. It will mean an increase from the current rate of 25% to 32.5%. This is to ensure that individuals will continue to be prevented from gaining a tax advantage by taking loans from their companies rather than dividends. This measure is expected to raise an additional £15 million in 2016/17 and £80 million in the year after.

With the introduction of the reduced rates of CGT, the rules surrounding transactions in securities are to be tightened and a Targeted Anti Avoidance Rule will be introduced to deny capital gains treatment, in certain circumstances, to a distribution made on or after 6 April 2016 on a company wind-up, and to treat any such distribution as income. This is discussed in detail at Section 12.

7. Private Equity - Carried Interest

The Summer Budget in 2015 introduced changes to the taxation of carried interests which altered the way in which capital gains were calculated and in particular abolished the base cost shifting which might have been effective before 8 July 2015. In addition to this, carried interest payments in relation to foreign assets are now treated as UK source to the extent that the relevant investment management activities are performed in the UK.



This means that individuals who are resident but not domiciled in the UK are not able to benefit from the Remittance Basis of taxation in so far as gains are regarded as being UK source. Although the legislation was introduced with effect from 8 July 2015 it is still unclear as to the way in which the proportion of the gains that are treated as UK source is to be determined.

In addition to the 2015 measures described above, HMRC published a Consultation Document relating to the "Taxation of Performance Linked Rewards Paid to Asset Managers" in July 2015. This was followed by the publication of draft legislation in December 2015 which is to be included in the Finance Bill 2016. This legislation introduces the concept of "income-based carried interests".

The new rules will take effect from 6 April 2016 and are designed to treat carried interest payments as trading income where the investment policy of the fund is not genuinely long term. In order to determine whether this is the case it is necessary to determine the average investment holding period. Where that holding period is more than four years the carried interest will be treated as a capital gain, providing it is not caught by the Disguised Investment Management Fee rules that were introduced in the March 2015 Budget. Where the average investment holding period is less than three years the carried interest gains will be treated as trading income. If the average holding period is between three and four years part of the carried interest will be taxed as trading income.

The following table summarises the position:

Average Holding Period	Proportion of Performance Linked Reward Charged to Income Tax
Less than 36 months	100%
At least 36 months but less than 39 months	75%
At least 39 months but less than 45 months	50%
At least 45 months but less than 48 months	25%
48 months or more	0%

These new rules do not apply to carried interest payments received by directors or employees of fund investment businesses as these are governed by the employment related securities provisions. They only apply where the individual is self employed, typically as a result of being a member of an LLP that acts as adviser to the fund from which the carried interest is paid.

8. Life Assurance

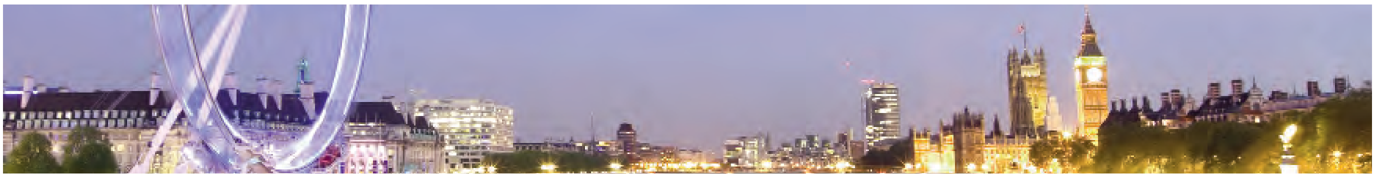
The taxation of Life Assurance policies, particularly policies which are issued by non-UK life assurance companies, is a complex area which requires specialist advice. A well-known and potentially attractive feature of UK-compliant foreign policies is the ability to make an annual withdrawal of up to 5% per annum of the premiums paid into the policy without suffering an immediate tax charge.

Currently, if a withdrawal is made in excess of the cumulative 5% allowances, the excess amount is subject to tax as income. The Remittance Basis (which may be claimed by Foreign Domiciliaries who qualify) is not available to shelter such gains, which will be taxed on the Arising Basis even if derived from foreign policies.

The Government has announced in the Budget that it will change the current tax rules for part surrenders and part assignments of life assurance policies in order to prevent excessive tax charges arising on these products. This announcement follows a case heard in the Upper Tax Tribunal last year [Lobler v HMRC [2015] UKUT 0152] which concerned an individual who made a large foreign life assurance policy withdrawal in excess of his cumulative 5% allowances without taking proper tax advice. The excessive tax charge which occurred under current legislation was acknowledged as having no bearing on the economic returns which had been realised within the policy. A consultation will take place later this year on possible alternatives to the current rules.

Also under current rules, foreign policies which fall within the definition of "personal portfolio bonds" (PPB) are subject to draconian annual Income Tax charges, again without the benefit of the Remittance Basis. These rules apply if a policyholder may choose how the policy is invested and the available investment options are not restricted to certain categories of "permitted property". The Government has announced that the consultation will include a review of the types of property which policyholders may choose to invest in without giving rise to the penal annual tax charges under the PPB rules.

It is intended that following the period of consultation, the new legislation will be included in the Finance Bill 2017.



B. The Non-Domiciled

9. Background To The 2017 Changes

At the Summer Budget in 2015 the Chancellor announced major reforms to the taxation of foreign domiciliaries which are to come into effect from 6 April 2017. Broadly, there are two sets of measures:

- one applying to UK resident foreign domiciliaries meeting one or more of two conditions and who, as a result, will be deemed UK domiciled for all tax purposes; and
- one extending IHT so that it applies to UK residential property owned indirectly by foreign domiciliaries or trusts through a foreign company or partnership structure.

Parts of these proposals were scheduled to be legislated for in Finance Bill 2016. However, it has been recognised that more time is required to deal with such complex provisions and all legislation (including draft clauses already published) will now be enacted in Finance Bill 2017.

The provisions to charge IHT on residential property were always due to be enacted in Finance Bill 2017.

10. UK Resident Foreign Domiciliaries

As previously announced, an individual will be deemed UK domiciled for all tax purposes if he or she meets one or more of two conditions:

- **Condition A - "Returners"/"boomerangers"** (colloquial terms for individuals born in the UK with a UK domicile of origin)

  From 6 April 2017, such individuals will not be able to take advantage of the Remittance Basis. They will be taxed on worldwide income and gains in the same way as a UK resident with the offshore trust and company anti-avoidance provisions also applying on the Arising Basis in the same way as they would to a UK domiciliary.

  Depending on their wealth, the IHT implications may be of greater concern since, while they remain resident in the UK, all assets (UK and foreign) held directly and all assets held in trusts which they have settled will be subject to IHT (even if the trust was settled at a time when the individual was domiciled by choice outside the UK).

  The gravity of the potential IHT consequences has persuaded the Government to provide for a period of grace. As such, the penal IHT provisions will not apply where an IHT chargeable event occurs in a tax year, unless the individual was UK resident in one or more of the preceding two tax years.

  The IHT disadvantages will fall away in the first tax year that the individual becomes non-resident (that is there is no deemed domiciled tail) provided:

  - under general law the individual retains his or her foreign domicile of choice; and
  - he or she does not fall within condition B below.

