'How does the 2015 Summer Budget affect me?'

Our expert analysis breaks down the Budget and explains what it all means for you.

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Overview

A bold budget?

In the first Conservative only budget for nearly twenty years the Chancellor certainly introduced far greater change to the tax system than was expected, aligning the stability of the economic growth with creating a higher wage, lower benefit society. The financial statistics were generally good with the OBR predicting a surplus from 2019/20.

There was a clear focus on making some major changes to the welfare system including restricting benefits for families with more than two children and bringing sweeping changes to other benefits as well. The idea is, to ensure that everyone is better off in work and so, they will launch, from April 2017, a national living wage for those over 25, which will increase to £9 per hour by 2020.

The tax announcements were no less dramatic with further cuts to the rate of Corporation Tax, bringing this down to just 18% by 2020, which will assist employer companies who will have higher employment costs because of the living wage. On top of this he has brought in changes to the way dividends, paid by companies, are taxed. To match the savings exempt band announced in the March budget there will now be a £5,000 dividend tax free band, available to all taxpayers. This is a major shift in the taxation of dividends but we were told that 85% of people who receive dividends will see either no change or be better off.

On the Personal Tax front there were clear steps towards the higher personal allowances we were promised and also the basic rate band threshold as these will see increases from next April.

There have been many changes to the Annual Investment Allowance, the relief businesses can claim when they invest in capital assets. This 100% allowance has been moved up and down to the point where many businesses lacked the certainty they needed to invest in assets. Well, the Chancellor has obviously listened to these criticisms and decided to bring certainty to it by fixing it at £200,000 for the next five years.

There was confirmation that the much trailed Family Home Allowance, which will eventually add a further £175,000 to the current £325,000 Inheritance Tax nil rate band, means those with estates, including a family home, of up to one million pounds will be exempt from tax.

Those who own 'buy to let' residential properties will see their tax relief on mortgage payments restricted from April 2017 and this will undoubtedly have a dampening affect on a residential property market that had caused some concern. This was balanced, somewhat, by good news for those, perhaps, who rent only a part of their family home as the rent-a-room relief, which exempts income received for renting a room in your home, was increased from £4,250 to £7,500 from April 2017.

The Chancellor also announced further changes to pensions with a consultation on the use of pensions like ISAs and the tapering of the current tax relief on pensions to a minimum of £10,000. This will obviously mean that there is further work needed in this area where there have already been huge changes.

There were many other changes including those that affect Vehicle Excise Duty on brand new cars with new banding thereafter. By the end of the decade these funds will be ring fenced and passed to devolved administrations to be used on the road on which we drive.

It will take some time for the full impact of all these changes to be reviewed and digested but the Chancellor has certainly set out his stall for the next five years and assuming he finally fixes that roof perhaps he will have placed his hat in the ring for the future leadership of the party.

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Annual Investment Allowance (AIA)

- **The AIA will be £200,000 with effect from 1 January 2016.**

Benefits

The government is committed to maintaining the AIA at £200,000 for the rest of this Parliament.

The AIA has been used as a political football by successive chancellors with its repeated increases and reductions. This has probably distorted investment decisions and led to increased administration costs. Without legislation it was due to return to £25,000 from January 2016, a level which would have led to widespread criticism. An AIA of £200,000 is likely to be seen as reasonable, particularly for SMEs, as well as sustainable.

Disadvantages

This actually amounts to a cut in the AIA which currently stands at £500,000.

A transitional amount of the AIA will need to be calculated for accounting periods which straddle 1 January 2016.

Consultation on changes to tax relief on pensions

- **The Government is launching a Green Paper which consults on the payment of tax relief on pensions. The Chancellor is proposing to make pensions more like ISAs. Is this the new PISA?**

Over two thirds of pension tax relief currently goes to higher rate or additional rate tax payers, but the lifetime allowance and annual allowance restrictions are making a significant reduction in their overall share. Tax relief was originally introduced to provide an incentive for people to save towards their retirement.

The consultation launched by the Government today, asks for suggestions on how the current system can be reformed so that more people can save for their retirement and more importantly, be incentivised to save.

