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FEATURE ARTICLE

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Summer Budget 2015

Today's Budget has been called an "Emergency Budget" as it has been introduced so soon after the general election. It is the first solely Conservative Budget, rather than a Coalition Budget, since 1997.

This Feature Article is simply a summary of some of the main headlines from today's Budget as I am sure that detailed, technical analysis of the various announcements that have been made will be published by various product providers and others in the coming days and weeks.

Taxes

Historically, the first budget after a general election is when governments introduce the biggest tax hikes. The expectation is that voters will have forgotten about any tax increases by the time the next election rolls around, if they're done early enough. A manifesto commitment not to raise income tax, national insurance or VAT, or even to change which items VAT is levied on, means there was not much room for manoeuvre especially as together these account for around two-thirds of all tax revenues.

Income Tax

The Conservative's pre-election manifesto outlined plans to raise the personal allowance to £12,500 by 2020/21. They also promised to increase the threshold for paying the 40pc higher rate tax from £42,385 to £50,000 by 2020/21.

The Chancellor announced that the personal allowance will be increased to £11,000 in 2016-17 (and based on previous announcements £11,200 in 2017-18) and the higher rate threshold from £42,385 to £43,000 in 2016-17 (and based on previous announcements £43,600 in 2017-18).
The government will legislate to ensure that once the personal allowance has reached £12,500, it will always be set at least at the equivalent of 30 hours a week on the National Minimum Wage (NMW). This will ensure that those working up to 30 hours on the NMW will not pay income tax in the future.

Dividends

A surprise announcement were reforms of the taxation of dividends by replacing the Dividend Tax Credit with a Dividend Tax Allowance of £5,000 and setting new dividends tax rates while maintaining the extensive tax reliefs for investments held in ISAs and pensions.

The government will set the dividend tax rates at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

IHT

A new transferable nil-rate band will be introduced from April 2017. This will apply when a main residence is passed on death to direct descendants, such as a child or grandchild. The allowance will be up to £100,000 in 2017-18, up to £125,000 in 2018-19, up to £150,000 in 2019-20, and up to £175,000 in 2020-21. This is in addition to the inheritance tax nil-rate band, which is set at £325,000 for the estates of individuals. This creates an effective £500,000 inheritance tax threshold for estates in 2020-21. As with the current nil-rate band, any unused main residence nil-rate band will be transferred to a surviving spouse or civil partner and means the effective inheritance tax threshold will rise to £1 million in 2020-21.

The new main residence nil rate band 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 £175,000 in 2020-21, are passed on death to direct descendants. For example, an individual might choose to downsize from a home worth £200,000 to a home worth £100,000. They could still benefit from the maximum allowance of £175,000 in 2020-21 if they leave the home and £75,000 of other assets to direct descendants. They will only be liable to inheritance tax if the total estate exceeds £500,000.

To ensure that the wealthiest estates continue to make a greater contribution to inheritance tax receipts, there will be a tapered withdrawal of the main residence nil-rate band for estates with a net value of more than £2 million. The existing nil-rate band will also remain at £325,000 from 2018-19 until the end of 2020-2021.

CGT

In 2010, George Osborne increased CGT from 18pc to 28pc for higher rate taxpayers but not, as many feared, to 40pc. In addition the Chancellor broke new ground by increasing the rate during a tax year rather than the more traditional route of increases kicking in on 6 April, at the start of a tax year.
There were no announcements regarding any changes to CGT.

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Business Taxes

The Chancellor made cutting corporation tax a cornerstone of the last Parliament and has continued this into this Parliament. The government will reduce the corporation tax rate from 20% to 19% in 2017 and 18% in 2020.

Murmuring by HSBC and the shareholders of Standard Chartered, two highly globalised banks hit hard by the Bank Levy, have lead Mr Osborne to tone down the measure. The bank levy was designed to encourage a move away from riskier funding models to reduce systematic risk, which in many ways it has done. The choice was either to keep the status quo and continue to disproportionately penalise UK banks with a global footprint, to drop the tax take, or to put the rates up on UK balance sheets? The Chancellor chose to take three steps:

1. The introduction of a new tax on banking sector profit from 1 January 2016, set at a permanent rate of 8%.
2. A phased reduction of the bank levy rate, from the existing rate of 0.21% to 0.18% from January 2016, 0.17% from January 2017, 0.16% from January 2018, 0.15% from January 2019, 0.14% from January 2020 and 0.10% from January 2021.
3. A change in the bank levy's scope from 1 January 2021, meaning that UK headquartered banks are levied on their UK balance sheet liabilities.

