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Tax rates 2015/16

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Updated for UK Summer Budget 2015

Contents

These tables are a summary and do not cover all situations. They are based on information in the Summer Budget announcements on 8 July 2015. These may be subject to further amendment.

Personal Tax

Income tax rates 2015/16 (2014/15)

Income band (£)	Dividends (%)	Other savings income (%)
Up to 31,785 (up to 31,865)	**10**	**20**
31,786 – 150,000 (31,866 – 150,000)	**32.5**	**40**
Over 150,000 (over 150,000)	**37.5**	**45**
Income band (£)	**Other income (%)**	**Cumulative tax (£)**
Up to 31,785 (up to 31,865)	**Basic rate: 20**	**6,357** (6,373)
31,786 – 150,000 (31,866 – 150,000)	**Higher rate: 40**	**53,643** (53,627)
Over 150,000 (over 150,000)	**Additional rate: 45**	

The income bands are broadly used in the following order:

- Non-savings income
- Savings income
- Dividends

For basic rate taxpayers the liability on UK and most overseas dividend income is met by the 10% notional tax credit attached to the dividend.

A 0% (2014/15: 10%) starting rate applies to the first £5,000 (2014/15: £2,880) of savings income. For many taxpayers this is not relevant as the starting rate does not apply if their taxable non-savings income exceeds the starting rate limit.

Discretionary trusts and accumulation and maintenance trusts are entitled to a standard rate band of £1,000 in 2015/16 (2014/15: £1,000). Income in excess of this amount is subject to income tax at the top rate of income tax, which is 45% in 2015/16 (2014/15: 45%). The rate of tax on dividend income received in excess of the standard rate band in 2015/16 is 37.5% (2014/15: 37.5%).

On 8 July 2015, the Chancellor announced that the higher rate band will increase to £32,000 for 2016/17 and £32,400 for 2017/18.

The government will abolish the dividend tax credit for 2016/17, and will introduce a dividend tax allowance of £5,000 per year. The rates of tax on dividend income over this allowance will be 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers, and 38.1% for additional rate taxpayers.

Personal allowances

	2015/16 (£)	2014/15 (£)
Individual [a,e,g]	10,600	10,000
Individual aged 67-76 [a,e]	10,600	10,500
Individual aged 77 and over [a,b,e,f]	10,660	10,660
Married couple (elder aged 80 and over) [b,c,d,e]	8,355	8,165

a. Reduced by £1 for each £2 of income (less deductions) in excess of £100,000.
b. Reduced by £1 for each £2 of income (less deductions) which exceeds £27,700 (2014/15: £27,000). However, this reduction cannot take the allowance below the normal personal allowance (subject to the reduction for income in excess of £100,000 above). The personal allowance is reduced first, then the married couple's allowance.
c. Restricted to relief at 10%.
d. The minimum age-related married couple's allowance is £3,220 (2014/15: £3,140).
e. None of these allowances are available to non-UK domiciled individuals who elect to pay tax on the remittance basis of taxation.
f. The age-related personal allowance is now restricted to those born before 6 April 1938.
g. From 6 April 2015, spouses or civil partners will be able to transfer £1,060 of their unused personal allowance to their partner. This is available provided neither person pays tax at the higher rate.

From 6 April 2016, a new Personal Savings Allowance is being introduced. This will exempt from tax the first £1,000 of savings income for basic rate taxpayers and the first £500 of savings income for higher rate taxpayers. Additional rate taxpayers are not eligible to receive the allowance.

On 8 July 2015, the Chancellor announced that the personal allowance will rise to £11,000 for 2016/17, and £11,200 for 2017/18.

Income tax reliefs and incentives

Annual limits	2015/16 (£)
Enterprise Investment Scheme (EIS) (maximum)[a]	1,000,000
Seed Enterprise Investment Scheme (SEIS) (maximum)[b]	100,000
Venture Capital Trust (VCT) (maximum)[c]	200,000
'Employee shareholder' status[d]	2,000
Individual Savings Account (ISA) (maximum)[e]	15,240
Junior ISA (maximum per child)	4,080

a. Income tax relief restricted to 30% (2014/15: 30%). CGT deferral on gains on disposal of other assets is also available.

b. Rate of income tax relief is 50%. The relief applies to shares in qualifying trading companies with less than 25 full-time equivalent employees, and assets of up to £200,000 issued after 6 April 2012. Maximum stake 30% of share capital and voting rights. Total SEIS financing per company is limited to £150,000 cumulatively (within three years preceding the share issue).

c. Rate of income tax relief for investors in VCTs is 30%. Dividends received on qualifying VCT investments are exempt from income tax.

d. The first £2,000 of shares acquired by an employee under the 'employee shareholder' provisions will be free of income tax and national insurance contributions.

e. In Budget 2015, the government announced that a new Help to Buy ISA will be introduced from Autumn 2015. First time buyers saving towards their first home with a Help to Buy ISA can receive a government bonus of 25% of the amount saved. The government will contribute a maximum of £3,000 on £12,000 of savings.