Pensions are often compared to ISAs and the Government appears to be consulting on bringing them closer by proposing taxation on pension contributions upfront, with a top up from the government, allowing growth free of tax and then on the way out the benefits would be tax free.

The consultation is open until 30 September 2015, but in doing so is the Government not only seeking a way to simplify pensions, but consulting on the possibility of end to tax relief?

Strengthening of attack on profits diverted offshore

- **HMRC continues its attack on tax avoidance**

A measure has been introduced which will remove the ability of UK companies to reduce or eliminate a Controlled Foreign Company (CFC) charge by offsetting UK losses and surplus expenses against that CFC charge. A Controlled Foreign Company is broadly an overseas company which is controlled by a UK resident company.

This applies to losses and surplus expenses incurred by UK companies, either brought forward from earlier years or incurred in the current year. It also applies to group relief claims. This restriction is being introduced with immediate effect.

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This measure demonstrates the determination of HMRC to deter the diversion of profits offshore and tax any profits that are diverted.

Corporation Tax main rate

- **Lower corporation tax bills**

The government have introduced plans to reduce the main rate of corporation tax even further. The rate of 20% is set for the financial year starting 1 April 2016, however the Chancellor announced that this will be reduced to 19% for the year beginning 2017 and even further to 18% for the year beginning 1 April 2020.

Corporation Tax payment dates

- **Pay your tax sooner**

In autumn we will receive draft legislation in respect of a change in corporation tax payment dates, the new measure will apply to accounting periods starting on or after 1 April 2017. The new rules will only apply to companies with annual taxable profits of £20 million or more, however this will be aggregated in group situations. It is likely that in this scenario your quarterly payment dates will be brought forward to the third, sixth, ninth and twelfth months of your accounting period.

Enterprise Zones

- **More support for regional areas**

The existing enterprise zones have supported the creation of over 15,000 jobs throughout England, because of this the government is inviting bids for a new round of Enterprise Zones. This new round will focus on ensuring all places in England, including rural districts, can benefit. The government encourages towns and districts to work with LEPs to develop their bids.

This comes in line with the general government theme of looking to devolve further powers on Sunday trading to mayors and local authorities; alongside their extension of the Coastal Communities Fund by at least £90 million until 2020/21.

Tackling Offshore Evasion

- **Encourages disclosure of offshore accounts**

As part of the UK Government's pledge to tackle Tax evasion, they announced in today's Summer Budget that legislation will be introduced under which financial intermediaries, Tax advisors and other professional will be required to notify their clients that the UK will begin to receive information on offshore accounts in 2017. The UK will also begin to share information with the Tax authorities of other countries on accounts which are held in the UK.

The aim of this is to enable HMRC and other Tax authorities, to check that the correct amount of Tax is being paid by Taxpayers on the money that they are holding abroad. HMRC hope this new legislation, whereby they have communication with the Taxpayer either directly or via their Financial/Tax advisor, will encourage disclosures more than general advertising campaigns. This legislation should help to deliver targeted and effective messages to the Taxpayer that having undeclared offshore accounts will not be tolerated.

There will be a disclosure period of a limited period of time in early 2016 which will allow Taxpayers whose Tax affairs might not be compliant, to rectify the situation before HMRC start to receive the information under the Common Reporting Standard. This Disclosure will have tougher terms than previous Offshore Disclosure Facilities operated by HMRC.

If a Taxpayer continues to be non-compliant and conceal their Tax affairs, HMRC will enforce tough penalties for offshore evasion through the existing offshore penalty regime. In addition, there will be new civil penalties for Tax evaders and a new criminal offence for failing to declare offshore income and gains which should be taxed.

The Regulations are expected to have effect from early 2016, after Royal Assent to the Summer Finance Bill 2015 and the informal consultation has concluded.

Reform of Tax Credit System to Cut Cost to Taxpayer

A number of significant changes to the Tax Credits System will reduce the amount payable to many families and increase the likelihood of overpayments.

