Emergency Budget 2015

The Chancellor announced some wide ranging changes in this emergency budget. It included large cuts in the welfare budget as well as public sector reductions. This newsletter will detail the main changes that affect you in respect of tax and financial planning.

The areas that affect you will be discussed in more detail at our review meeting.

Personal Allowance and Higher rate tax threshold

Under the conservative manifesto at the last election, they promised that by the end of the current parliament, that the personal allowance would increase to £12,500 per annum and the threshold at which higher rate became payable would be £50,000.

Currently the standard Personal Allowance (the amount an individual can earn before tax is paid) is £10,600 per annum.

They also announced that they would not be increasing national insurance but the newly established Office of Tax simplification will be looking at more closely aligning income tax and national insurance.

From the tax year starting 6th April 2016 the personal allowance will be increased to £11,000
For tax year 2017-18, it will further increase to £11,200.

The Basic Rate Tax Banding (20%) will increase from the current £31,785 to £32,000 for 2016-17 and to £32,400 for 2017-18.

What does this mean?

The rate at which people begin to pay Higher Rate Tax (40%) will increase from £42,385 to £43,000 in 2016-17 and £43,600 in 2017-18.

This announcement also increases the banding of the Personal Allowance Reduction for those with an adjusted net income of over £100,000, meaning that the effective tax trap of 60% will apply from £100,000 to £122,000 in 2016/17 and £100,000 to £122,400 in 2017/18.

Corporation Tax

Currently Corporation Tax stands at 20% on profits. The corporation tax rate will be cut to 19% in 2017 and 18% in 2020.

This will be one of the lowest business tax rates in Europe and the lowest of the developed nations.

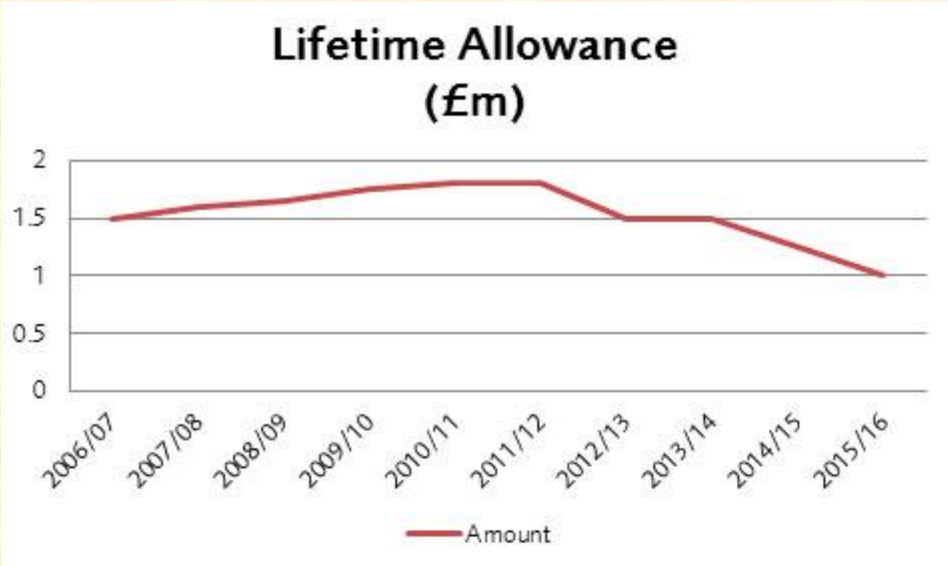
Pensions

Lifetime Allowance Reduction

The government will reduce the Lifetime Allowance (LTA) from £1.25 million to £1 million from 6 April 2016.

The Lifetime Allowance will be indexed annually in line with CPI from 6 April 2018.

This continues the trend in recent years that has seen the LTA cut from its peak of £1.8m in 2011/12.



The Budget documents make clear there is no intention for this change to be retrospective and so new transitional protection will be required to prevent those with savings already in excess incurring charges.