- **Condition B – individuals passing the "15 out of 20 rule"**

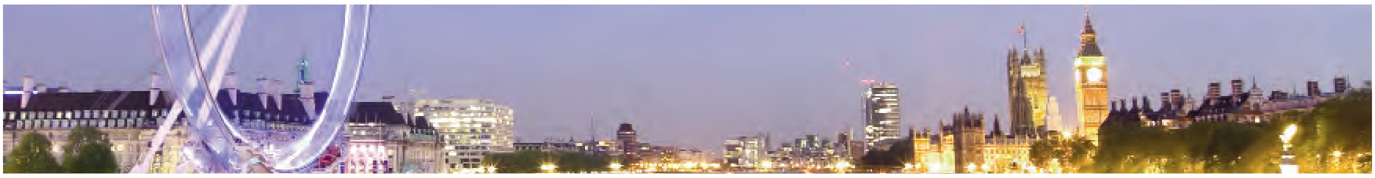
  An individual will be caught by condition B (the 15 out of 20 rule) if he or she has been UK resident for at least 15 of the immediately preceding 20 tax years. Where condition A is not met, but condition B brings the individual within the deemed domiciled provisions, his or her worldwide income and gains will be subject to UK taxation from the start of the tax year after which this test is met. For a continuous period of UK residence this would be from the 16th tax year.

  Six entire tax years of non-UK residence will be required in order for the individual to lose his or her deemed domiciled tail for all tax purposes, including IHT. Such a period will re-set the clock with respect to the reliefs available to foreign domiciliaries (for example, another period of overseas workday relief will be available on resumption of residence if there is an employment with offshore duties, and seven continuous years can be spent in the UK before the Remittance Basis Charge is payable).

  For individuals who only meet condition B (so NOT those who were also born in the UK with a UK domicile or origin) the Chancellor announced that there would be favourable rules for settlors of non UK resident trusts.

  The favoured IHT property treatment for such trusts is to be preserved, so trust property will be excluded from IHT provided:

  - it does not comprise UK assets, and;
  - no additions are made after the individual becomes deemed UK domiciled.



The details with respect to the favourable Income Tax and CGT treatment are, however, unclear. The Government intends a tax charge to occur only when a benefit is received. The original HM Treasury/HMRC Consultation Document suggested that the actual amounts of income and gains in the trust will be irrelevant and the charge will be based solely on the value of the benefit received. The professional bodies have expressed significant concerns with this proposal and have pressed for a charge based on matching benefits to income, gains or capital.

Transitional provisions

The 2016 Budget Red Book includes the unexpected announcement that rebasing will be available to individuals who become deemed domiciled in April 2017 and subsequently dispose of foreign chargeable assets. Gains chargeable on the Arising Basis thereafter will be determined by reference to the market value of the asset at 6 April 2017. There will still be a remittance issue if the asset was acquired from Remittance Basis income and/or gains and the proceeds of sale are remitted. Nevertheless, this is a welcome modification of the original proposals.

It is not, however, clear whether such rebasing, or rebasing at a later date, will be available to individuals becoming deemed domiciled at a later date, or whether such rebasing will be available to those becoming deemed domiciled under condition A.

The 2016 Budget Red Book also states that there will be transitional provisions with regards to offshore funds held by individuals who will become deemed domiciled under condition B to provide certainty on how amounts remitted to the UK will be taxed. No other details are given so we await further information.

11. Extending IHT To UK Residential Properties Owned Within Opaque Offshore Entities

The Government intends to amend the rules on excluded property, so that individuals or excluded property trusts (that is, trusts settled by individuals who are neither domiciled nor deemed domiciled in the UK) owning UK residential property through an offshore company, partnership or other tax opaque vehicle will pay IHT on the value of the UK residential property in the same way as UK domiciled individuals. This will apply regardless of whether the UK residential property is occupied by the beneficial owner or let.

It was hoped that the consultation paper on the changes would have been published by now. Unfortunately, that is not the case so we would refer readers to the summary of the changes in our 2015 Summer Budget Briefing.

C. Capital Gains Tax (“CGT”)

12. Rates

A headline announcement was the news that CGT rates will be reduced from 6 April 2016. The higher rate of tax will be cut from 28% to 20% and the basic rate from 18% to 10%.

Nothing has been said about the taxation of gains attributed to capital payments from offshore trusts, but presumably the maximum rate with full supplementary charges will reduce accordingly from 44.8% to 32%.

However, the existing 18% and 28% rates of CGT will continue to apply to gains realised on residential property and on the share of gains made by Private Equity fund managers (commonly known as “carried interests”).

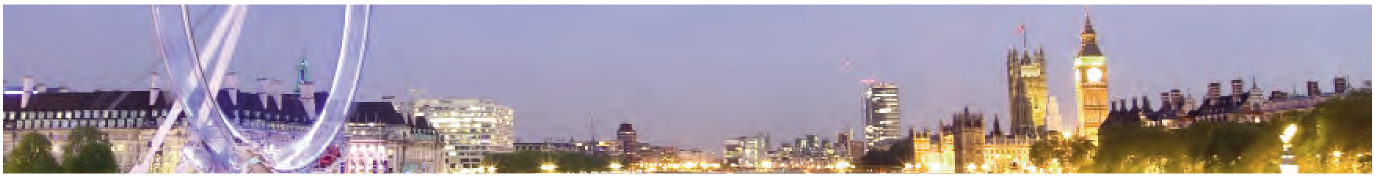
The Government believes that it is continuing to encourage investment in companies over property by imposing what is, in effect, a surcharge for carried interest and residential property. However, the Government has reaffirmed its commitment to retain Private Residence relief.

With the reduction in the rates of CGT, there would be an increased incentive for shareholders to convert into capital what might otherwise be paid as an income distribution (most commonly a dividend), especially with the increased dividend tax rates that will apply from 6 April 2016. However, a Targeted Anti-Avoidance Rule was announced in December 2015 which will restrict such opportunities. The rule will treat a distribution from a winding-up of a company as an income distribution in circumstances where:-

i) an individual shareholder receives a distribution on a winding-up;

ii) the company is close;

iii) and within a period of two years after the distribution, the shareholder continues to be involved in a similar trade or activity in circumstances which would indicate that the main purpose, or one of the main purposes, of the winding-up was to achieve a tax advantage.



It is anticipated that this measure will have negligible effect in 2016/17 but is forecast to raise £35 million in 2017/18.

13. Entrepreneurs' Relief

Entrepreneurs' Relief is being extended to long term investors in unlisted companies. This will provide for a 10% rate of CGT for gains realised on newly subscribed shares in unlisted trading companies purchased on or after 17 March 2016. In order to qualify, there will be a minimum holding period of three years from 6 April 2016 with the relief being subject to a separate lifetime gains limit of £10 million. However, employees and officers of the company will be unable to benefit under these new provisions, and will have to rely on existing provisions to qualify for tax relief.

Also, there was an anomaly in Finance Act 2015 pursuant to which Entrepreneurs' Relief was denied on an 'associated disposal' when a business was sold to members of the claimant's own family under normal succession arrangements either on retirement or when reducing their involvement in the business. This measure will be backdated to 18 March 2015 and will amend the definitions of partnership and share purchase arrangements, by excluding first the material disposal itself and secondly arrangements which pre-date both the material disposal and the associated disposal and are independent of them. The requirement that the material disposal of business assets be of 5% or more of the claimant's share in a partnership or holding in a company will not apply where the claimant disposes of the whole of his interest and has previously held a larger stake.

