

SPOTLIGHT ON..... the impact of the Summer Budget 2015 on personal injury claims

In this latest bulletin we review a number of the key aspects of the recent Summer Budget. A number of the measures announced by the Chancellor will impact on businesses and, hence, loss of earnings claims for Claimants running a business. There have also been a number of announcements in relation to pensions.



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1. Income tax

1.1 The Chancellor has confirmed the Government's proposals for 2016/17 rates and allowances:

	%	2015/16	2016/17
Basic rate	20	Up to £31,785	Up to £32,000
Higher rate	40	£31,786 to £150,000	£32,001 to £150,000
Additional rate	45	Above £150,000	Above £150,000
Personal allowance		£10,600	£11,000

The Chancellor also announced the Government's intention to increase the personal allowance to £11,200 (and the basic rate tax band to £32,400) for 2017/18. The personal allowance is expected to increase further thereafter and once it reaches £12,500 it will then increase each year in line with the National Minimum Wage ("NMW"). The Government's intention is that anyone working on the NMW for 30 hours per week or less will not pay income tax. In personal injury and clinical negligence claims for loss of earnings this will be of relevance to low paid Claimants, especially those with a low level of mitigating earnings.

1.2 A surprise new measure was the reform of the taxation of dividends. From 6 April 2016 the 10% tax credit attaching to dividends will be abolished. This 10% tax credit had until this current tax year satisfied the tax payable on dividends within the basic rate tax band and served to reduce the tax payable on dividends in the higher rate tax band (taxed at 32.5% of the gross dividends) and additional rate tax band (taxed at 37.5% of the gross dividends).

1.3 The dividend tax credit will be replaced by a new dividend tax allowance of £5,000 per annum and new rates of tax will apply on dividends, being 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers (this being on what was formerly regarded as a net dividend) and 38.1% for additional rate taxpayers. This has the impact of increasing the rate of tax by 7.5% on dividends to the extent that they fall above the new dividend tax allowance and will potentially increase the projected tax (but for an accident) and actual tax (following an accident and assuming a continuation of trade) for those Claimants operating their business through a limited company. For many years this has been a common situation.

1.4 Take, for example, a situation where a company owned by the Claimant as the sole shareholder and director is assessed, but for the accident, to have generated profits of £50,000, before director's remuneration, for 2015/16 and continuing. Let's assume the Claimant would have paid himself a salary equal to the level of the personal allowance and the remainder of profits after Corporation Tax by way of dividends. The Claimant's net earnings would be as follows:

	2015/16 £	2016/17 £
Company profits	50,000	50,000
Less: salary (National insurance ignored)	(10,600)	(11,000)
Profit before tax	39,400	39,000
Less: Corporation Tax @ 20%	(7,880)	(7,800)
Profit after tax available for distribution	31,520	31,200

1.4 (continued)

	2015/16 £	2016/17 £
Assumed dividends	31,520	31,200
Add: tax credit	3,502	-
Gross dividend	35,022	31,200
Salary (as above)	10,600	11,000
Total gross income	A 45,622	42,200
Less: personal allowance	(10,600)	(11,000)
Less: dividend tax allowance	-	(5,000)
Taxable income	35,022	26,200
Income tax on:		
- salary	Nil	Nil
- dividends		
first £31,785 @ 10%	3,178	-
balance above £31,785 @ 32.5%	1,052	-
£26,200 @ 7.5%	-	1,965
Total income tax	B 4,230	1,965
Earnings net of income tax (A - B)	<u>41,392</u>	<u>40,235</u>

The above shows a reduction in net income by just over £1,150, notwithstanding the increase to the personal allowance and basic rate tax band.

2. National Insurance

2.1 From April 2016 the Government will increase the annual Employment Allowance from £2,000 to £3,000. This is an allowance which all businesses have been able to claim against their employer's National Insurance liability. However, from April 2016, companies where the director is the sole employee will no longer be able to claim the Employment Allowance.

3. Corporation tax

3.1 The Corporation Tax rate will reduce from 20% to 19% in April 2017 and to 18% in April 2020. For those Claimants who have operated or continue to operate their business through a limited company this will to some extent reduce the impact of the increased taxation of dividends as discussed at paragraphs 1.3 and 1.4 above.

4. Pensions

4.1 The reduction in the lifetime allowance for pension contributions from £1.25m to £1m will go ahead as planned from April 2016.

4.2 In addition, however, the annual allowance for top earners will be reduced. The allowance will be tapered away from £40,000 to a minimum of £10,000 for those with incomes (including pension contributions) above £150,000.

4.3 The above two measures will reduce the tax benefits for higher earners who contribute to a pension.

5. National Living Wage

5.1 From April 2016 the Chancellor has announced that the Government will introduce a National Living Wage of £7.20 per hour for those aged 25 and over and this will, therefore, represent a premium of 50p to the National Minimum Wage (set to be £6.70 from October 2015). Ultimately the Government's intention is for the National Living Wage to increase to 60% of median earnings by 2020. It is currently estimated that this will result in an hourly rate of over £9 by that date. This will particularly impact on claims for loss of earnings for low paid Claimants and/or the mitigating income of those Claimants who are still capable of work following an accident.

6. Other measures and announcements

6.1 In addition to the above, the following specific measures have been announced:

- Public sector pay - the Government will cap pay awards at 1% per annum for the four years from April 2016, which will impact on Claimants working in the public sector.
 - The Government will legislate to set a triple lock on the main rates of income tax, VAT (standard and reduced rates) and Class 1 National Insurance (employee and employer) to ensure that these cannot rise above their current 2015/16 levels.
- 6.2 However, there are likely to be further changes to personal and business taxation as well as pensions as the Chancellor announced, for example, consultations on the following:
- the tax and National insurance contributions payable on termination payments
 - the abolition of Class 2 National Insurance contributions and reform of Class 4 contributions paid by the self-employed
 - how to improve the effectiveness of IR35 legislation, which is designed to curtail the avoidance of tax and National Insurance by those working through their own company but where in effect there is disguised employment
 - how to undertake a wider reform of pensions tax relief.

All of the above are likely to have an impact in the future on loss of earnings and pension claims.

If you consider that you might require assistance in any personal injury, clinical negligence or fatal accident claim, then please do not hesitate to contact Nick Fail, Jackie Clifford or Peter Whittam, who will be more than happy to discuss matters on a no obligation basis.