When the LTA was last reduced, from £1.5m to £1.25m, two regimes were introduced - Fixed Protection 2014 and Individual Protection 2014. This allowed individuals to protect their funds at the higher level prior to the change. It is intended that the same approach is taken this time and so we expect Fixed Protection 2016 and Individual Protection 2016 to be announced at a later date. We will discuss this at our review meeting to see if this should be considered for you.

What does this mean?

The Chancellor stated that 4% of individuals would be affected by the reduction in LTA to £1m, although the increase in tax revenue from the change is expected to be nearly £600m by 2020.

Our opinion is that this is another tax on successful individuals who wish to provide a decent retirement provision for them and their families.

Reduction in Pension Tax Relief for High Earners

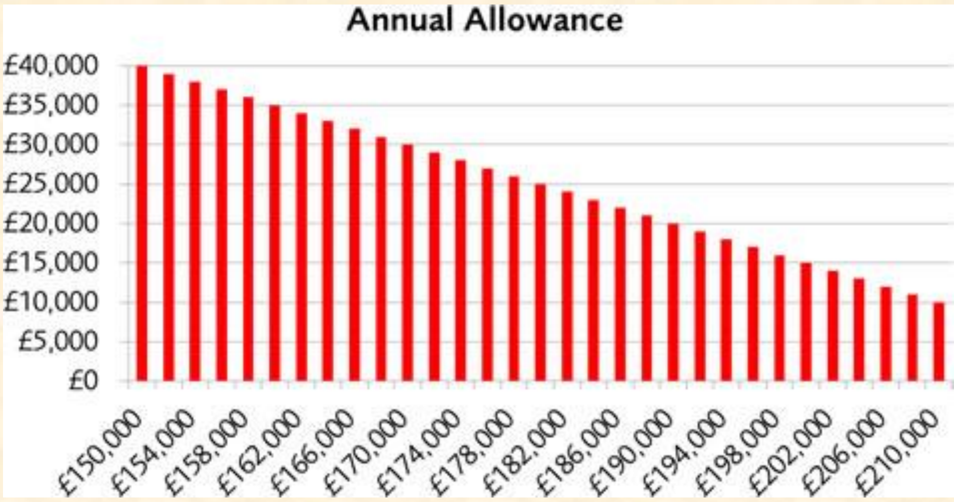
Currently individuals with an adjusted taxable income* in excess of £150,000 per annum, pay income tax at 45%, and receive tax relief at their marginal rates on money purchase pension contributions up to the Annual Allowance of £40,000.

From April 2016 the government will introduce a taper to the Annual Allowance for those with adjusted annual incomes, which will include their own and employer's pension contributions, over £150,000. The government estimates only 1% of taxpayers exceed this threshold and save into pensions, and even fewer will actually be affected by this measure.

What does this mean?
For every £2 of adjusted income* over £150,000, an individual's Annual Allowance, the limit on the amount of tax relieved pension saving that can be made by an individual or their employer each year, will be reduced by £1, down to a minimum of £10,000.

* 'Adjusted income' includes taxable earnings and includes all pension contributions, but does not include charitable contributions.

This means for anyone earning less than £150,000, they will have an annual allowance of £40,000 but this will reduce for those earning between £150,000 and £210,000. For those earning in excess of £210,000 the annual allowance will reduce to £10,000.



Reforming pension tax relief – Green Paper

The government will consider a radical overhaul of pension's tax relief in a move that would tackle the rising costs of encouraging people to save for retirement. The government will consult with the Financial Services industry and other stakeholders on whether there is a case for reforming pensions tax relief to "strengthen incentives to save, offering savers greater simplicity and transparency". Currently, individuals and employers receive tax relief on pension contributions, with the tax on pension income partly recouped at retirement. The total bill for upfront tax relief in 2013/14 on pension contributions was £48bn.

Radical options outlined in a green paper, include a reversal of the tax process for pensions, so they are treated more like individual savings accounts (ISAs). "You pay in from taxed income and it's tax free when you take it out," said the chancellor. "And in-between it receives a top-up from the government." However, the government said it was approaching the consultation with an open mind rather than putting forward specific proposals.