Similarly, the Government will allow Entrepreneurs' Relief to be backdated to 18 March 2015 in certain cases involving joint ventures and partnerships, where the disposal of business assets does not meet the existing 5% minimum holding conditions. This will be achieved by introducing new definitions of 'trading company' and 'trading group' into the Entrepreneurs' Relief legislation. Where the new definitions apply, a company which holds shares in a joint venture company will be treated as carrying on a proportion of the activities of that company corresponding to the investing company's fractional shareholding. Also, the activities of a corporate partner in a firm will be taken into account when determining whether the company is a trading company.

The Government has also announced that it will allow Entrepreneurs' Relief to be claimed, subject to certain conditions, on gains on the goodwill of a business when the business is transferred to a company under the control of five or fewer persons or of its directors. The principal condition is that the claimant must hold less than 5% of the acquiring company's shares. Special rules will apply to allow relief where the acquiring company is subsequently sold to a third party. These changes will take effect for disposals made on or after 3 December 2014.

Finally, the Government will review the definition of a trading company for Entrepreneurs' Relief purposes to ensure that the relief is operating effectively.

D. Inheritance Tax ("IHT")

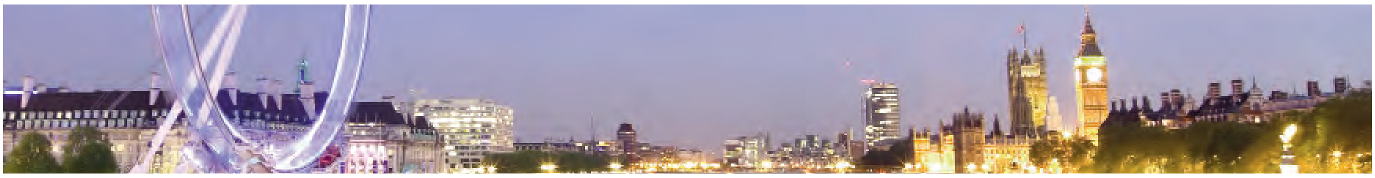
14. Objects Granted Exemption From Estate Duty

The IHT legislation contains a scheme giving "conditional exemption" for certain assets considered to be of national importance. The Intention is to avoid their having to be sold to meet an estate's IHT liability. The IHT charge can be deferred provided certain conditions are met; these include maintaining the object in a good condition, and allowing a specified level of public access. There was a similar exemption from tax for Estate Duty, a forerunner to IHT until 1975. Where given, this exemption remains in place until the object is sold.

Two changes will be made to correct anomalies in the rules. First, if Estate Duty exemption has previously been given, and conditional exemption is subsequently granted on a death but later withdrawn on a sale of the property, either Estate Duty or IHT will be payable, whichever is the greater. Previously only IHT was payable in these circumstances. The change brings the position into line with the treatment for conditional exemption given on a lifetime transfer.

Secondly, legislation will be introduced to raise an Estate Duty charge for exempted items which have been lost, unless that loss was outside the owner's control. This reflects the corresponding position for conditional exemption, which allows for a charge to IHT on loss due to negligence.

A third change concerns the exemption for gifts to public collections, which applies for IHT and CGT. Certain public museums and galleries previously benefited from this exemption, but now do not where local authorities have placed their museums' collections into independent charitable



trusts, which are not within the terms of the legislation. They will now be brought back within the scope of the exemption.

The change to the tax charge on conditionally exempt items previously given Estate Duty exemption will apply to sales on or after 16 March 2016. The other two changes will apply from the date of Royal Assent.

15. Main Residence Nil-Rate Band

The Summer Budget of 2015 announced a new main residence nil-rate band, starting at £100,000 for 2017/18 and increasing to £175,000 for 2020/21. It will apply when a property which has been the main residence at some point is included in the estate and is left to one or more direct descendants. The main residence nil-rate band will be in addition to the standard nil-rate band of £325,000, but will be withdrawn by tapering if the net value of the estate, after deducting any liabilities but before reliefs and exemptions, exceeds £2 million. As promised, this year's Finance Bill will include provision for the main residence nil-rate band to be available when, on or after 8 July 2015, an individual downsizes from a higher value residence to a lower value one, or ceases to own a residence, and other assets are left to a direct descendent.

16. Compensation for Victims of Persecution

Also as previously announced, an existing extra-statutory concession, giving an IHT exemption for certain compensation and ex gratia payments for World War II claims, will be legislated. The legislation will apply to deaths on or after 1 January 2015.

17. Pensions

As detailed in section 2 on pensions, no charge to IHT will arise in relation to funds designated for drawdown, but not actually drawn before death.

E. National Insurance

18. Abolition of Class 2

Class 2 National Insurance Contributions (payable at a fixed rate by the self-employed) will be abolished from April 2018. However, the self-employed will have to wait for the publication of the Government's response to consultation to learn how they will be able to obtain contributory benefits after 2018. Modifications to Class 4 contributions are anticipated.

F. Employee Taxation

19. Disguised Remuneration

The Government introduced what are informally known as the 'Disguised Remuneration' provisions in December 2011 to tackle perceived tax avoidance by employers who used a third party, usually an Employee Benefit Trust, to provide benefits to their employees often through the use of loans.

Despite the introduction of these provisions the Chancellor considers that more contrived schemes have been created to remunerate employees, which continue to circumvent the disguised remuneration rules and have proposed a " package of changes" to ensure these schemes are now caught.

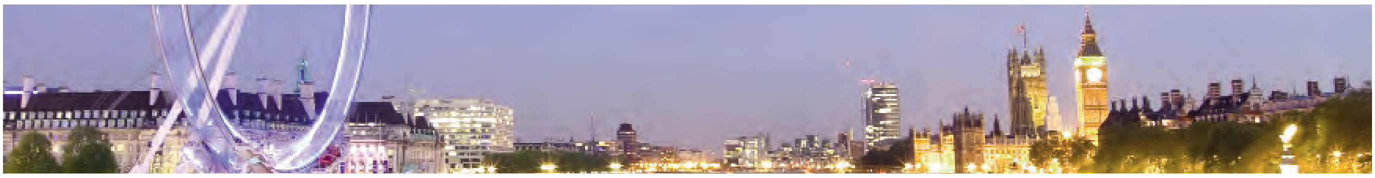
The first part of this 'package' has immediate effect and is intended to tackle a perceived weakness in the provisions, where it is arguable that it is not possible to quantify the amounts attributable to individual persons and the provisions therefore do not apply. In these circumstances the amounts will now be attributed to each relevant person on a just and reasonable basis.

Further provisions will be introduced in Finance Bill 2017 where the Government's stated aim is to catch any scheme which results in a debt being owed by the employee to the third party or where the debtor is also a shareholder/director.

The Government has also stated that it will broaden HMRC's powers to collect any tax due where the disguised remuneration rules have been invoked such that the tax may be collected from the employee (the liability would usually rest with the employer). The Government has given assurances that tax will not be collected from employees in inappropriate circumstances but this is unlikely to give much comfort at this stage.

When the provisions were originally introduced in 2011, a modest transitional relief was available in respect of investment returns received on amounts which were considered to fall within the provisions. This transitional relief is to be withdrawn where tax has not been paid on any affected amounts by 30 November 2016.

