What does the new tax year hold? Has George Osborne laid the foundations for achieving national solvency or are we on the rocky road to recession?

The March 2016 budget seemed to indicate that austerity is still on the Treasury's road map – balancing the books and reducing debt. Certainly, there were no major surprises. We have outlined a few of the changes disclosed in this newsletter.

Stamp Duty (SDLT) increases buy-to-let

From 1 April 2016, individuals who purchase additional residential properties, second homes or buy-to-let properties will pay an additional 3 percentage points above the existing SDLT rates. The higher rates are:

- £0 - £125k: 3%
- £125k - £250K: 5%
- £250k - £925k: 8%
- £925k - £1.5m: 13%
- Over £1.5m: 15%

This will add a considerable on-cost for landlords and families that venture into multiple property acquisitions. Without this change, a residential property purchased for £250k would have had a SDLT charge of £2,500. Under the new rates this will increase to £10,000.

Properties purchased for under £40,000, caravans, mobile homes and houseboats will be excluded from the higher rates. Furthermore, small shares in recently inherited properties will not be considered when determining if the higher rates apply.

The budget also clarifies when companies making residential property purchases will be subject to this additional SDLT charge.

In the lead up to the budget it had been speculated that significant, incorporated property businesses would be able to avoid the increase. It would appear that this is not to be.

In the notes to the budget it is clearly stated:

"Companies purchasing residential property will be subject to the higher rates, including the first purchase of a residential property."

Accordingly, setting up a new company for each property acquisition or transferring existing portfolios into corporate structures will not allow landlords to avoid the additional rates of SDLT on post April 2016 acquisitions.

Indirectly, these changes will also affect sellers of residential property as the SDLT increases may dissuade marginal buyers from purchasing. Will we see affected house prices falling?

Capital Gains Tax (CGT) changes

CGT rates have been significantly reduced from April 2016.

The rates at which capital gains are taxed depend on where they would fall to be taxed for Income Tax purposes if they were added to income. This would determine whether the gains would fall to be taxed at basic or higher rates, or part and part.

- If at basic rates, gains will now be taxed at 10% instead of £18%
- If at higher rates, gains will now be taxed at 20% instead of 28%.

These reductions will not apply to residential property sales of second homes or buy-to-let properties – the 2015-16 rates of 18% and 28% will continue to apply.

There is also a surprising change to Entrepreneurs' Relief (ER). It is being extended to afford relief to investors in non-quoted companies. The revisions will introduce the following change to legislation:

"The extension to ER, introducing investors' relief, will apply to gains accruing on the disposal of certain qualifying shares by individuals (other than employees and officers of the company). In order to qualify for relief, a share must:

- be newly issued, having been acquired by the person making the disposal on subscription for new consideration
- be in an unlisted trading company, or unlisted holding company of trading group
- have been issued by the company on or after 17 March 2016 and have been held for a period of three years from 6 April 2016
- have been held continually for a period of three years before disposal

The rate of CGT charged on the qualifying gain will be 10%, with the total amount of gains eligible for investors' relief subject to a lifetime cap of £10 million per individual. Rules will ensure that this limit applies to beneficiaries of trusts.

Because the relief is designed to attract new capital into companies, avoidance rules set out in the legislation will ensure that shares must be subscribed for by individuals for genuine commercial purposes and not for tax avoidance purposes.

This is a welcome change, and one that should stimulate interest from investors in smaller concerns that would otherwise struggle to attract inward investment.

Overdrawn loan accounts

Up to 5 April 2016, directors who overdrew their loan accounts in a company ran the risk of an additional 25% Corporation Tax charge if the debt remained outstanding nine months after their company's trading period end.

The tax can be claimed back, but not until there is a repayment of the debt. From a cash flow point of view this can be a hefty penalty, and makes this type of temporary cash extraction by shareholder directors, unattractive.

The Treasury has decided to tighten the screw.

Legislation has been introduced in the Finance Bill 2016 to specifically link the rate of tax chargeable on loans or advances to, or arrangements conferring benefits on, participators made by close companies to the higher dividend rate. The rate will be increased from 25% to 32.5%. The new rate will apply to loans made or benefits conferred on or after 6 April 2016.

This is a 30% increase in the tax charge. A company that allows a director or shareholder to maintain an overdrawn loan, taken out after 6 April 2016, for say £50,000, still unpaid after the nine month deadline, will incur a corporation charge of £16,250 instead of £12,500.

Companies affected would do well to revisit the cash flow implications.

Lifetime Individual Savings Account (Lifetime ISA)

In a further bid to encourage savings for a first property purchase, or retirement, a new ISA is being launched from April 2017 – the Lifetime ISA.

It will be available from April 2017 for adults under the age of 40. They will be able to contribute up to £4,000 per year, and receive a 25% bonus from the government.

Funds from the Lifetime ISA, including the government bonus, can be used to buy a first home at any time from 12 months after the account opening, and be withdrawn from age 60. There will be penalties for early withdrawals.

The government also announced that the overall annual ISA subscription limit will be increased to £20,000 from 6 April 2017.

Tax Diary April/May 2016

1 April 2016 - Due date for Corporation Tax due for the year ended 30 June 2015.

19 April 2016 - PAYE and NIC deductions due for month ended 5 April 2016. (If you pay your tax electronically the due date is 22 April 2016.)

19 April 2016 - Filing deadline for the CIS300 monthly return for the month ended 5 April 2016.

19 April 2016 - CIS tax deducted for the month ended 5 April 2016 is payable by today.

19 May 2016 - PAYE and NIC deductions due for month ended 5 May 2016. (If you pay your tax electronically the due date is 22 May 2016.)

19 May 2016 - Filing deadline for the CIS300 monthly return for the month ended 5 May 2016.

19 May 2016 - CIS tax deducted for the month ended 5 May 2016 is payable by today.

31 May 2016 - Ensure all employees have been given their P60s for the 2015-16 tax year.