LEXINGTON WEALTH MANAGEMENT

SUMMER BUDGET 8th JULY 2015

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The Chancellor announced his summer budget yesterday and here are our summary points which we feel will be relevant to you, your business and your family.

I would like to draw your attention specifically to the following: -

3. New Dividend Allowance (Important to Business Owners)

4. Inheritance Tax: Family Home Nil Rate Band – But not yet

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

9. Restricting tax relief for wealthier landlords

TAXATION

1. INTRODUCING A NEW NATIONAL LIVING WAGE OF OVER £9 AN HOUR BY 2020

From April 2016, a new National Living Wage of £7.20 an hour for the over 25s will be introduced. This will rise to over £9 an hour by 2020.

2. INDIVIDUAL TAX ALLOWANCES

Both the personal allowance and higher rate income tax thresholds will increase over the next two years as follows:

2016/17:

- Personal Allowance increases to £11,000;
- Higher rate threshold increases to £43,000.

A basic rate taxpayer will be better off by £80. Higher rate taxpayers will be better off by £203.

2017/18:

- Personal Allowance increases to £11,200;
- Higher rate threshold increases to £43,600.

A basic rate taxpayer will be better off by a further £40, and higher rate taxpayers by £160.

These increases are on the way to meeting government pledges to raise the personal allowance to £12,500 and the higher rate threshold to £50,000 during this Parliament.

3. NEW DIVIDEND ALLOWANCE (IMPORTANT TO BUSINESS OWNERS)

The system of dividend tax credits will be abolished from April 2016. It will be replaced by a new tax free dividend allowance of £5,000. Dividends in excess of this allowance will be taxed at the following rates, depending on which tax band they fall in:

- Basic rate - 7.5%;
- Higher rate - 32.5%;
- Additional rate - 38.1%.

This means that from April 2016, a basic rate taxpayer could have tax free income of up to £17,000 pa when added to the personal allowance of £11,000 and the new 'personal savings allowance' announced in the Spring Budget of £1,000. Higher rate taxpayers could have up to £16,500 (as the personal savings allowance is restricted to £500 for these individuals).

Certain individuals may also have savings income falling into the £5,000 savings rate 'band', currently taxed at 0%. There is no mention of any change to this band, in which case certain individuals may have tax free income of up to £22,000, depending on the sources of their income.

Making full use of these new allowances can make savings last longer in retirement and potentially leave a larger legacy for loved ones. And strengthens the case for holistic multiple wrapper retirement income planning.

4. Inheritance Tax: family home nil rate band - but not yet

The Government will introduce a new Inheritance Tax (IHT) nil rate band of up to £175,000 where the family home is passed to children or grandchildren. This is in addition to the current nil rate band of £325,000 which has been frozen since 2009 and will remain frozen for the next 5 tax years, until the end of 2020/21.

Who will benefit

The extra nil rate band will be fully available to anyone who:

- passes the family home to their children or grandchildren on death; or
- or had a family home, then downsized (passing on assets of equivalent value to children/grandchildren); and
- has an estate below £2M.

However, the full £175,000 won't be available until 2020/21. The allowance will first become available in 2017/18 at £100,000 and increase to £125,000 in 2018/19, £150,000 in 2019/20 and £175,000 in 2020/21. It will then increase in line with the Consumer Price Index (CPI).

Like the existing nil rate band the new property nil rate band can be transferred between spouses or civil partners. This means a married couple could pass £1M in 2020/21 to their children tax free on death provided the family home is worth at least £350,000, saving £140,000 in IHT.

Who may miss out

But not everyone will benefit from the additional IHT free allowance. Anyone with a net estate over £2M will begin to see their property nil rate band reduced until it is completely lost once the estate is over £2.2m (2017/18) £2.25m (2018/19), £2.3m (2019/20) or £2.35m (2020/21).

It will only apply to transfers to children and grandchildren. Meaning those without children will miss out. And it is not possible to use the exemption for lifetime transfers which may discourage some clients from passing on their wealth during their lifetime.

Clients who could benefit from the property nil rate band may need to revisit their existing wills to ensure they continue to reflect their wishes and remain as tax efficient as possible.

5. 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.

6. 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 helps them with cash flow because it 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.

7. 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.

8. 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.

9. 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.

10. Non Doms - deemed domicile after 15 tax years, applies to all taxes

'Non-doms' are individuals who, although resident in the UK, can legally claim that another country is their home ('domicile'). This means that they can access some tax benefits not available to those who are resident and domiciled in the UK.

New rules apply from April 2017 to restrict this. Individuals will become 'deemed domicile' (taxed in the usual way that UK domiciled residents are taxed) more quickly - after 15 tax years spent in the UK instead of 17. And 'deemed domicile' will apply to more taxes - income tax, CGT and IHT, instead of just IHT.

Excluded Property Trusts used with offshore bonds can continue to benefit from an advantageous IHT treatment. But individuals with their affairs set up to take advantage of the remittance basis may wish to review their investments to ensure this will still be tax efficient under the new regime.

11. 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

ECONOMY

12. 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.

13. Protecting defence spending

The Ministry of Defence's budget will rise by 0.5% (above inflation) each year to 2020-21. Up to an additional £1.5 billion a year will also be available by 2020-21 to fund increased spending on the military and intelligence agencies.

The government will meet the NATO pledge to spend 2% of national income on defence every year of this decade.

14. 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 doesn't include Maternity Allowance, maternity pay, paternity pay and sick pay)
- the household benefit cap will be reduced to £20,000 (£23,000 in London)
- 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

Pensions

15. Two bites at AA as PIPs are aligned with tax years from 2016

As a small step towards re-simplification of the pension rules, from 6 April 2016 all pension input periods (PIPs) will be aligned to the tax year. And it won't be possible to change them.