New ISA for Peer-to-Peer Loans

Following a consultation on including peer-to-peer loans in ISAs the government has decided to introduce a new type of ISA for peer-to-peer loans – the Innovative Finance ISA – alongside cash ISAs and stocks and shares ISAs.

For details go to: **www.gov.uk/government/uploads/system/uploads/attachment_data/file/442966/PU1808_ISA_qualifying_investments_consultation_response.pdf**

Pensions

In the ideal world you would leave pensions alone as regular changes undermine people's confidence in wanting to lock up their savings for decades.

- The Conservatives pledged to restrict tax relief for additional rate taxpayers in their manifesto as part of a promise to increase the inheritance tax threshold. The Chancellor has confirmed that relief will be restricted for those earning more than £150,000 a year, or 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. (To ensure this measure is focussed on the higher and additional rate tax payers who currently gain the most benefit from pensions tax relief, those with income, excluding pension contributions, below a £110,000 threshold will not be subject to a Tapered Annual Allowance.)

For full details go to: **www.gov.uk/government/uploads/system/uploads/attachment_data/file/443255/6046_Pensions_tapered_annual_allowance.pdf**

- There had been discussion in the press regarding salary sacrifice schemes and the Red Book says: "Salary sacrifice arrangements can allow some employees and employers to reduce the income tax and National Insurance that they pay on remuneration. They are becoming increasingly popular and the cost to the taxpayer is rising. The government will actively monitor the growth of these schemes and their effect on tax receipts."

- Finally the government also wants to make sure that the right incentives are in place to encourage saving into pensions in the longer term. The government is therefore consulting on whether there is a case for reforming pensions tax relief. Options range from a fundamental reform of the system (for example moving to a system which is "Taxed-Exempt-Exempt" like ISAs and providing a government top-up on pension contributions) to less radical changes (such as retaining the current system and altering the lifetime and annual allowances), as well as options in between.

  The Consultation Document can be found at:
  www.gov.uk/government/consultations/strengthening-the-incentive-to-save-a-consultation-on-pensions-tax-relief

Once the consultation closes on 30th September 2015 the government will consider all responses and publish a 'summary of responses'. This will set out how the government intends to proceed.

Property Taxes

The Chancellor announced a restriction of tax relief for mortgage interest for individual landlords to the basic rate of income tax, phased in over 4 years from 2017-18, limiting the advantage that these individuals currently enjoy over those purchasing their own home.

For full details go to:
www.gov.uk/government/uploads/system/uploads/attachment_data/file/443277/6041_Restricting_finance_cost_relief_for_individual_landlords__3_.pdf

New National Living Wage

The Chancellor announced a new National Living Wage (NLW) for workers aged 25 and above, from April 2016, the new NLW will be set at £7.20 – a rise of 70p relative to the current NMW rate, and 50p above the NMW increase coming into effect in October 2015. The Chancellor has also asked the Low Pay Commission to set out how it will reach 60% of median earnings by 2020; based on OBR forecasts, this means that the National Living Wage will reach the government's target of over £9 by 2020.

Anti-avoidance

The Government made various announcements in this area including the fact that it will publish a consultation to consider the detail of introducing a GAAR penalty as well as considering new measures to strengthen the GAAR further.

Moves on non-doms

From April 2017, anybody who has been resident in the UK for more than 15 of the past 20 tax years will be deemed UK-domiciled for tax purposes. Furthermore, it will no longer be possible for somebody who is born in the UK to parents who are UK domiciled to claim non-domicile status if they leave but then return and take up residency in the UK. These changes will bring an end to the permanent non-domicile status.

From April 2017 the government will also introduce new rules so that everybody who owns residential property in the UK and would otherwise pay inheritance tax on that property cannot avoid paying it by holding it in an offshore structure. These changes will limit abuses of the rules by people with non-domicile status who use complicated structures to make their UK homes look like offshore assets.

Secondary Annuity Market

The government wants existing annuity holders to have the freedom to sell their annuity income. The government will set out plans for a secondary annuities market in the autumn, and has agreed with respondents to the recent consultation that implementation should be delayed until 2017 to ensure there is an in-depth package to support consumers in making their decision.

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