Savings

Abolition of the Dividend tax credit

The dividend tax credit will be abolished from April 2016. A new annual dividend tax allowance of £5,000 will be introduced.

What is the dividend tax credit?

If you hold shares or unit trusts which pay a regular dividend, you will note that a 10% credit is deducted before payment. If you are a basic rate tax payer then you have no further tax liability, higher rate and additional rate taxpayers pay additional tax on these dividends.

Dividends will still remain free in ISA and pensions.

This will be replaced with a new dividend income allowance, which means that everyone will be able to receive dividend income of £5,000 per annum without paying any tax, but any dividend income above this will be taxed at the following rates.

Taxpayer "type"	Rate
Basic rate	7.5%
Higher rate	32.5%
Additional rate	38.1%

What does it mean?

This legislation has been introduced to reduce the attractiveness of company directors paying themselves small salaries and large dividend payments. Currently company owner directors whose total income including dividend payments, is below the higher rate threshold currently pay no further tax, apart from corporation tax of 20%. From April 2016 they will be liable for an additional 7.5% in tax on dividend income above that £5,000 allowance

The government expect to raise £6 billion pounds over the next 5 years with this measure.

Rental Property

Individual owners of residential property are able to offset the interest costs on mortgages against any income received. Basic rate taxpayers will still be able to fully offset these interest payments however for higher rate or additional rate taxpayers this will change transitionally from tax year 2017/18 to 2020/21, by that year those higher rate taxpayers will be unable to claim any relief on the interest payments made.

Another key announcement was the abolition of the wear and tear allowance from 2016, which provides annual tax relief for residential landlords in respect of the replacement and maintenance of furnishings. Instead landlords will claim an deduction for actual costs borne, instead of being linked to rent, which is the case under the wear and tear allowance.

Inheritance Tax

At present, inheritance tax is payable at 40% on the value of an estate in excess of the tax-free allowance of £325,000 per person (also known as the nil rate band). Married couples and civil partners can pass the allowance on to each other, meaning that £650,000 of an estate can be passed on tax-free.

It has been reported that from April 2017, parents will each be offered a further £175,000 "family home allowance" to enable them to pass property on to children tax-free after their death. This is actually being phased in over 4 tax years and the extra £175,000 will not be available until tax year 2020-21 as the table below shows;

Year	**Maximum main residence nil-rate band**
2017-18	£100,000
2018-19	£125,000
2019-20	£150,000
2020-21	£175,000

Please note the wealthiest estates will not qualify for the additional relief. This relief will actually be tapered away for estates values at between £2m and £2.35m until the standard nil rate band applies.

Non-Domiciled

Wealthy foreigners who live permanently in Britain will be forced to pay full tax on their foreign earnings. The move, which will come into force in two years' time, will raise £1.5bn over five years for the Treasury.

Non-doms are either rich foreigners who are resident in the United Kingdom, or Britons with ties overseas who are not eligible for tax on overseas income if they register their permanent home ("domicile") as outside of Britain. If they have been resident for 15 out of the last 20 years, they will be deemed domiciled and therefore be liable to tax on their worldwide income including inheritance tax.

Around 116,000 UK residents enjoy the benefits of the status, which dates back to around the times of the Napoleonic wars.

Britons who currently qualify for non-dom status because their father was born overseas will also lose their eligibility.

Non-doms are currently able to claim the remittance basis of taxation, which does not tax foreign income and gains as long as they are not brought to the UK. To access the remittance basis, longer term UK resident non-doms need to pay an annual remittance basis charge of up to £90,000.

It is likely that this new rule will push a number of current non domiciles out of the country to more favourable tax havens.

George Osborne also announced that rules would be introduced to prohibit people from avoiding inheritance tax liabilities on UK residential property by holding it in an offshore structure. This will particularly apply to non-domiciled individuals and treat it as if it were owned personally.

*This information is a brief guide based on our understanding of the proposals announced in the Emergency Budget of 8th July 2015. Please contact us for further details on 01372 464940.