Perhaps the most punitive change is the proposal that legislation will be introduced to bring loans



made before the introduction of the original legislation in 2011 within the scope of the provisions, if the loan would be caught if made at today's date and remains outstanding (in full or in part) at 5 April 2019. There will no doubt be many unsuspecting individuals who have had loans outstanding for extended periods and will now find that they fall within the provisions. Any clients who have loans outstanding to third parties connected with their current or previous employers would be advised to take professional advice.

The Government are determined to crack down on what they describe as disguised remuneration tax avoidance schemes. They have raised £1.5 billion from the EBT Settlement Opportunity and EFRBS Resolution Opportunity and believe there is a significant number of cases yet to be settled. They have earmarked £19 million to pay for the extra staff to tackle them.

20. Withdrawal Of Employment Allowance For Employment Of Illegal Workers

Employers who hire individuals who are working in the UK illegally are currently liable to Home Office penalties. This penalty regime will be strengthened by the removal, with effect from 2018, of one year's employment allowance for employers who receive civil penalties.

21. Taxation of Termination Payments

A consultation will be held, in advance of the introduction of legislation in Finance Bill 2017, on proposed narrowing of the scope of the Income Tax exemption which applies to termination payments. The new proposals are intended to prevent manipulation of the exemption. In addition, termination payments over the current exemption limit of £30,000 which are subject to Income Tax will also be subject to employer's National Insurance contributions.

These measures will come into effect from 6 April 2018.

22. Company Car Tax Rates

The Government has announced increases to Company Car Tax Rates for the next three years. The percentage applied to the list price of company cars to calculate the car tax benefit will rise by 3% to a maximum of 37% in 2019 to 2020. There will be a 3% differential between each emission band.

Provisions are also introduced to set the appropriate percentage for cars which do not have a registered CO_2 emissions figure and which cannot produce CO_2. Details are given on our Tax Rate Card.

23. Sporting Testimonials

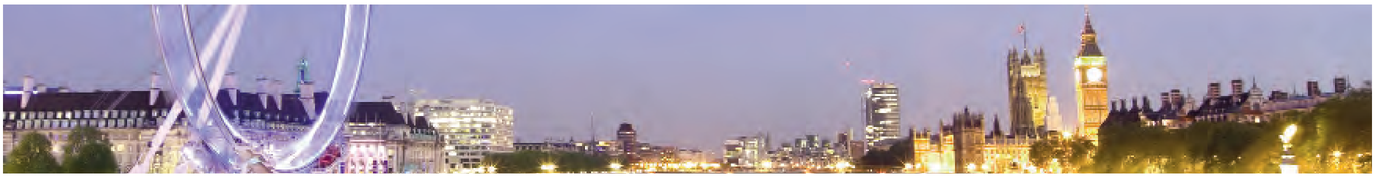
From April 2017, all income received by employed sportspersons from testimonials and other benefit matches will be subject to Income Tax, except when the event match is neither customary nor contractual. In the latter instance, up to £100,000 of income received from a single testimonial match or testimonial year will be exempt from Income Tax. Independent testimonial committees will be required to operate PAYE and NIC in respect of any taxable amounts paid. The measures will apply to any testimonial or benefit events awarded on or after 25 November 2015.

24. Simplifying Administration Of Tax On Employee Benefits And Expenses

The Government proposes to introduce a number of measures intended to make the administration of tax on employee benefits and expenses easier, as follows:

- With effect from April 2017, employers will be able to account for tax in real time on non-cash vouchers such as gift vouchers and season tickets, credit cards and similar tokens.
- Legislation will clarify that, where the following benefits are provided:
  - living accommodation,
  - company cars, vans and fuel, and
  - loans

  the taxable amount of these benefits is as set out in specific legislative provisions. It is not correct to use the concept of 'fair bargain' (ie valuing benefits to employees on the same terms as would be provided to the general public). The amendment to the wording of the legislation is intended to put the matter beyond doubt.
- Consultations will be held on proposals to:
  - Simplify the application process for obtaining PAYE settlement agreements, under which employers are able to make a single annual payment to cover tax and National Insurance due on small or infrequent taxable expenses and benefits for their employees.



- Align deadline dates for reimbursements by employees, to nullify any benefits the employee has received.

25. Abolition Of The P11D Dispensation Regime

As previously announced, P11D dispensations for tax-allowable expenses are to be repealed from 6 April 2016. The Office of Tax Simplification recommended that specific legislation was introduced to cover the payment of business related expenses and this comes into effect from 6 April 2016, leaving no continuing need for dispensation notes.

26. Benefits Obtained Through Salary Sacrifice

Consideration is being given to limiting the kinds of benefits which can attract Income Tax or NI relief when provided through an employee salary sacrifice scheme. It is intended, however, that relief will continue to apply to a number of benefits available via salary sacrifice including pensions, childcare vouchers and health related schemes like the Cycle to Work scheme.

27. Trivial Benefits And Pension Advice

As previously announced, legislation is to be introduced to exempt employee benefits with a value of £50 or less from Income Tax and Class 1A NIC, with effect from April 2016. An exemption for Class 1 NIC will be introduced later in 2016.

After April 2017, the exemption for employer-arranged pension advice will increase from £150 to £500.

28. Travel And Subsistence Expenses

Following consultation announced in the March 2015 Budget, legislation is to be introduced in Finance Bill 2016 to restrict tax relief for travel and subsistence expenses for workers who are not direct employees but, although engaged through employment intermediaries like Personal Service Companies, are under the supervision, direction and control of the end user for whom they are working. The new legislation will harmonise the treatment of subsistence and home to work travel costs with that which applies to employees.

A discussion document was published in September 2015 to consider whether tax rules for employee travel and subsistence expenses might be modernised. However, following consultation, it has been decided that the current rules work well and no changes are necessary.

29. Payments In Non-Monetary Form

Measures are to be introduced in Finance Bill 2016 to ensure that trading receipts (including receipts by those supplying services through Personal Service Companies and other employment intermediaries) in non-monetary form must be brought into account at full value in calculating taxable profits. These measures will apply to transactions on or after 16 March 2016.

30. Public Sector Workers And Intermediary Companies

The Government announced in Budget 2016 that it would reform legislation applying to workers providing services to public sector bodies via intermediary companies.

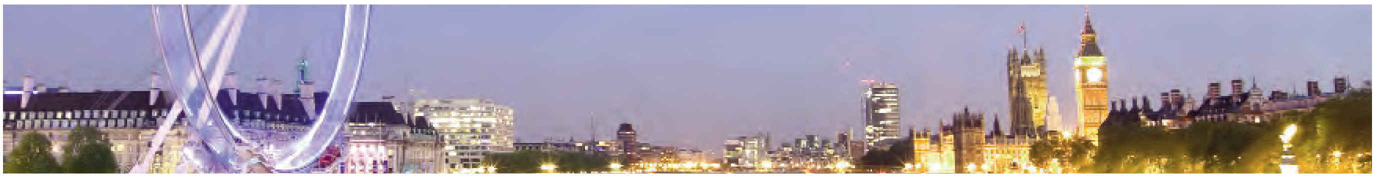
Legislation was introduced in 2000 in relation to Personal Service Companies. This was intended to ensure that workers providing services via an intermediary, who would have been treated as an employee if they had provided those same services directly, would pay broadly the same Income Tax and NIC as they would have done had they been employed directly by the end user. However, it is recognised that non-compliance with these rules is widespread and the new reforms are intended to address this problem within the public sector.