Relief is available at the taxpayer's marginal rate of income tax for charitable donations via the Gift Aid and Payroll Giving schemes and for charitable gifts of quoted shares and securities and real property.

Pensions

	2015/16	2014/15
Annual allowance (£)	40,000[a, d]	40,000[a]
Lifetime allowance (£)	1,250,000[b]	1,250,000[b]

a. The £40,000 may be increased by up to £140,000 (2014/15: £150,000) with unused relief from the previous three years. From 6 April 2015, where the member has flexibly accessed his uncrystallised or drawdown fund since then, the annual allowance for contributions to a money purchase scheme is £10,000, with no unused allowance brought forward – see further comments below. The higher limit for defined benefit schemes remains.
b. The standard lifetime allowance, which is the total value of pension savings that can be accumulated without a tax recovery charge when a pension or lump sum is taken, reduced from £1.5m to £1.25m from 6 April 2014. Individuals who have previously elected transitional protection by reference to their position in April 2006, April 2012 or April 2014 continue to benefit from higher limits. For instance, members who claimed fixed protection 2014 and opted out of further pension saving by April 2014 may retain the £1.5m limit. Members whose savings at April 2014 exceeded £1.25m may by 5 April 2017 elect for individual protection which freezes their tax-free limit at the 6 April 2014 funding level (subject to a £1.5m cap) but allows them to continue contributing, on the basis that future fund growth is subject to a tax recovery charge.
c. The standard lifetime allowance will reduce from £1.25m to £1m from 6 April 2016. A new form of individual protection is expected to be introduced for individuals with savings above £1m to secure an allowance between £1m and £1.25m. Similarly, a new form of fixed protection should enable individuals to retain the £1.25m allowance if they opt out of further pension savings by 5 April 2016.
d. From 2016/17 the annual allowance will be reduced by £1 for every £2 of income over £150,000, including relievable contributions, to a minimum of £10,000.

Aggregate contributions made by employers and employees to a money purchase (defined contribution) registered pension scheme attract an annual allowance charge to the extent they exceed the annual allowance for the tax year in which the pension input period ends, augmented by any brought forward unused relief from the previous three years. No charge arises where the member dies in the year or is medically assessed as unable to work ever again.

An annual allowance charge similarly applies to salary-related pension accrual where the inflation-adjusted increase in pension entitlement, multiplied by a valuation factor of 16, exceeds the annual limit. No charge applies where the member's active participation in the scheme has ceased.

Where the annual limit is exceeded, tax is payable on the excess at the individual's marginal (i.e. 20%, 40% or 45%) rate.

On drawing a pension, the maximum tax-free pension commencement lump sum payable is the lesser of 25% of the value of an individual's uncrystallised fund, 25% of the member's lifetime allowance (i.e. £312,500 in 2015/16 where higher limits from earlier years are not protected) and one third of the amount crystallised for the payment of a pension or annuity for life, or as funds available for drawdown.

From 6 April 2015, subject to the agreement of the scheme administrator, members of money purchase schemes who have reached the minimum pension age of 55 will be able to take funds from their drawdown account flexibly - whenever they want, and in any desired amount. Members will also have the option of taking an 'uncrystallised funds pension lump sum', 25% of which is tax-free, provided they have sufficient lifetime allowance available. If the member dies before age 75 any unused drawdown or undrawn uncrystallised funds can be paid to dependants free of tax. After that age they are taxable at 45%.

In certain circumstances, including when a member takes a pension or lifetime annuity, designates funds for drawdown, or takes a pension commencement or uncrystallised funds pension lump sum, his aggregate pension savings are also tested against the lifetime limit, taking account of any previous benefit crystallisation event. Any excess is taxed at 25%, or 55% if taken as a lifetime allowance excess lump sum.

From 6 April 2015 members who take benefits flexibly from their money purchase pension scheme, including as an uncrystallised funds pension lump sum, have a reduced money purchase annual allowance of £10,000.

Any unauthorised lump sum is taxed on the member at rates of 40% or 55%, with a further charge on the scheme.