- **The combined effect of all of these changes is that all tax credit claimants will see a reduction in their awards and the likelihood of overpayments will increase. The marginal rate of income tax, national insurance contributions and tax credit taper when a tax credit claimant receives a wage rise will from April 2016 be 80%!**

George Osborne announced a number of changes to Tax Credits to take effect from April 2016 in an attempt to reduce the cost to the taxpayer which in the last tax year amounted to approximately £30 billion.

- The tax credit threshold – the level of income an individual or couple can receive before their tax credit award is reduced – is reduced from £6,420 to £3,850.
- The taper rate – the percentage at which tax credits are withdrawn once income exceeds the threshold – will increase from 41% to 48%.

To illustrate the effect of these two changes, a couple with an income of £10,000 and two children will see a reduction in tax credits of £1,484 per year.

- The income disregard – the amount that a claimant's income can increase over that of the previous year before the tax credit award is amended – will reduce from £5,000 to £2,500. This takes the income disregard back to where it was when tax credits were introduced in 2003.
- Rates of tax credits, along with other working age benefits, are to be frozen for the next four years.
- Child tax credit will only be paid on the first two children. This change will however only apply to children born after 6th April 2017 and will not apply to multiple births.

No longer the season of goodwill

- **Good for – levelling the playing field in merger and acquisition transactions**
- **Bad for – companies purchasing goodwill and intangible assets**

Following the recent decision to abolish tax relief for the write off of goodwill upon incorporation, HMRC have announced a major change to the intangible assets regime, by removing corporation tax relief for companies who write off the cost of purchased goodwill and certain customer related intangible assets against their profits.

Tax relief will still be available but only when the goodwill is sold.

The measure will apply to accounting periods beginning on or after 8 July 2015, but not in respect of acquisitions made before 8 July 2015.

It will be interesting to see what impact this measure has on corporate transactions where currently, a sale/purchase of the trade and assets generally benefits the purchaser, whereas a sale of the trading company's shares generally benefits the vendor.

Pension Tax relief reducing for higher earners

- **Tax relief on pensions is to be reduced to fund the cost of changes to Inheritance Tax.**

As predicted, the Government is to introduce an additional IHT threshold for those who wish to pass on the family home to their heirs, but this will be paid for by restricting tax relief on pension contributions for higher earners.

For every £2 earned over £150,000 an individual's annual allowance will be reduced by £1, so those earning over £210,000 will see their annual allowance reduced to £10,000.

The Government also plans to make access to Pension Wise, its retirement options guidance service, available to those aged 50 and over, from the current age of 55 and following consultation will extend the planned date for the implementation of the secondary annuity market to 2017.

Inheritance Tax - Nil Rate Band

- **Nil Rate Band for a couple effectively increased to £1million (by the end of Parliament)**

As promised, the government has delivered the additional 'Main-Residence Nil Rate Band' ('MRNRB'), of £175,000 however this amount will not be in place until April 2020. It will be phased in from April 2017 starting at £100,000, then rising to £125,000 in 2018, £150,000 in 2019 and finally £175,000 in 2020.

Any unused MRNRB will be transferable to a surviving spouse or civil partner. As with the existing Nil Rate Band, the date of death of the first spouse is irrelevant, therefore any widow or widower who dies on or after 6 April 2017 may be entitled to both the NRB and the MRNRB from their predeceased spouse.

As ever, it will remain crucial to retain records of what happened at the time of the first death.

The property to which the MRNRB will apply has to have been the main residence of the deceased 'at some point'. If there is more than one qualifying property, only one can be relieved but the Executors of the Estate can nominate which one.

This will be in addition to the existing Nil Rate Band of £325,000 which remains frozen until April 2021.

The MRNRB will only be available against a bequest on death of the property to a direct descendant of the deceased (this includes a child, step-child, adopted child or fostered child or grandchild), therefore lifetime gifts will not qualify and it would appear transfers into trust will also not qualify.

Any person who wishes to downsize or cease to own a main residence on or after 8 July 2015, will be able to offset the allowance against assets of an equivalent value passed on death to their children or grandchildren.