Consultation is to be held on the new proposals and legislation is to be introduced in Finance Bill 2017. It is intended that the public sector bodies will be required to apply employment taxes in respect of payments made to the intermediary companies, and a digital tool will be developed to assist in establishing at the point of hire whether these new rules should be applied.

The existing intermediaries rules will apply for workers providing services via an intermediary to end users outside the public sector.

31. Simplification Of Employee Share Schemes

This measure applies to individuals who have acquired company shares through the exercise of an Enterprise Management Incentive (EMI) option. Where individuals acquire further shares through a rights issue on or after 6 April 2016 in relation to



shares they have acquired on exercise of an EMI option, the shares acquired through a rights issue will be treated as acquired on the same date as the original shares. This harmonises the treatment with that of rights issues in relation to shares acquired other than through exercise of an EMI option.

G. Tax Administraton

32. Miscellaneous

The Government is to continue to transfer powers to the devolved administrations around the UK. Plans for Welsh Rates of Income Tax are progressing and English regions will have 'significant budgets and responsibilities' transferred to local level with new mayoral devolution deals. The devolved administrations' budgets will be adjusted in line with the existing Barnett formula with each administration seeing an increase in their funding.

HMRC are to be permitted to collect additional data from businesses on certain tax reliefs and allowances for the purposes of monitoring compliance with State Aid rules.

£71 million is being invested to make it quicker and easier for individuals and small businesses to deal with HMRC. This will include contact through a new secure email service, phone lines and Webchat open 7 days a week.

The time limits for making a self-assessment tax return will be clarified and confirmed as 4 years from the end of the relevant tax year.

There will be legislation to provide HMRC with power to make an assessment of a person's Income Tax and CGT liability, without their first being required to submit a self-assessment tax return, where it has sufficient information to be able to do so.

The "Making Tax Digital" programme continues and from 2018 businesses, the self-employed and landlords who keep digital records and regularly update HMRC will be able to adopt pay-as-you-go tax payments. It is intended that this will allow them to choose a payment pattern to better suit their cash flow needs.

The Office of Tax Simplification will be placed on a statutory footing as a permanent office of H M Treasury. It has been asked to review the impact of moving employee NI contributions to an annual, cumulative and aggregated basis and separately review options for simplifying the computation of Corporation Tax.

Perhaps recognising that the UK has arguably the most complex tax code in the world, the overall goal appears to be one of streamlining and simplifying tax administration. Past experience leads one to doubt this will be achieved.

H. Disclosure And Anti-Avoidance

33. Tackling The Hidden Economy

The Government will legislate to extend HMRC's powers to obtain data from online intermediaries and electronic payment providers to identify those operating in the 'hidden economy' and will also consult over the summer on a number of measures to tackle this:

- By considering whether businesses should be registered for tax before being able access licenses or services;
- By introducing new sanctions for those who repeatedly and deliberately participate in the hidden economy;
- By giving powers for HMRC to gather data held by Money Service Businesses for tax compliance purposes.

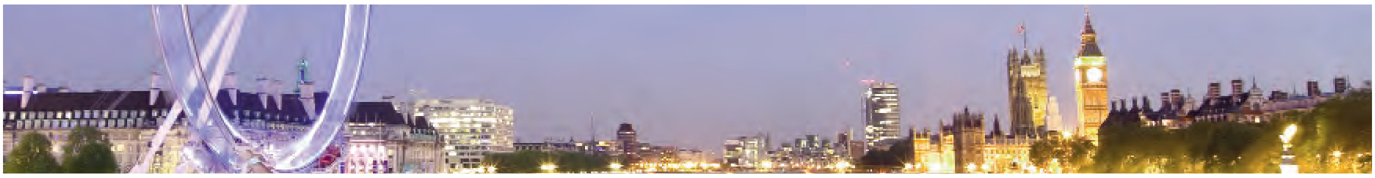
34. Offshore Tax Evasion

A number of new measures will be introduced to tackle offshore tax evasion:

- A new strict liability criminal offence that will remove the need to prove intent for the most serious cases of failure to declare offshore income and capital gains;
- Civil penalties for deliberate offshore tax evasion and those who enable it. This will include a new penalty linked to the value of the assets on which tax was evaded and the public naming of tax evaders;
- The introduction in Finance Bill 2017 of a legal requirement to correct past offshore non-compliance within a defined period of time and introduce new sanctions for those who fail to do so.

35. Serial Avoiders

The Government will introduce new measures for serial avoiders who "persistently" enter into tax avoidance schemes which ultimately prove unsuccessful. These measures will include the



publication of their names, a special reporting requirement and a penalty for those whose latest tax return is found to be inaccurate due to the use of a defeated avoidance scheme. In the most extreme cases restrictions will be applied on the ability to claim certain tax reliefs for a period.

36. Marketed Tax Avoidance

The Government will continue its assault on marketed tax avoidance schemes. In particular:

- It will consider clarifying what constitutes reasonable care in avoidance penalty cases;
- It will consider options to penalise those who enable tax avoidance schemes;
- It will consult over the summer on updating the VAT Disclosure of Schemes Regime including the possibility of its extension to other indirect taxes and of aligning it with the Disclosure of Tax Avoidance Schemes regime ("DOTAS").

37. Offshore Property Developers

As explained in section 39 below, the Government will legislate to ensure offshore structures cannot be used to avoid UK tax on profits that are generated from UK property development. A task force will also be created to improve the tax compliance of offshore structures which receive profits and rental income from property development in the UK.

38. The General Anti-Abuse Rule ("GAAR")

A new penalty will be introduced specific to cases which are successfully tackled by the General Anti-Abuse Rule (GAAR). This will equal 60% of the tax due. Small changes will also be made to the GAAR procedure intended to improve its ability to tackle marketed avoidance schemes.

I. Property Taxes

39. Profits From Trading In And Developing UK Land

Provisions will be introduced extending the application of UK tax to all profits deriving from a trade in, or the development of, UK land, regardless of the residence of the person undertaking the activity.

The new rules will apply to profits realised after the "Report Stage" of the Finance Bill (anticipated to be in June 2016) and will apply equally to commercial and to residential property. However, an "anti-forestalling" measure will effectively apply these measures from Budget Day, except where the profit arises before the commencement date on a disposal to a third party, or a disposal to a related party which was already intended to take place before the changes were announced.

Under the current law, profits from a trade in UK land, or from the development of UK land, realised by a UK resident person (whether a company or an individual) are taxable in the UK.

Non-UK residents can also be subject to UK tax under the current law on these activities, either under general provisions relating to trades carried on in the UK (especially if the non-resident has a "permanent establishment" in the UK), the "Diverted Profits Tax", or under the "Transactions in Land" provisions.

A number of UK property development transactions undertaken by non-UK resident companies have been structured in ways which, it is argued, do not fall within the scope of any of these provisions. The Technical Note makes clear that in HMRC's view a number of such structures are not effective in avoiding a tax charge under the current law, and are being challenged (where HMRC are aware of the arrangements).