Making contributions to pensions is a long term investment decision and individuals should take advice on the suitability of making pension contributions in their particular circumstances.

Company car, van and fuel benefits

A company car benefit is calculated as the car's list price (including the cost of most optional accessories) multiplied by a percentage charge based on the car's carbon dioxide (CO_2) emissions. The percentage charges for 2015/16 onwards are as follows:

CO_2 emissions (g/km)[a]					% of list price[b]
2015/16	2016/17	2017/18	2018/19	2019/20	
0 - 50	-	-	-	-	5
-	-	-	-	-	6
-	0 - 50	-	-	-	7
-	-	-	-	-	8
51 - 75	-	0 - 50	-	-	9
-	-	-	-	-	10
-	51 - 75	-	-	-	11
-	-	-	-	-	12
76 - 94	-	51 - 75	0 - 50	-	13
95	-	-	-	-	14
100	76 - 94	-	-	-	15
105	95	-	51 - 75	0 - 50	16
110	100	76 - 94	-	-	17
115	105	95	-	-	18
120	110	100	76 - 94	51 - 75	19
125	115	105	95	-	20
130	120	110	100	-	21
135	125	115	105	76 - 94	22
140	130	120	110	95	23
145	135	125	115	100	24
150	140	130	120	105	25
155	145	135	125	110	26
160	150	140	130	115	27
165	155	145	135	120	28
170	160	150	140	125	29
175	165	155	145	130	30
180	170	160	150	135	31
185	175	165	155	140	32
190	180	170	160	145	33
195	185	175	165	150	34
200	190	180	170	155	35
205	195	185	175	160	36
210+	200+	190+	180+	165+	37

a. Unless otherwise specified, CO_2 emissions should be rounded down to the nearest 5g/km.

b. Add 3% to the '% of list price' if the car runs solely on diesel, up to the limit of 37%. From April 2016 the 3% surcharge for cars running solely on diesel will be abolished.

The list price of the car is reduced by up to a maximum of £5,000 for capital contributions made by an employee. Employees' contributions for private use reduce the taxable benefit pound for pound.

Fuel benefit for company cars is calculated by applying the relevant car CO_2 emissions percentage to a pre-set figure which is £22,100 for 2015/16 (2014/15: £21,700).

The private use of vans attracts a scale charge of £3,150 (2014/15: £3,090) per annum, regardless of the age of the vehicle. In addition, if free or subsidised fuel is provided for private use in a company van, a taxable fuel benefit will arise of £594 for 2015/16 (2014/15: £581).

Electric vehicles
The appropriate percentage for electric cars for the purposes of company car tax was 0% for five years from April 2010, reducing the employee car benefit charge to nil and removing the Class 1A NICs charge on employers. From 6 April 2015, the appropriate percentage for these cars is 5%.

From 6 April 2010, the flat rate for vans was reduced to nil for electric vans for a period of five years, reducing the employee van benefit charge to nil and removing the Class 1A NICs charge on employers. In 2015/16 the charge for zero emission vans will be 20% of the rate paid by conventionally fuelled vans, followed by 40% in 2016/17, 60% in 2017/18, 80% in 2018/19 and 90% in 2019/20, with the rates equalised in 2020/21.

Approved mileage rates

Employers can make tax and NIC free payments to employees using their own vehicle for business travel, as follows:

- cars and vans – 45p per mile for the first 10,000 miles and 25p per mile thereafter (For NIC purposes there is no mileage limit for the 45p per mile rate);
- motor cycles – 24p per mile;
- bicycles – 20p per mile; and
- passengers – an optional 5p per mile for each passenger who is an employee travelling on business.

Capital Gains Tax (CGT)

	2015/16 (£)	2014/15 (£)
Combined income and gains less than the upper limit of the income tax basic rate band[a,b]	18%	18%
Combined income and gains above the upper limit of the income tax basic rate band[a]	28%	28%

a. Chargeable gains are treated as the top slice of an individual's combined gains and income. Any part of a taxable gain exceeding the upper limit of the income tax basic rate band (£31,785 for 2015/16) is taxed at 28%.

b. For trustees and personal representatives of deceased persons, the CGT rate is 28%.

Annual CGT exemptions apply for individuals and trusts, as follows:

	2015/16 (£)	2014/15 (£)
Individual	11,100	11,000
Trust	5,550	5,500

Gains realised on the disposal of an EIS or SEIS investment are exempt from CGT provided certain conditions are met including that the shares are held for at least three years, and both the investor and company remain eligible for EIS/ SEIS throughout this period.

