The Beacon Newsletter
Summer Budget 2015

Introduction

The Chancellor, George Osborne, presented his summer Budget on 8th July 2015.

There are many notable items to be aware of, including:

Key Points

Taking the family home out of Inheritance Tax

From April 2017, each individual will be offered a family home allowance so they can pass their home on to their children or grandchildren tax-free after their death. This will be phased in from 2017-18.

The family home allowance will be added to the existing £325,000 (based on 40%) Inheritance Tax threshold, meaning the total tax-free allowance for a surviving spouse or civil partner will be up to £1 million in 2020-21.

The allowance will be gradually withdrawn for estates worth more than £2 million.

The higher rate threshold will increase from £42,385 in 2015-16 to £43,000 in 2016-17

The amount people will have to earn before they pay tax at 40% will increase from £42,385 in 2015-16 to £43,000 in 2016-17.

People that earn more than £150,000 will see a reduction in the amount they can pay into their pension.

Most people can contribute up to £40,000 a year to their pension tax-free. From April 2016, this amount will be reduced for individuals with incomes of over £150,000, including pension contributions.

With this in mind it is worth contacting your financial adviser before it is enforced.

Business

Corporation Tax will be cut to 19% in 2017 and 18% in 2020

The main rate of Corporation Tax has already been cut from 28% in 2010 to 20%, in order to boost UK competitiveness. It will now fall further, from 20% to 19% in 2017, and then to 18% in 2020, benefiting over a million businesses.

The annual investment allowance will be set at its highest ever permanent level at £200,000

The annual investment allowance, which has previously been increased temporarily, will be set permanently at £200,000 from January 2016.

The allowance means businesses can deduct the full value of certain items, including equipment and machinery, up to a total value of £200,000 from their profits before tax. This means the full tax relief is given in the year items are purchased, rather than over several years.

This permanent increase will help businesses plan their spending on longer-term investments.

The Employment Allowance will increase by a further £1,000 to £3,000

Businesses will have their employer National Insurance bill cut by another £1,000 from April 2016, as the Employment Allowance rises from £2,000 to £3,000. The Employment Allowance gives businesses and charities a cut in the employer National Insurance they pay.

This means, next year, businesses will be able to employ 4 people full time on the National Living Wage and pay no National Insurance at all.

3 million new apprenticeships

3 million new apprenticeships will be created by 2020, funded by a levy on large employers. Firms that are committed to training will be able to get back more than they put in.

Key Points *(continued…)*

Making sure individuals and businesses pay what they owe

The government will continue to clamp down on tax avoidance, planning and evasion, as well as increasing resources for HM Revenue and Customs (HMRC) so they can make sure people pay the tax that is due. This includes:

- Extra investment between now and 2020 for HMRC's work on evasion and non-compliance
- Tripling the number of criminal investigations HMRC can undertake into complex tax crime, concentrating on wealthy individuals and companies
- Allowing HMRC to access more data to identify businesses that are not declaring or paying tax
- Stopping investment fund managers from using tax loopholes to avoid paying the correct amount of Capital Gains Tax on their profits from the fund (this is known as carried interest)
- Making sure international companies pay tax on profits diverted from the UK
- Introducing a 'general anti-abuse rule' penalty and tough new measures for serial avoiders, including publishing the names of people who repeatedly use failed tax avoidance schemes

Reforming dividend tax

This simpler system will mean that only those with significant dividend income will pay more tax. Investors with modest income from shares will see either a tax cut or no change in the amount of tax they owe.

The Personal Allowance will be increased from £10,600 in 2015-16 to £11,000 in April 2016

The tax-free Personal Allowance – the amount people earn before they have to start paying Income Tax – will increase to £11,000 in 2016-17.

Increases to the Personal Allowance since 2010, when it was £6,475, mean that a typical taxpayer will be £905 a year better off in 2016-17.

The government has an ambition to increase the Personal Allowance to £12,500 by 2020, and a law will be introduced so that once it reaches this level, people working 30 hours a week on the National Minimum Wage will not pay Income Tax at all.