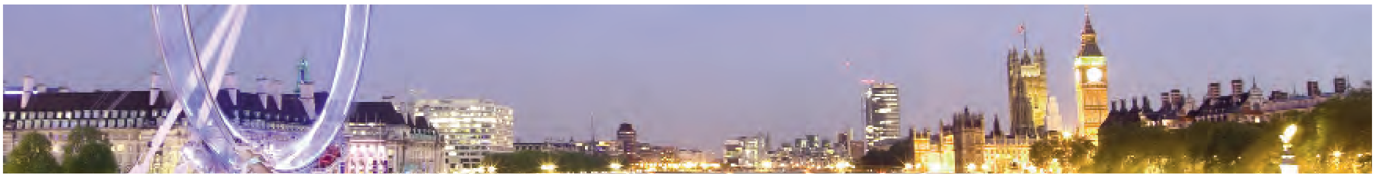
The new provisions are intended to remove any doubt that there is a charge to UK tax where the profit realised relates to a trade in, or the development of, UK land. The core provision will impose a UK tax charge on the owner where the land is traded (as opposed to held for investment), or developed for a profit.

39.1 Targeted Anti-Avoidance Rule (TAAR)

In addition to this core charge to UK tax, a TAAR will apply from Budget Day, and will be wider in scope until the commencement date of the core provisions. Until the commencement date it will apply to all transactions with related parties, regardless of any tax avoidance motive, where the related party is not intended to be the "ultimate recipient", i.e. where there is an intention for the related party to sell on to a third party. From the commencement date the TAAR will only apply to transactions undertaken with the motive of avoiding the charge to tax.

39.2 Specific Anti-Avoidance

Two other structuring techniques have been identified by HMRC and specific counteraction measures have been proposed. These have been labelled "fragmentation" and "enveloping".



39.3 Fragmentation

This is any structuring where the ownership of the land has been separated from the development of the land, most simply by contracting the development to a related party on arms' length terms. In these circumstances, a TAAR will treat the profits of all of the connected parties in the structure as within the scope of the core provisions, and so subject to UK tax.

There is a proposed rule to determine whether two or more parties involved in the development trade are connected for these purposes. The three limbs of the rule are:

- The profits of the parties derive, directly or indirectly, from the profit realised on the development of the land.
- It is reasonable to suppose that the parties are acting together as part of a scheme or arrangement the main purpose of which is to realise a profit from the land transactions
- The parties are "economically connected". The definition of economically connected for these purposes is proposed to be taken from the OECD definition in their work on BEPS.

Consultation is requested on the formulation of this anti-fragmentation rule, and the details and definitions may change prior to implementation.

39.4 Enveloping

With some property developments each property is developed within a separate corporate vehicle and the corporate vehicle is offered for sale, rather than the land. HMRC will frequently argue that the existing Transactions in Land provisions apply in these circumstances. To fulfil the policy objective of ensuring that a tax charge is imposed a further anti-avoidance provision will be introduced. This provision will impose a tax charge on any profit realised when there is a disposal (extended to include most part disposals) of a "property holding" company.

The proposed definition of a property holding company is any company where more than 50% of the value of the company derives from UK land (with a TAAR where arrangements are made to suppress the proportion of the value below 50%).

39.5 Application to Companies and Individuals

The provisions are mainly aimed at companies, but will also apply to any individuals who are not otherwise charged to tax.

39.6 Collection

For non-resident companies, the provisions which enable HMRC to recover Corporation Tax from UK representatives of the company, or from a UK resident company in a corporate group will apply.

Collection of the new tax charge will be monitored, and a withholding tax will be considered if collection is not possible through other routes.

40. Update On Residential Property

40.1 Restriction of Tax Relief for Finance Costs

The restriction of tax relief for interest and other finance costs from 6 April 2017, which was announced last year, is to be enacted as planned. Minor clarifications have been announced, ensuring that individual beneficiaries of a deceased estate would be entitled to the 20% tax reduction, and that the computation of the tax reduction, and provisions allowing unused reductions to be carried forward, operate as intended.

40.2 Annual Tax on Enveloped Dwellings (ATED)

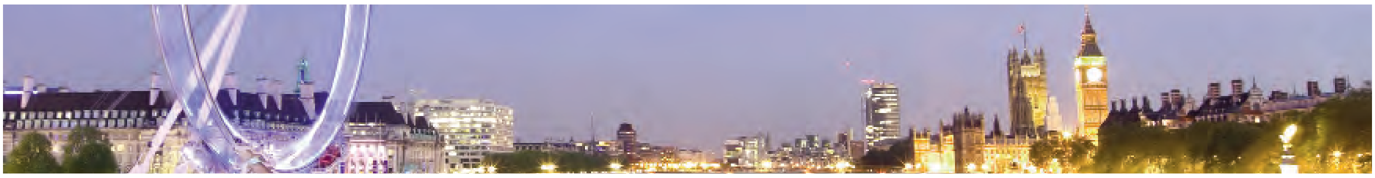
As previously announced, from 1 April 2016 residential properties with a market value of between £500,000 and £1m will fall within the ATED regime. Any ATED related capital gains on subsequent disposal of the property can be calculated with reference to a "rebased" value as at 1 April 2016. Capital gains arising under the Non-Resident CGT rules introduced on 6 April 2015 will be calculated using the market value at that date as the base cost.

At the same time, the ATED reliefs will be extended to cover Equity Release plans, properties occupied by certain employees and properties acquired by business for demolition or conversion to non-residential use.

J. Stamp Duty Land Tax ("SDLT")

41. Changes To SDLT Arising On Non-Residential And Mixed Use Property

The Chancellor announced three significant changes to the Stamp Duty Land Tax ("SDLT") regime applying to non-residential and mixed use property purchased in England and Wales from 17 March 2016.



A non-residential purchase is one where the purchase is wholly of non-residential property, and a mixed use property purchase is one where the purchase consists partly of residential property and partly of non-residential property.

The first change is that the current "slab" system, where a single rate of SDLT applies to the ***whole*** purchase price, will be abolished. Instead, SDLT will be charged on the amount of consideration in each rate band. This will align the nature of the regime for non-residential and mixed use property transactions with that applying to wholly residential transactions.

The second change is to the rates of SDLT applying to non-residential and mixed use property transactions as follows:

Transaction Value Band	Current Rates	Rates From 17 March 2016
£0 - £150,000	0%	0%
£150,001 - £250,000	1%	2%
£250,000+	-	5%
£250,000 - £500,000	3%	-
£500,000+	4%	-

A higher 5% rate will therefore apply to all transactions where the purchase price exceeds £250,000, but only on the purchase price in excess of that amount.

This means that all non-residential or mixed use property purchased for in excess of £1.05 million will suffer higher SDLT under the new system.

Thirdly, from 17 March 2016, the SDLT rates applying to the net present value ("NPV") of the rent under a non-residential lease will change as follows:

Transaction Value Band	Current Rates	Rates From 17 March 2016
£0 - £150,000	0%	0%
£150,000+	1%	-
£150,001 - £5,000,000	-	1%
£5,000,000	-	2%

A 2% rate (compared to 1% at present) will therefore apply to the NPV of rental payments under non-residential leases where this is in excess of £5 million.

42. Higher Rate Of SDLT To Apply To Additional Residential Property

From 1 April 2016, individuals who purchase additional residential properties in England and Wales, such as second homes and buy-to-let properties, will pay higher rates of SDLT. The additional rate will be 3% above the current SDLT rates as follows:

Threshold	Existing SDLT Rates	New Additional Property SDLT Rates
£40,000 - £125,000	0%	3%
£125,000 - £250,000	2%	5%
£250,000 - £925,000	5%	8%
£925,000 - £1,500,000	10%	13%
£1,500,000+	12%	15%

The key test is that if, "at the end of the day", an individual owns more than one property, and the purchase is not the replacement of the main residence, the additional SDLT rate will apply. This is the case even if the other property he or she owns is outside the UK.