Up to 50% of capital gains of up to £100,000 realised on disposals of assets are exempt from CGT if a qualifying SEIS investment and appropriate claims are made. The relief was due to expire for gains realised from 2014/15, but in Budget 2014 the Chancellor announced it will be extended to apply permanently.

Gains on the disposal of up to £50,000 of shares acquired by an employee under the new 'employee shareholder' provisions are exempt from CGT.

The lifetime limit for entrepreneurs' relief is £10 million. Qualifying gains made within this limit are subject to a reduced capital gains tax rate of 10%.

There is no chargeable gain on the disposal of a single chattel if the gross consideration does not exceed £6,000.

Inheritance tax (IHT)

IHT is charged on an individual's estate at death, on gifts within seven years of death, and on chargeable lifetime transfers of value (e.g. a transfer to a trust). The nil rate band for 2015/16 is £325,000 (2014/15: £325,000). Cumulative chargeable transfers up to the limit of the nil rate band do not result in an IHT charge. To the extent that chargeable transfers exceed the nil rate band, the tax rate is 20% for lifetime transfers where the donor survives seven years, and 40% for transfers on death and in the three years preceding death. A tapered inheritance tax rate applies to gifts made between three and seven years before death.

When a surviving spouse or civil partner dies on or after 9 October 2007, relief is due on that death in respect of any unused proportion of the nil rate band of the spouse or civil partner who died first. This is in addition to any unused nil rate band of the survivor. Transfers between spouses or civil partners who are both UK-domiciled or both non-UK domiciled are exempt.

When a transferor spouse or civil partner is UK-domiciled and a transferee spouse or civil partner is not, the spouse exemption for 2015/16 is limited to the level of the IHT nil rate band, for 2015/16 £325,000 (until 2012/13 the limit was £55,000). Also from 6 April 2013 a non-UK domiciled spouse or civil partner can elect to be treated for IHT as UK-domiciled. If he or she does so the full spouse/civil partner exemption will be due.

For deaths after 5 April 2012, where 10% or more of a person’s net estate is left to charity, the rate of IHT is reduced to 36%.

On 8 July 2015, the Chancellor announced that an additional nil rate band will be introduced, which applies when a residence is passed to a direct descendant. This will be £100,000 for 2017/18, £125,000 for 2018/19, £150,000 for 2019/20 and £175,000 for 2020/21. Any unused nil rate band can be transferred to a surviving spouse or civil partner. It will also be available when a person downsizes or ceases to own a home on or after 8 July 2015 and assets of an equivalent value, up to the value of the additional nil-rate band, are passed on death to direct descendants. There will be a tapered withdrawal of the nil rate band for estates with a net value of over £2 million, at a rate of £1 for every £2 over this threshold.

Indirect taxes

Value Added Tax (VAT)

VAT registration is required where taxable supplies exceed £82,000 (2014/15: £81,000) for the previous 12 months or are expected to do so within the next 30 days. The deregistration threshold is £80,000 (2014/15: £79,000).

Rates	(%)
Zero rate (newspapers, children's clothes etc)	0
Reduced rate (certain fuel and power, some energy saving materials, some residential property works etc)	5
Standard rate	20
VAT fraction for standard rate VAT inclusive price	1/6

Insurance premium tax

The standard rate applying to most general insurance is 6%. The standard rate will increase to 9.5% with effect from 1 November 2015. Life and other long-term insurance is exempt. A higher rate applies to some mechanical breakdown and travel insurance, and insurance sold with certain goods. The higher rate is 20%.

Stamp Duty Land Tax (SDLT)

From 4 December 2014, SDLT moved to a progressive system effective for residential property only. This means the rates will apply to slices of consideration rather than to all the consideration. This is different to the previous slab system, where the whole consideration was taxed at the applicable rate.

Relevant consideration (£) – residential property	Rate (%)
Up to 125,000	0
Above 125,000 to 250,000	2
Above 250,000 to 925,000	5
Above 925,000 to 1,500,000	10
Over 1,500,000	12

For example, SDLT of £3,750 is payable on a residential property bought for £275,000, made up of nothing on the first £125,000, £2,500 (2%) on the next £125,000 and £1,250 (5%) on the remaining £25,000.

A higher rate of 15% may apply where certain 'non-natural' persons, such as a company, purchase an interest in a single residential property and consideration of more than £500,000 (prior to 20 March 2014: £2 million) is attributable to the property. This 15% will apply instead of the normal SDLT rates (including the 4% rate applicable to purchases of six or more residential properties detailed below) unless a relief is available to disapply the 15% rate. The reliefs available are broadly the same as those available in respect of ATED (discussed below).