Persons with Estates worth over £2million will have the MRNRB tapered away at a rate of £1 for every £2 over the threshold. When considering the £2million threshold, it is the value of the Estate after liabilities but before any exemptions or reliefs that is considered.

This would appear to mean that a famer whose land is worth say £2,350,000 and is all covered by Agricultural Property Relief, would not be entitled to any MRNRB on their property.

Inheritance Tax - Trusts

- **Restricting Inheritance Tax Planning using multiple trusts**

The Inheritance Tax regime for relevant property trusts has been consulted on since Budget 2014. Summer Finance Bill 2015 introduces legislation to tackle the use of multiple trusts which could previously have been added to on the same day and would have had the benefit of multiple Nil Rate Bands. The new rule means that where property is added to more than one existing settlement on the same day, the property will be aggregated and included in calculating the rate of Tax on each ten year anniversary of the Trusts and on any exits from the trusts.

This rule will apply to any such charge that occurs after the date of royal assent on a trust that was created on or after 10 December 2014 (the date of the Autumn statement) and also to Trusts that were created before 10 December 2014 but have had 'same day' additions since that date. There is exclusion for trusts created by Will where the Will was executed before 10 December 2014 and the testator dies before 6 April 2017.

- **Simplifying the calculation of the rate of Inheritance Tax on the ten year anniversary and on an exit from a relevant property Trust**

Summer Finance Bill 2015 introduces legislation to simplify the calculation of the rate of Inheritance Tax on the tenth anniversary of a trust and on an exit from a Trust. The calculation will no longer include 'non- relevant' property. This will apply to all such charges arising on or after the date of royal assent, regardless of when the Trust was created.

Changes to the taxation of dividends

From April 2016 the way in which dividends are to be taxed will be completely reformed.

- **People with modest portfolios will be unaffected and some will actually be better off**
- **Tax efficient remuneration planning for owner managed businesses will be restricted**

New measures will come into play from April 2016 changing the way in which dividends are taxed.

Currently, dividends are paid net of a notional 10% tax credit and no further tax is due from the recipient to the extent that the gross dividend falls within their basic rate of tax (which when combined with the personal allowance is currently £42,385). For owner managed businesses this means that, generally, the shareholders can extract £42,385 from their companies without paying any further tax.

From April 2016 the tax credit will be removed and will be replaced by a new Dividend Allowance of £5,000. Dividends received in excess of this £5,000 allowance will be taxed as follows:

Up to the higher rate threshold (currently £42,385)	7.5%
Up to the additional rate threshold (currently £150,000)	32.5%
In excess of the additional rate threshold	38.1%

For those individuals with relatively modest portfolios they will be no worse off and some may actually be better off.

Owner managed business will certainly feel the impact of these new rules as they will pay more tax on the dividends they take from their companies. That being said, there are still tax savings to be enjoyed from incorporation and as the new rules do not come into place until April next year then, if you are thinking of incorporating your business, it may be worth doing this sooner rather than later.

Indirect Taxes

- **Reform of vehicle excise duty**

Any cars first registered from 1 April 2017 will fall under the new vehicle excise duty (VED) regime.

In the first year of registration the VED will vary according to the CO2 emissions of the vehicle. From the second year onwards a flat standard rate of £140 will apply to all vehicles with emissions over zero. Any zero-emission cars will not be charged VED.

Any cars with a list price of over £40,000 will attract a supplement of £310 on the standard £140 rate.

Any cars registered pre 1 April 2017 will remain in the current VED system, which will remain unchanged.

- **Tax lock on VAT rates**

It has been announced in today's budget that the government will legislate to set a ceiling for the main rates of VAT for the remainder of this parliament - keeping VAT at the standard 20% rate and the reduced rate of 5%.

It will also ensure that the use of the relevant statutory provisions to remove any items from the zero or reduced rate of VAT, will be prevented during this time period.

- **Increase in insurance premium tax rate**

The standard rate of insurance premium tax (IPT) will rise from the current rate of 6% to 9.5% from 1 November 2015.