Properties purchased for less than £40,000 as well as caravans, mobile homes and houseboats will be excluded from the additional rate, as will non-residential property and mixed use property.

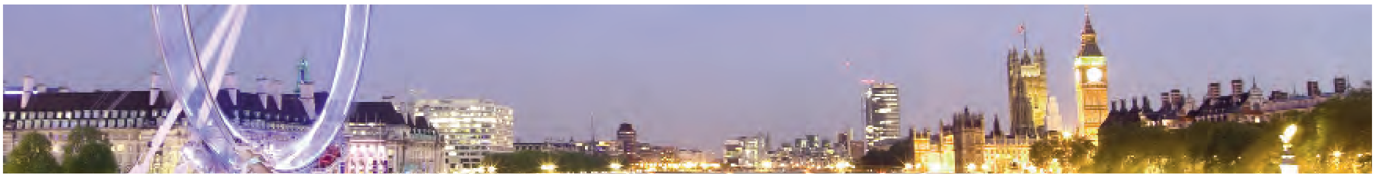
It should be noted that as well as second homes and buy-to-let properties, the additional SDLT rate will apply to a purchase involving a residential property containing both a main house and, for example, a granny flat or self-contained au-pair accommodation which is worth at least £40,000.

To help those moving in difficult circumstances, purchasers will now have 36 months rather than 18 months to sell their previous main residence after buying a new main residence. The refund of the additional SDLT can then be claimed once the previous main residence has been sold.

The Government has confirmed that when applying the additional rate, a small share (50% or less) in a residential property which has been inherited within the 36 months prior to a transaction will not be considered as an additional property.

In addition, the Government will consider married couples who are separated and living in circumstances that are likely to become permanent as if divorced for the purposes of applying the additional SDLT rate.

The Government has also announced there will be no exemption from the additional SDLT rate for investors with large residential property portfolios, having previously suggested that an exemption



may apply to the purchaser of 15 or more residential properties.

These measures represent a very significant change to the SDLT liabilities for residential properties, and in some cases purchasers will incur a substantial additional SDLT liability in circumstances where they would not consider that they have purchased two properties.

K. Stamp Duty And Stamp Duty Reserve Tax

43. Deep In The Money Options

A measure will be introduced to ensure that issuer shares transferred to a clearance service or depository receipt issuer as the result of the exercise of a "Deep in the Money" option will be charged stamp tax at 1.5% on the higher of the option price or the market value of the shares.

L. Taxes For Business

44. Cut In The Corporation Tax Rate To 17%

Following the abolition of the small companies' rate and the introduction of a single Corporation Tax rate of 20% for all companies from 1 April 2015, with the promise of further reductions in 2017 and 2020, the Government has now announced that the rate will be cut to 17% from April 2020, instead of 18% as originally proposed.

45. Response To The OECD's BEPS Project

The Government has demonstrated its firm commitment to the OECD's Base Erosion and Profit Shifting (BEPS) project to tackle tax avoidance and aggressive cross-border tax planning by confirming new legislation in the Finance Bill 2016 in relation to:

- Restrictions on interest deductibility for corporates (see 46 below for details);
- Reform of the patent box regime so that it is consistent with the nexus approach agreed through the BEPS project which links benefits to the level of R&D undertaken in the UK;
- Prevention of tax avoidance through the use of certain cross-border hybrid business structures or finance transactions that exploit differences between countries' tax rules.
- Updating the current link in the UK's transfer pricing rules to the new OECD transfer pricing guidelines.

46. Deductibility Of Corporate Interest Expense

The new rules to implement 'Action 4' of the BEPS project will impose a restriction for large companies from 1 April 2017, and the existing worldwide debt cap rules will be repealed. Groups of companies with a UK interest expense below £2 million will be unaffected. For companies within the rules, interest relief will, in broad terms, be limited to 30% of the group's UK's Earnings Before Interest, Taxes, Depreciation, and Amortization ("EBITDA").

47. Withholding Tax On Royalty Payments

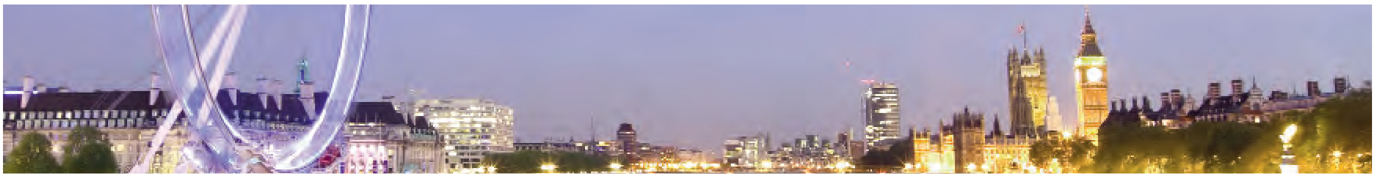
The Government has announced a series of anti-avoidance measures to ensure royalty payments cannot be used to shift profits from the UK to low-taxed countries including:

- An extension of the UK's withholding tax rights so that payments for the use of intangible assets such as trademarks and brand names made to overseas persons will be subject to withholding tax;
- The introduction of a tax treaty abuse rule to prevent the diversion of payments via conduit countries; and
- Applying UK withholding tax to payments connected to UK permanent establishments of overseas companies.

48. Loss Relief For Companies

Legislation will be introduced in 2017, and effective from 1 April 2017, to bring loss relief into line with international best practice:

- Companies will be able to use carried forward losses against profits from other income streams or from other companies within a group; but
- For groups with profits in excess of £5 million, then there will be a restriction to the relief for losses brought forward against those group profits. The effect will be to limit the offset of brought forward losses to 50% of the profits.



- Banks already suffer a similar loss restriction in relation to pre-April 2015 losses and the Government has announced that, from 1 April 2016, banks will be restricted further so that only 25% of profits can be offset by pre-April 2015 losses.

49. Payment Dates For Large Companies

The Government announced in 2015 that companies in a group with profits in excess of £20 million will be required to make Corporation Tax payments in the third, sixth, ninth and twelfth months of their accounting periods. This new system was due to apply from April 2017 but this has now been deferred by two years to apply to accounting periods starting on or after 1 April 2019.

50. Lifetime Limit On Employee Shareholder Status Exemption

In 2013 the Chancellor introduced the opportunity for employees to enter into Employee Shareholder Agreements whereby, in return for giving up some employment rights, they were rewarded with the issue of shares which, assuming certain conditions were met, would be exempt from CGT on their disposal.

The same Chancellor has now announced a lifetime limit of £100,000 on the gains that may be exempted from CGT for Employee Shareholder Shares. Past and future gains on shares issued before 17 March 2016 will not count towards this limit. Assuming the gain on such shares would otherwise be taxed at the new CGT rate of 20%, the effect of the rules is therefore to limit the benefit of Employee Shareholder Status to just £20,000 per employee.

51. Increase In The Tax Rate Applying To Loans To Participators

The rate of tax charged on loans to participators (currently 25%) is being specifically linked to the dividend higher rate, and thereby increased to 32.5% from 6 April 2016. This will prevent individuals gaining a tax advantage by taking loans to extract value from their companies rather than remuneration or dividends. The new rate will apply to loans made by close companies on or after 6 April 2016. For accounting periods which straddle 6 April 2016 different rates will be applied to separate loans made before, and on or after, 6 April 2016.