The slab system continues to apply to non-residential and mixed use properties at the following rates:

Relevant consideration (£) – non-residential or mixed use property	Rate (%)
0 – 150,000	0
150,001 – 250,000	1
250,001 – 500,000	3
Over 500,000	4

For example, SDLT of £8,250 (3%) is payable on a non-residential or mixed property bought for £275,000.

The relevant consideration is determined by aggregating the consideration of all linked transactions. The relevant consideration is the VAT inclusive amount or value of any consideration given by the purchaser (or persons connected with him) in money or money's worth.

Although no SDLT will be payable until the relevant consideration exceeds the nil rate band, a transaction may nonetheless be notifiable (such that an SDLT land transaction return is required) where the relevant consideration is £40,000 or more.

Where six or more residential properties are acquired in a single transaction, they are not treated as being residential property, such that the rates applicable to commercial or mixed property will apply (unless the relief for bulk purchases is claimed). However, for a bulk purchase of residential properties the rate of SDLT may in certain circumstances be determined by the average amount paid per dwelling, subject to a minimum rate of 1%. This is achieved through claiming a relief in the SDLT land transaction return.

SDLT will also be charged on the grant of a lease under which rent is payable at the rate of 1% of the net present value of the (VAT inclusive) rent payable over the term of the lease, to the extent that value exceeds £125,000 in the case of residential property and £150,000 in the case of other property. SDLT is also charged on any premium paid by the tenant on the grant of the lease at the rate applicable to residential, non-residential or mixed use properties, as set out above.

Land and Buildings Transaction Tax (LBTT) – Scotland only

LBTT (instead of SDLT) will apply to property purchases in Scotland completing on or after 1 April 2015. A progressive system is used and the following rates are proposed to apply to slices of consideration in the following bands:

Consideration (£) – residential transactions	Rate (%)
Up to 145,000	0
Above 145,000 to 250,000	2
Above 250,000 to 325,000	5
Above 325,000 to 750,000	10
Over 750,000	12

Consideration (£) – non-residential transactions	Rate (%)
Up to 150,000	0
Above 150,000 to 350,000	3
Above 350,000	4.5

For example, LBTT of £3,350 is payable on a residential property in Scotland bought for £275,000 after 1 April 2015, made up of nothing on the first £145,000, £2,100 (2%) on the next £105,000 and £1,250 (5%) on the remaining £25,000.

Generally, leases of residential property that are under 175 years are exempt from LBTT.

For chargeable leases, LBTT is payable at the rate of 1% of the net present value of the (VAT inclusive) rent payable over the term of the lease, to the extent that value exceeds £150,000.

Stamp duty and Stamp Duty Reserve Tax (SDRT)

Stamp duty and SDRT generally applies to transfers of UK shares (being shares in a company that is incorporated in the UK or which maintains its share register here) and UK securities at a rate of 0.5% of the consideration given by the purchaser. Payment of the appropriate amount of stamp duty (or a valid claim for relief from stamp duty) generally cancels the charge to SDRT. As such, SDRT is generally only paid in the context of electronic trading, where shares are held in dematerialised form.

Share transfers where the value of the consideration is £1,000 or less are exempt from stamp duty, provided they do not form part of a larger transaction or series of transactions where the combined value of the consideration exceeds £1,000 and a certificate confirming this is given on the reverse of the instrument of transfer.

There is a higher 1.5% rate of stamp duty and SDRT which applies to transfers of shares to depository receipt issuers and persons providing clearance services.

Annual Tax on Enveloped Dwellings (ATED)

There is an ATED charge in respect of single interests in residential property valued at more than £1 million (2014/15: £2 million) held by 'non-natural' persons, such as companies. The rates for 2015/16 are set out below. Relief from the ATED is available for certain businesses.

Value of property	ATED charge per annum – 2015/16 (£)
£1,000,001 – £2,000,000	7,000
£2,000,001 – £5,000,000	23,350
£5,000,001 – £10,000,000	54,450
£10,000,001 – £20,000,000	109,050
Over £20,000,000	218,200

Relief from the ATED is available for certain businesses and investors. Reliefs are available to, amongst others, property rental businesses, property developers and property traders.

ATED generally increases each year based on inflation, though the rates were increased significantly in 2015/16.

From 1 April 2016, a further band will apply to residential properties worth £500,001 - £1 million and the annual charge will initially be £3,500.