So, for example if your current car insurance yearly premium is £500 before IPT, then an extra £17.50 of IPT will be payable. This will take the total cost to £547.50, up from the current rate of £530.

For any insurers who use the special accounting scheme, there will be a four month concessionary period where the old 6% rate can be used. This will only apply to policies entered into prior to 1 November 2015. This concession will cease on 29 February 2016 and from 1 March 2016 all premiums received will be taxable at the 9.5% rate.

- **New VAT provisions to counter offshore avoidance**

The government will also introduce VAT provisions to deter insurers from routing their costs via offshore associates. This will be based on the 'use and enjoyment' provisions and will ensure that UK VAT is accounted for on all repairs services performed on UK insurance contracts.

The government are also set to consider a wider review of offshore VAT avoidance with a view to expanding the 'use and enjoyment' rules for other services such as advertising.

Anti-avoidance on employment income

- **This will impact upon people who provide their services to third parties through their own personal service companies**

The Chancellor has announced that the current legislation surrounding the way in which individuals who provide their services through a personal service company, is simply not effective enough. The concern is that two individuals who are effectively doing the same job, could pay completely different levels of tax if one is taxed as an employee whereas the other is providing their services through their own personal company.

The Government have therefore asked HM Revenue & Customs, to consult with businesses as to how they could improve on the effectiveness of the existing legislation.

There is no further detail on this at the moment so it will just be a case of seeing what, if anything, comes out of the proposed talks.

National Living Wage, Increased Personal Allowance and Basic Rate tax band

- **The amount an individual can earn before paying any Tax at all has increased so people earning up to that allowance will drop out of paying Tax and basic rate taxpayers should be better off.**
- **Individuals earning £122,000 or over in 2016/17 and £122,400 or over in 2017/18 will still have their personal allowance reduced to zero so there is no benefit to them from the increase in the personal allowance.**

The Government has an aim to raise the personal allowance to £12,500 and the higher rate threshold to £50,000, by the end of this parliament. They also have an objective to ensure that individuals working 30 hours at the National Minimum Wage will not pay any Income Tax.

In the Summer Budget, today, they announced plans to move towards fulfilling these objectives; a new National Living Wage (NLW) in place of the National Minimum Wage (NMW) was announced to lift the wages of the lowest paid so that by April 2020, all over 25s will be earning at least £9 per hour. This will be phased in from April 2016 with a starting wage of £7.20 per hour for over 25s.

The personal allowance will be increased to £11,000 from April 2016 and to £11,200 from April 2017. The Basic Rate Limit will be increased to £32,000 in April 2016 and to £32,400 in April 2017. As a result of this, an individual will have to earn £43,000 before paying the 40p rate of Tax in 2016/17 and £43,200 in 2017/16. These measures will reduce Income Tax for almost 30 million individuals. Cumulative changes to the personal allowances and high rate thresholds since 2010/11 mean that a typical basic rate Taxpayer will have an overall cash gain of £905 in 2016/17 and of £945 in 2017/18.

There will be one personal allowance per individual, regardless of their date of birth, where as in 2015/16 and earlier years there were two: one for individuals born before 6 April 1938 and for individuals born after.

The National Insurance Contributions limits will remain aligned with the higher rate threshold and will therefore increase.

Further information available on changes to farmers averaging rules

Following the announcement in the previous Budget, HMRC have issued a consultation document on how the new five year averaging might work.

In the March 2015 Budget the Chancellor expressed sympathy for the problems being faced by the farming industry caused by volatility on world markets and announced a consultation on introducing an extension to the current two year averaging.

The consultation document has now been published and offers two options and invites comments by 7th September 2015. There are similarities to the two options in that the profits of all five years will be added together to calculate the averaged profit. This will result in a lot of additional work as the tax bills for all of the previous four years will need to be recalculated.

The main difference between the two options in the consultation document is that under the first one an annual claim will be required, whereas under the second option an irrevocable election is made which will cover five tax years.

Further consideration will be necessary before we reach an opinion and we draft our response to the consultation document.