52. R&D Tax Credits

The Government will end Vaccine Research Relief from 31 March 2017, and will amend the SME R&D tax credit scheme rules to ensure that it continues to work as intended after the previous large company scheme ends on 31 March 2016.

53. Creative Sector Tax Reliefs

The Government will introduce a new tax relief for museums and galleries from 1 April 2017. The relief will also be available for temporary and touring exhibition costs. It will also provide tax relief to orchestras at a rate of 25% on qualifying expenditure from 1 April 2016.

54. Consultation On Supporting Grassroots Sports Through The Corporation Tax System

The Government is launching a consultation on how to expand support that can be given to grassroots sport through the Corporation Tax system.

55. Capital Allowances: Business Cars

The Government is extending the 100% First Year Allowance (FYA) for businesses purchasing low emission cars for a further three years to April 2021.

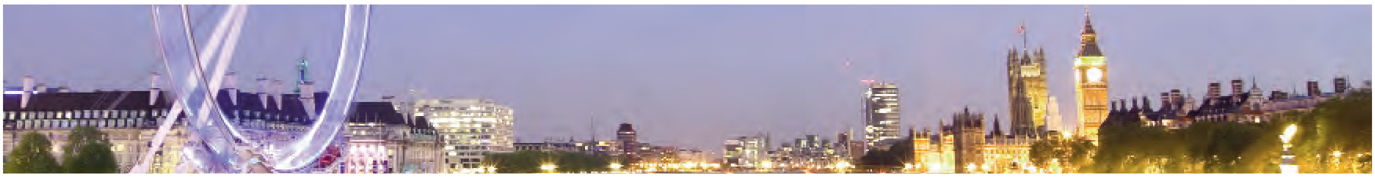
In addition, from April 2018 the carbon dioxide emission threshold below which cars are eligible for the FYA will be reduced from 75 grams/kilometre to 50 grams/kilometre, and the carbon dioxide emission threshold for the main rate of capital allowances for business cars will be reduced from 130 grams/kilometre to 110 grams/kilometre.

56. Business Premises Renovation Allowance

The Government confirmed that the Business Premises Renovation Allowance will expire on 31 March 2017 for Corporation Tax, and 5 April 2017 for Income Tax.

57. Plant and Machinery: Lease Accounting Changes

The Government will publish a discussion document in the spring of 2016 on changing the tax treatment of leases of plant and machinery



in response to the International Accounting Standards Board's new lease accounting standard IFRS 16.

58. Large Businesses: Requirement To Publish Tax Strategies

The Government will introduce new measures to improve large business tax compliance, including a new requirement that large businesses publish their tax strategies, and special measures giving powers to tackle large businesses that persistently engage in aggressive tax planning.

59. Repeal Of The Renewals Allowance

The Government will withdraw the Renewals Allowance, which provides traders and property businesses with tax relief for the cost of replacing tools.

60. Loan Relationships - Taxation Of Corporate Debt And Derivative Contracts

The Government will update the tax rules for company debt and derivative contracts to ensure they interact correctly with new accounting standards in three specific circumstances.

61. Reform Of The Substantial Shareholdings Exemption

The Government will consult on possible reform of the Substantial Shareholdings Exemption for corporate capital gains.

62. Business Rates

The Budget included welcome news for small businesses: From 1 April 2017, the tax threshold for Small Business Rate Relief (SBRR) will double to £12,000. A property with a rateable value of between £12,000 and £15,000 will qualify for tapered relief. The rate of relief is also permanently doubling from 50 per cent to 100 per cent from the same date. The threshold at which business rate bills are calculated using the standard rate multiplier (rather than the small business multiplier) will increase from £18,000 to £51,000 from 1 April 2017.

However, from 1 April 2020, the method for uprating business rates will switch from the Retail Price Index to the Consumer Price Index (or the main measure of inflation at that time).

M. Value Added Tax

63. Miscellaneous

Measures introduced in this year's Budget include the annual increase in VAT registration thresholds, action to protect the UK market from online competition from abroad, and an extension of the eligibility criteria for the VAT refund scheme for museums and galleries. A consultation on penalties for VAT fraud has been announced.

With effect from 1 April 2016 the VAT registration threshold will be raised to £83,000 and the VAT deregistration threshold is raised to £81,000.

The Government is taking action to protect the UK market from online competition from abroad. Some overseas non-EU traders who sell goods (located in the UK at the time of sale) to UK customers, mainly via online marketplaces, avoid paying UK VAT. These goods are normally shipped to the UK prior to sale and stored in fulfilment houses. The Chancellor announced action against non-compliant overseas traders by requiring them to appoint a tax representative and by empowering HMRC to hold the providers of online marketplaces jointly and severally liable for the unpaid VAT of any overseas business that sells via the online marketplace's website. There will be a consultation on the "fit and proper" standards that fulfilment houses will need to meet. They will have to provide evidence of the due diligence they have undertaken to ensure the overseas clients are following VAT rules.

The eligibility criteria for the VAT refund scheme for museums and galleries has been broadened to capture a wider range of free museums and galleries.

The Government will consult on a new penalty for participating in VAT fraud with the intention of introducing legislation in the Finance Bill 2017.

N. Other Indirect Taxes

63. Raising Revenue

Due to the Government's commitment not to increase the level of Income Tax or VAT for the duration of this Parliament, there appears to be an increasing trend towards more novel ways of increasing tax revenues and the rates on "softer" consumption based options. This is demonstrated by a proposed new levy on soft drinks and further increases to the Insurance Premium Tax.

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65. Soft Drinks Industry Levy

The Government has announced plans to introduce a levy on producers and importers of water-based soft drinks that contain added sugar, with the measures to be implemented from April 2018.

There will be two bands for the so called "sugar tax", based on the total sugar content of the drinks. A main rate charge will be applied to drinks containing more than 5 grams of sugar per 100 millilitres and a higher rate will apply to drinks containing over 8 grams of sugar per 100 millilitres. The levy will not apply to milk-based drinks or fruit juices and small operators will be excluded.

The measures are designed to encourage companies to reduce the level of sugar in the drinks they produce and reduce portion sizes, in order to tackle childhood obesity. The tax raised will be used to enable primary schools to increase the quality and breadth of PE and sports they offer, provide secondary schools with the opportunity to extend their school day, and to ensure more children have a healthy and nutritious breakfast to start their day.

It appears to be assumed that the levy charged will be passed on in full to consumers.

66. Insurance Premium Tax (IPT)

IPT is levied on general insurance premiums, such as car, travel and home insurance policies.

Despite the increase in the standard rate of IPT in November last year from 6% to 9.5%, the Government has announced a further rise of 0.5% to take effect from 1 October 2016. The higher rate of IPT remains unchanged at 20%.

67. Alcohol Duty

After the reduction in the duty rates for beer and spirits of 1p and 2p respectively in Budget 2015, the Government has announced that duty rates on beer, spirits and most ciders will be frozen this year. The freeze in duty is designed to further assist and support the pub and Scotch whisky industries.

Duty rates for most wines and higher strength sparkling cider will increase by RPI with effect from 21 March 2016.

68. Fuel Duty

Fuel duty has been frozen for the sixth consecutive year and will remain at 57.95p per litre for petrol and diesel.

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