The value of a property for ATED purposes is the value of the property on 1 April 2012, if the property was owned on this date, otherwise the value of the property on acquisition is used. Properties need to be revalued, and thus may move into a different ATED band, if there is a substantial acquisition of an additional chargeable interest in a dwelling or a substantial disposal of part of a chargeable interest where the acquisition cost or disposal proceeds are £40,000 or more. For transactions not at arm's length, for example, gifts or sales between connected persons, market values should be used.

A CGT charge at 28% also applies to gains on disposal where ATED has been payable at any point in the ownership period. For properties which were owned on 5 April 2013 and which were worth more than £2 million for ATED purposes, this is by reference to any increase in value between 5 April 2013 and the date of disposal. If relief is available for some, but not all, of the post 5 April 2013 ownership period, the gain is pro-rated and 28% CGT applied to the gain attributable to the period during which ATED was payable. Other tax charges may apply to any remaining gain.

For properties worth more than £1 million or £500,000 for ATED purposes, which are only within the scope of ATED from April 2015 and April 2016 respectively, this CGT charge is applied by reference to the uplift in value of the property from 5 April 2015 or 2016 respectively on the same basis as above.

National Insurance contributions 2015/16

Class 1 (employees and employers) rates

Weekly earnings (£)	Employees	Weekly earnings (£)	Employers
112.00 or less[a]	–	156.00 or less[c]	–
112.01 – 155.00[b]	0%	Over 156.01	13.8%
155.01 – 815.00[e]	12%		
Over 815.00[e]	2%		

Contracted out – salary related (£)	Employees	Contracted out – salary related (£)	Employers
112.00 or less[a]	–	156.00 or less[c]	–
112.01 – 155.00[b]	0%	156.01 – 770.00[d,f]	10.4%
155.01 – 770.00[d,f]	10.6%	Over 770.01[g]	13.8%
770.01 – 815.00[e,g]	12%		
Over 815.00[e,g]	2%		

a. Monthly and annual lower earnings limits are £486 and £5,824 respectively.
b. A zero rate of NIC applies to earnings between the lower earnings limit of £112 per week and the primary earnings threshold of £155 per week to protect employees' contributory benefit entitlements. Monthly and annual thresholds are £672 and £8,060 respectively. A contracted out rebate is due at the relevant rate (not shown in table on these earnings).
c. Monthly and annual secondary thresholds are £676 and £8,112 respectively.
d. Monthly and annual upper accrual points are £3,337 and £40,040 respectively.
e. Monthly and annual upper earnings limits are £3,532 and £42,385 respectively.
f. Contracted out rates apply between the earnings thresholds and the upper accrual point, with a rebate between the lower earnings limit and the earnings threshold.
g. Contracted in rates apply between the upper accrual point and the upper earnings limit even if the individual has contracted out.

Employees' qualifying business travel and subsistence expenses are excluded from earnings for Class 1 NIC purposes. Employers can pay up to 45p per mile to employees travelling on business in their own cars from 6 April 2012 without incurring a NIC charge. This rate applies irrespective of the mileage incurred.

From 6 April 2014, an allowance of £2,000 per year is available to all businesses and charities to offset against their employer Class 1 NICs.

From 6 April 2015, employers will not be required to pay employer class 1 NICs in respect of the wages they pay to employees under the age of 21 up to the upper secondary threshold, which for 2015/16 equals the upper earnings limit of £815 per week.

Class 1A (employers providing benefits-in-kind)

Employers are liable to Class 1A NIC at 13.8% on most benefits-in-kind subject to income tax. Benefits-in-kind covered by a dispensation or included in a PAYE Settlement Agreement (but see below) are not subject to Class 1A NIC. Certain other benefits are specifically exempt from both income tax and Class 1A NIC.

Class 1B (employers settling tax liabilities via PAYE settlement agreements)

Class 1B NIC is an employer-only charge, similar to Class 1A, payable by employers on the value of the tax and on certain benefits paid via PAYE Settlement Agreements. The rate is tied to the Class 1 secondary rate (13.8%) and contributions are payable by 19 October following the end of the tax year, along with the tax under the PAYE settlement agreement.

