Budget 2016 Newsletter

Issued 14th April 2016

As usual we have put together a brief synopsis of the main announcements in the Budget of 16th March 2016, along with the usual the Budget announced the usual round of cuts and increases in allowances, there were a number of changes made. This newsletter is designed to focus on the main changes that affect our clients.

We also thought that we would include a number of tax planning reminders that have been announced in previous budgets and some that have only just taken effect.

We will of course cover these as part of our review process but if you require any further information on how any if these changes affect you, then please contact us.

ISA'S

The chancellor announced a new type of ISA, as well as a large increase on existing ISA'S with effect from April 2017. Along with the changes he has made to tax relief for additional rate taxpayers, he may be paving the way for a radical overhaul of pensions and pensions tax relief in the future, watch this space.

Lifetime ISA

This new Lifetime ISA will be available from April 2017 to anyone over the age of 18 but under the age of 40. Therefore to be eligible you must have been born on or after 7th April 1977.

The main benefits are as follows:

- You can save up to £4,000 a year, and get a 25% bonus at the end of each tax year
- The bonus is paid until you hit age 50.
- The maximum bonus you could get is £32,000 (unless the rules change). To achieve this you need to open one on your 18th birthday and keep contributing the maximum £4,000 each year until you were 50.

The Lifetime ISA is designed for two specific purposes.

- The first is to attract first-time buyers to save, because they can use the proceeds towards a residential property, and that can purchased at any time, provided the Lifetime ISA's been held for 12 months or more.
- The second is to take out and use in retirement once you hit age 60. With both, there is no tax to pay on it when you take the money out.

ISA

The contribution limit on standard ISA's will increase to £20,000 from April 2017.

Capital Gains Tax

The rate of capital gains tax, was reduced as from 6th April 2017. The higher rate will be reduced from 28% to 20% and the lower rate from 18% to 10%.

The capital gains tax allowance for 2016/17 is £11,100.

Personal Allowance

The tapering of the personal allowance for individuals with income over £100,000 remains unchanged. This means that for every £2 earned, over £100,000, your personal allowance will be reduced by £1. This means that if your income is in excess of £122,000, your personal allowance of £11,000 is lost completely.

The personal allowance will increase to £11,500 from April 2017, for this tax year it is £11,000. The higher rate tax threshold will increase from this year's £42,000 to £45,000 for tax year 2017/18.

Tax Planning Reminders;

Transfer of Personal Allowance

If one of you is a non-taxpayer (earning less than £11,000 for this tax year) and the other a basic rate taxpayer, are married or in civil partnerships you may be able to claim for a tax break. The non-taxpayer may be able to transfer up £1,100 of their personal allowance to their spouse, which would save £220 in income tax.

This tax break has been available since April 2016 and you can also claim back the allowance for the 2016/17 if you qualified for it.

Lifetime Allowance Reduction

The Lifetime Allowance (LTA) for pensions has been reduced to £1 million from 6 April 2016. If your savings are close to or exceed this figure you may be able to apply for protection at the higher limit of £1.25m

Two levels of protection can be applied for;

- Fixed Protection 2016
- Individual Protection 2016

You may also be able to apply for protection of £1.5m under Individual Protection 2014, if as at 5th April 2014 the value of all your pension benefits exceeded £1.25m. Although you only have until 5th April 2017 to apply for this.

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 has introduced 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.

Savings
Dividend Tax
The dividend tax credit system will be abolished from April 2016. 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 in excess of this will be taxed at the following rates.

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

This also has an adverse effect on company directors who receive a small salary and the remaining income as dividends and means that most company directors will pay a higher level of income tax on their earnings. It will also adversely affect basic rate taxpayers who under the old tax credit system had no further liability providing they remained basic rate taxpayers on their income.

Deposit interest
With effect from this tax year, the £1,000 of deposit interest earned will be tax-free for basic rate taxpayers and the first £500 of interest will be tax-free for higher rate taxpayers. From 5th April 2016, banks and building societies stopped deducting tax at source. Therefore you only need to pay tax on interest if it exceeds the limits mentioned and this should be declared in your tax return. If in previous years you have been a non-tax-payer and tax was deducted at source from your interest payments then you may be entitled to claim back any tax paid. You should contact your local inspector for more details.

Help to Buy ISA
It is likely that this will be superseded by the Lifetime ISA but is still available until December 2019. Anyone can open this ISA providing they are over the age of 16.

You need to have at least £1,600 saved to get the bonus (so you'd get £400 extra).

You can pay a maximum of £200 per month, plus an initial contribution of £1,000. You will receive a bonus from the government as an incentive (25%). The most you'll get the bonus on is £12,000 of savings (which means a £3,000 bonus). You can save more than £12,000 into the ISA but you will not receive anymore bonus.

As for what a first-time buyer is – the definition is strict. It's someone who doesn't own and has NEVER owned an interest in a residential property, either inside or outside the UK, whether it was bought or inherited.

*This information is a brief guide based on our understanding of the proposals announced in the Budget of 16th July 2015. Please contact us for further details on 01372 464940.