Foreign Domiciled Persons

- **Tightening up of the tax privileges enjoyed by non UK domiciled persons**

The Government has announced changes affecting individuals who are non – domiciled in the UK for Tax purposes but are resident here for lengthy periods.

They have also made changes affecting those people who have a UK Domicile of Origin (their parents were both UK domiciled when they were born).

The changes that are proposed will be followed by a detailed consultation after the summer recess with a further consultation on the draft legislation. The intention is for the legislation to be included in Finance Bill 2016.

The Tax advantage of having Non – Dom status is that overseas income is not taxed in the UK so long as it is not remitted to the UK.

The government proposes that long-term UK resident Non-Doms should pay UK tax on their world wide income and gains. Furthermore, they propose that those who have a UK domicile of Origin, who then leave the UK and change their Domicile but later return to be UK resident should not be eligible for the remittance basis.

From April 2017 they propose that anyone who has been UK resident for 15 out of the past 20 years will be deemed UK domiciled for All taxes. Furthermore, individuals who had a UK Domicile of Origin, will be deemed UK Domiciled whenever they are UK resident.

The deemed Domicile for those resident here for 15 out of 20 years will only be lost once that person leaves the UK and spends more than five tax years outside the UK.

The deemed domicile status will have no impact on the domicile status of their children.

- **Bringing all UK residential property indirectly held by Non- Domiciled persons into charge for Inheritance Tax purposes.**

The government has set out proposals to include UK residential property within the charge to Inheritance Tax regardless of whether it is held by non-domiciled persons through an offshore vehicle. The government plans to change the rules so that individuals owning UK property through an offshore company, partnership or other vehicle will pay Inheritance Tax on the value of the property in the same was as UK domiciled persons. This will only apply to UK residential property held in this manner. A consultation will be published towards the end of the summer and it is envisaged that legislation will be included in the Finance Bill 2017.

Rent-A-Room Relief

If an individual rents out a room, or rooms, in their only or main residence, they are entitled to a Tax free amount of income from that room. This is currently set at £4,250. The Summer Budget increased this amount to £7,500 per year with effect from 6 April 2016. It also increases the level if an individual rents out rooms in a guest house, Bed & Breakfast or something similar provided that it is their main residence.

The Government's objective is to increase an individual's living standard and to also reduce and simplify the administrative and Tax burden the individual would have if their income from rent-a-room was greater than £4,250.

Restricting Relief on costs of finance for Buy-To-Let landlords

- **It is a way to make the system fairer and have a dampening affect on a residential property market that had caused some concern.**
- **Higher rate taxpayers will no longer benefit from a higher rate tax reduction.**

Under current legislation, landlords are able to deduct the finance costs of their rental property such as mortgage interest, interest on loans to buy furnishings and fees incurred when taking out or repaying mortgages or loans. No relief is available for capital repayments of a mortgage or loan.

From April 2017 Landlords will no longer be able to deduct all of their finance costs from their property income to arrive at their property profits. They will instead receive a basic rate reduction from their income tax liability for their finance costs.

This measure will restrict relief for finance costs on residential properties to the basic rate of income tax so that landlords with higher incomes no longer receive the more generous tax treatment. To give landlords time to adjust the changes will be introduced gradually from 6 April 2017.

Landlords will be able to obtain relief as follows:

- in 2017-18 the deduction from property income (as is currently allowed) will be restricted to 75% of finance costs, with the remaining 25% being available as a basic rate tax reduction.
- in 2018-19, 50% finance costs deduction and 50% given as a basic rate tax reduction.
- in 2019-20, 25% finance costs deduction and 75% given as a basic rate tax reduction.
- from 2020-21 all financing costs incurred by a landlord will be given as a basic rate tax reduction.

Reform of the Wear and Tear Allowance

Currently, landlords can claim an allowance of 10% of net rents to cover the costs of furniture, furnishings and fixtures.

This is being replaced from April 2016 with a new relief that allows all residential landlords to deduct only the actual costs of replacing furnishings.
The government will publish a technical consultation before the summer.

Capital allowances will continue to apply for landlords of furnished holiday lets.