But related transitional rules potentially create an extra £40k annual allowance (AA) for the 2015/16 tax year, giving some savers two bites at the AA cherry this year.

As ever, the devil is in the detail. Look out for our article and case study for insight on how to help your clients make the most of this change.

16. AA cut for high earners from 2016 - get it while you can

Those with 'adjusted income' over £150k will have their annual allowance (AA) cut from the 2016/17 tax year, creating a 'get it while you can' pension funding window this tax year.

The standard £40k AA will be cut by £1 for every £2 of 'adjusted income' over £150k in a tax year. The maximum AA reduction is £30k, giving those with income of £210k or above a £10k AA. Carry forward of unused AA will still be available, but only the balance of the reduced AA can be carried forward from any year where a reduced AA applied.

The 'adjusted income' the £150k test is based on is broadly the total of:

- the individual's income (without deducting their own pension contributions); plus
- the value of any employer pension contributions made for them.

The reduced AA won't however apply where an individual's net income for the tax year (after deducting their own pension contributions), plus the value of any income given up for an employer pension contribution via a salary sacrifice arrangement entered into after 8 July 2015, is £110k or less.

17. Pension tax framework under review

The Government has kicked off a fundamental review of the pension tax framework to ensure it remains fit for purpose, and sustainable, for a changing society. In a consultation launched today, HM Treasury is seeking views on a range of very open questions around what changes (if any) would:

- reduce complexity and increase transparency;
- make best use of available tax reliefs;
- increase engagement and aid retirement planning.

This welcome consultation raises the prospect of radical reform to restore the vision of a genuinely 'simplified' retirement saving framework. The consultation closes on 30 September.

Jamie Jenkins, Head of Pensions Strategy, comments 'Pensions tax relief was ripe for review.
Despite some suggesting that the industry was resistant to any change in this area, quite the contrary, we have been calling for a more fundamental review rather than constant tinkering. This consultation provides us with a great opportunity to simplify the pensions tax system once and for all.'

Other pension news

- **Lifetime allowance:** The proposed reduction in the lifetime allowance from £1.25M to £1M will go ahead as planned from the 2016/17 tax year. It will be indexed in line with CPI from 2018/19. Details are awaited of a new transitional protection option for those with existing pension savings already over £1M who would otherwise face a retrospective tax hit.
- **Death tax:** As promised as part of the 'freedom and choice' reforms, all pension lump sum death benefits paid after 5 April 2016 in relation to a death at age 75 or above will be taxed as the recipient's income (removing the flat 45% tax that applies in the 2015/16 tax year).
- **Salary sacrifice:** Despite wide pre-Budget rumours, there are no changes to salary sacrifice rules. The Government will, however, be monitoring the growth of such schemes and their impact on tax take.
- **Transfers:** To improve consumer access to 'freedom and choice', the Government will consult about how to improve the pension transfer process and, potentially, cap charges for over 55s.
- **Annuities:** The ability for pensioners to sell their annuities will be delayed until 2017. This allows more time to ensure the related consumer safeguards are in place. More details will be announced in the autumn.
- **State Pensions:** The Chancellor has reaffirmed the Government's commitment to retaining the 'triple lock' State pension increase promise, giving more security to older people.

18. ISA changes

Replacing withdrawals

The proposed changes to ISA, allowing savers to dip into the savings and replace them without it affecting their annual subscription limits, will go ahead from 6 April 2016.
The new contributions would have to be paid within the same tax year as the withdrawal for it not to be counted. These new flexible funding rules will only apply to cash ISAs and any cash element within a stocks and shares ISA. However, it is now possible to move ISA holdings between cash and stocks and shares without restriction, so clients in stocks and shares will be able to benefit provided they move into cash first.

Help to Buy ISA

First time home buyers will get help from the Government when saving to get their foot on the property ladder. The Help to Buy ISA will be available from 1 December 2015.

The scheme will provide 25% tax relief on savings up to £12,000. So someone saving the full £12,000 would see the government add a further £3,000 to their savings, giving them £15,000 towards the purchase of their first home. This tax relief isn't given at the point of saving in the same way as a pension contribution, but is instead added when the saver buys the home.

The new scheme will be a form of Cash ISA and, in line with current rules, it won't be possible to subscribe to two separate Cash ISAs (Cash & Help to Buy) in the same tax year.

Savings will be limited to a maximum single initial premium of £1,000 and regular savings of £200 each month. And to get the Government bonus, property values can be no more than £250,000 (£450,000 for properties in London).

Other

19. Clamping down on nuisance calls from claims management companies

The amount that can be charged by claims management companies – such as those that encourage claims for payment protection insurance (PPI) or personal injury insurance – will be capped, reducing nuisance calls to potential customers.

20. 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.

21. £30 million of funding for Transport for the North

Cities and counties in the North will be given even more control over local transport. Transport for the North (TfN) will be supported by £30 million in funding over 3 years, and will have more responsibility for setting out policy and investments.

22. 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're currently offered.

23. Student maintenance grants will be replaced with loans

From the 2016-17 academic year, cash support for new students will increase by £766 to £8,200 a year, the highest level ever for students from low-income households. New maintenance loan support will replace student grants. Loans will be paid back only when graduates earn above £21,000 a year.

24. 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 CO_2 emissions that cars produce. Electric cars won't pay any road tax at all and the most expensive cars will pay more.

Existing cars won't 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.

25. PUBLIC SECTOR PAY WILL INCREASE BY 1%

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

26. 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's 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 aren't declaring or paying tax
- clamping down on the organised crime gangs behind the illicit trade in tobacco and alcohol
- 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