Other Classes

Class 2 (self-employed)	
Weekly rate	£2.80
Small profits threshold (annual)	£5,965

Class 3 (voluntary)	
Weekly rate	£14.10

Class 4 (self-employed)	
Lower limit of profit or gains (annual)	£8,060
Upper limit of profit or gains (annual)	£42,385
Rate on profits between lower and upper limits	9%
Rate on profits above upper limit	2%

Business tax

Corporation tax rates

	Year ending 31 March	
	2016	2015
Main rate	20%[d]	21%[a,b,c]

a. Before 1 April 2015, a small profits rate applied to companies with profits of less than £300,000 (reduced pro rata for associated companies and for accounting periods of less than 12 months). For the year ended 31 March 2015, the small profits rate was 20%.

b. For the year ended 31 March 2015, marginal relief applied so that companies were, in effect, taxed at 21.25% on profits between £300,000 and £1.5 million (both limits reduced pro rata as above).

c. Marginal relief and the small profits rate were not available to close investment-holding companies.

d. On 8 July 2015, the Chancellor announced that the rate of corporation tax will decrease to 19% for 2017/18, 2018/19 and 2019/20, and decreased further to 18% for 2020/21.

Corporation tax payments

Large companies pay tax in instalments. Large companies are broadly those with taxable profits of at least £1.5 million and a corporation tax liability in excess of £10,000 for a 12-month accounting period. The £1.5 million threshold is reduced pro rata for associated companies (or, for periods commencing on or after 1 April 2015, for '51% related group companies') and for accounting periods of less than 12 months. The £10,000 is also reduced proportionately for shorter accounting periods.

In a 12-month accounting period, four instalments are payable as follows:

- 6 months and 13 days from the first day of the accounting period;
- 3 months after the first instalment;
- 3 months after the second instalment; and
- 3 months and 14 days from the last day of the accounting period.

Companies are not required to make instalment payments in the first year in which the £1.5 million threshold is reached unless their profits exceed £10 million. The £10 million threshold is also reduced pro rata for associated companies (or, for periods commencing on or after 1 April 2015, for '51% related group companies') and for accounting periods of less than 12 months.

On 8 July 2015, the Chancellor announced that new payment dates will be introduced for companies with annual taxable profits of £20 million or more, for accounting periods starting on or after 1 April 2017. Where a company is a member of a group, the £20 million threshold will be divided by the number of companies in the group. Affected companies will be required to pay corporation tax in quarterly instalments in the third, sixth, ninth and twelfth months of their accounting period.

Capital expenditure

	Year ending 31 March	
	2016	2015
Annual investment allowance[a]	See note[b]	See note[c]
Plant and machinery[d]	18%[a]	18%[a]
Long-life assets[e], integral features[f], thermal insulation, high emission cars[d], solar panels ("special rate pool")	8%[a]	8%[a]
Low emission cars[g]	100%	100%
Research and development (R&D)[h]	100%	100%

a. Annual investment allowance (AIA) is given per business or per group of companies only. AIA is allocated against total expenditure on plant and machinery (other than cars), long-life assets and integral features. It is optional which class of asset the AIA is allocated against.
b. From 1 April 2014 (for corporation tax) or 6 April 2014 (for income tax) to 31 December 2015, the maximum AIA was temporarily increased to £500,000. The Chancellor announced on 8 July 2015 that the AIA will be set at £200,000 from 1 January 2016. For periods which begin before, but end after 31 December 2015 the maximum AIA is pro-rated, subject to transitional provisions.
c. Prior to the temporary increase to £500,000 from 1 April 2014, the maximum AIA was £250,000. For periods which begin before but end on or after 1 April 2014 the maximum AIA is pro-rated, subject to transitional provisions.
d. Cars with CO_2 emissions between 76 g/km (y/e 31 Mar 2015: 96g/km) and 130g/km are added to the main pool. Cars with CO_2 emissions that exceed 130g/km are added to the special rate pool.
e. Applies to businesses spending more than £100,000 per annum (the monetary limit) on certain assets with a useful life of 25 years or more.
f. Applies to a prescribed list of assets covering: electrical systems; cold water systems; space or water heating systems; ventilation; air cooling systems; lifts and escalators; and external solar shading.
g. Cars with CO_2 emissions not exceeding 75g/km (y/e 31 Mar 2015: 95g/km) and electric vans are eligible for a 100% first-year allowance.
h. Applies to businesses incurring capital expenditure in carrying out R&D or providing facilities for carrying out R&D relating to their trade.

Under the enhanced capital allowances (ECA) scheme, a 100% first-year allowance is available for expenditure on designated energy saving or water conservation plant and machinery and for the purchase of 'green' vehicles or refuelling equipment. The ECA regime is revised annually to include some new technologies and remove other existing ones. Qualifying products are listed on a dedicated website at http://etl.decc.gov.uk/etl.

Payable ECAs allow loss-making companies to surrender the element of their losses attributable to their qualifying expenditure in return for a cash payment from Government. The rate of payable ECAs is 19%, but subject to a cap on the level of a company’s PAYE and NIC liabilities or £250,000, whichever is the greater. Payable ECAs will be available until 31 March 2018.