Restricting tax relief for wealthier landlords

Currently, individual landlords can deduct their costs – including mortgage interest – from their profits before they pay tax, giving them an advantage over other home buyers. Wealthier landlords receive tax relief at 40% and 45%. This tax relief will be restricted to 20% for all individuals by April 2020.

In addition, from April 2016, the 'wear and tear allowance', which allows landlords to reduce the tax they pay (regardless of whether they replace furnishings in their property) will also be replaced by a new system that only allows them to get tax relief when they replace furnishings.

The standard rate of Insurance Premium Tax will increase to 9.5%

From November 2015 the standard rate of Insurance Premium Tax will be increased from 6% to 9.5%. Households' insurance prices are falling and the standard rate remains lower than that of many other EU countries.

Road tax will be reformed and the money raised spent on the road network

The road tax system will be revised to make it fairer and sustainable. From 2017, there will be a flat rate of £140 for most cars, except in the first year when tax will remain linked to the CO2 emissions that cars emit.

Key Points *(continued…)*

Existing cars will not be affected – no one will pay more for a car that they already own. The money brought in from road tax in England will be spent on England's roads from 2020.

The government will extend the deadline for the first MOT of new cars and motorcycles from 3 years to 4 years.

Reforming the way banks are taxed

Following increasing bank profits, and to reflect changes in bank regulation, the government is:

- Introducing a new 8% tax on banking sector profits from January 2016
- Introducing a phased reduction in the rate of the Bank Levy (which is charged on banks' balance sheets) from 0.21% to 0.1% between 2016 and 2021
- Excluding UK banks' overseas subsidiaries from the Bank Levy from January 2021

Reforming the welfare system to make it more affordable

The welfare system will be reformed to make it fairer for taxpayers who pay for it, while continuing to support the most vulnerable. Changes include:

- Working-age benefits, including tax credits and Local Housing Allowance, will be frozen for 4 years from 2016-17 (this does not include Maternity Allowance, maternity pay, paternity pay and sick pay)
- The household benefit cap will be reduced to £20,000 (£23,000 in London)
- The support through Child Tax Credit will be limited to 2 children for children born from April 2017
- Those aged 18 to 21 who are on Universal Credit will have to apply for an apprenticeship or traineeship, gain work-based skills, or go on a work placement 6 months after the start of their claim
- Rents for social housing will be reduced by 1% a year for 4 years, and tenants on higher incomes (over £40,000 in London and over £30,000 outside London) will be required to pay market rate, or near market rate, rents.

Ending permanent non-dom status

Non-domiciled individuals (non-doms) live in the UK but consider their permanent home to be elsewhere. The UK rules allow non-doms to pay UK tax on their offshore income only when they bring it into the UK.

Permanent non-dom status will be abolished from April 2017. From that date, anyone who has been resident in the UK for 15 of the past 20 years will be considered UK-domiciled for tax purposes.

Deficit

The government will run a surplus in 2019-20

The deficit will be reduced by around 1% of GDP (the value of the economy as a whole) on average in each year, which is the same pace as over the last 5 years. This means a surplus (where more tax is raised than is spent) will be achieved in 2019-20, and debt will fall in every year. Included in this is:

- £12 billion by 2019-20 through welfare reforms
- £5 billion by 2019-20 from measures to tackle tax avoidance, planning, evasion, compliance, and imbalances in the tax system

Plans for the remaining savings will be set out in the autumn following the spending review.

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Key Points *(continued…)*

Individuals

30 hours of free childcare for 3 and 4 year olds

From September 2017, working families with 3 and 4 year olds will receive 30 hours of free childcare – an increase from the 15 hours they are re currently offered.

Public sector pay will increase by 1%

Public sector pay will increase by 1% a year for 4 years from 2016-17.

Summary

In Summary this was a mixed budget with benefits for individuals and companies. Processes will be put into place to allow individuals to leave behind their family home to children and grandchildren without the worry of inheritance tax. Individuals will also benefit from a public sector pay rise of 1% and personal allowance is set to increase. Businesses will also benefit from having the employment allowance increased.

We hope you feel the above summary is helpful.
Further details are available if required.
For more information please contact us.

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