100% capital allowances are available for trading companies investing in plant and machinery for use within certain designated enterprise zones for expenditure from 1 April 2012 to 31 March 2020. Businesses in certain sectors are not permitted to benefit from these allowances. The limit for investment is €125m.

Business Premises Renovation Allowances (BPRA) may be available at 100% on the conversion, renovation or repair of a property that has been empty for over 1 year and is within a designated area. The limit for allowances is €20m.

Tax relief is available for the cost of intangible assets (including goodwill and intangible property). This will, in most cases, be the level of amortisation/impairment recognised in the accounts. A fixed rate of 4% per annum may be applied on election.

Business expenditure on leased cars

A 15% restriction applies to lease rental payments with CO_2 emissions exceeding 130g/km. There is no leasing restriction for leased cars with emissions of 130g/km or below.

Patent Box

The Patent Box was introduced with effect from 1 April 2013. The regime effectively enables companies to apply a lower rate of corporation tax to profits from patented products, processes and services and certain other innovations. The relief is being phased in gradually such that by 1 April 2017 it is expected to provide for an effective corporation tax rate of 10% to the relevant profits, achieved by deducting an additional amount from trading profits. During the phasing-in period, the percentage of the additional amount to be deducted is as follows (2013/14: 60%; 2014/15: 70%):

	Percentage
1 April 2015 – 31 March 2016	80%
1 April 2016 – 31 March 2017 (see below)	90%
From 1 April 2017 (see below)	100%

As part of the OECD's Base Erosion and Profit Shifting Project, it is expected that the Government will introduce a new Patent Box regime and close the existing Patent Box regime to new intellectual property by June 2016 at the latest. Grandfathering provisions are expected to allow existing intellectual property to remain within the existing Patent Box regime until June 2021.

Research and development relief: revenue costs

The meaning of Research & Development (R&D) for these purposes and for the Capital Research & Development Allowances is set out in the BIS guidelines issued on 5 March 2004.

Large companies (i.e. those that are not SMEs - see below) can make claims under the R&D expenditure credits (RDEC) regime. Under this regime the benefit will be recorded as a taxable credit in operating profit and will be equal to 11% of the qualifying expenditure (10% for expenditure incurred prior to 1 April 2015). The basis for determining the qualifying expenditure has not changed. Non-tax paying large companies can receive a cash payment equal to the net value of the credit subject to a cap based on the PAYE/NIC paid over to HMRC in respect of the staff costs included in the R&D claim and being a going concern at the time the claim is made. On 8 July 2015, the Chancellor announced that universities and charities will not be able to make RDEC claims in respect of expenditure made on or after 1 August 2015.

The RDEC regime will run in parallel with the existing large company scheme, which provides an additional 30% deduction instead of a credit, until 1 April 2016 when the RDEC regime becomes mandatory. Large companies can make an irrevocable election to opt into the new RDEC regime early, i.e. prior to 1 April 2016.

Companies that are SMEs (see below) are entitled to an additional deduction of 130% of qualifying R&D expenditure (125% prior to 1 April 2015). For non-taxpaying SMEs a cash alternative of up to 33.35 pence (2014/15: 32.625 pence) for every pound of qualifying expenditure may be available depending on their current year tax losses.

A cap limits the total amount of SME R&D a company can claim on each project to €7.5m and a going concern requirement applies.

An SME for R&D purposes is a company which, together with certain related enterprises, meets the EU definition but with higher limits such that it has fewer than 500 employees and **either** turnover not exceeding €100m **or** total assets not exceeding €86m.

For expenditure incurred on consumables that form part of a product which is then sold or transferred in the ordinary course of business, the cost of the consumable cannot be included in an R&D claim where that expenditure was incurred on or after 1 April 2015.

Vaccine Research Relief

In addition to the above, qualifying R&D expenditure in relation to specified vaccines and medicines attract a further 40% deduction from taxable profits for large companies. The relief is no longer available for SMEs.

Large companies are required to make a declaration concerning the incentive effect of the relief they are claiming under this relief.

Diverted profits tax

With effect from 1 April 2015, the Government introduced a diverted profits tax.

The new tax applies in two situations:

1. Where a non-UK company has artificially avoided having a taxable presence (permanent establishment) in the UK; or

2. Where a group has a UK company (or UK permanent establishment of a non-UK company) and there is a tax advantage as a result of an entity or transactions that lack economic substance.

The diverted profits tax applies to diverted profits arising on or after 1 April 2015 at a rate of 25%.

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