ST. JAMES'S PLACE
WEALTH MANAGEMENT

Summer Budget Briefing Note

8 JULY 2015

Summer Budget 2015

The Chancellor has delivered his Summer Budget statement. The much-publicised introduction of a main residence Inheritance Tax nil-rate band and the anticipated restriction to tax relief on pension contributions for additional rate tax payers have been confirmed.

Pensions

Consultation on radical reforms to pensions tax relief

The government will consult on whether and how to undertake a wider reform of pensions tax relief, which the Chancellor announced could include treating pensions more like ISAs, with payments in made from taxed income and benefits available tax-free.

Reduced annual allowance for high earners

As expected, the Chancellor confirmed a reduction in the annual allowance for high earners by tapering the annual allowance by £1 for every £2 of income over £150,000 to a minimum annual allowance of £10,000, from April 2016. This is summarised in the table.

INCOME	ANNUAL ALLOWANCE
Up to £150,000	£40,000
£160,000	£35,000
£170,000	£30,000
£180,000	£25,000
£190,000	£20,000
£200,000	£15,000
£210,000 or more	£10,000

As the changes will not be implemented until 6 April 2016, there is a significant opportunity for high earners to maximise their pension contributions in the current tax year.

Legislation will also be introduced to align pension input periods with the tax year, as well as transitional rules to protect individuals who might otherwise be affected by the alignment of their pension input periods.

Taxation of lump sums paid from pensions on death

As announced in the Autumn Statement 2014, from 2016/17 the government will reduce the 45% tax rate that applies on lump sums paid from the pension of someone who dies aged 75 and over, to the marginal tax rate of the recipient. The 45% tax rate will continue to apply to lump sum death benefits paid to trusts.

Changes to the Lifetime Allowance

As announced in the March Budget, the government will reduce the Lifetime Allowance for pension contributions from £1.25 million to £1 million from 6 April 2016. The Lifetime Allowance will be indexed annually in line with the Consumer Prices Index (CPI) from 6 April 2018. Transitional protection similar to Fixed Protection and Individual Protection 2014 will be introduced alongside this reduction to ensure the change is not retrospective.

Secondary market for annuities

Following consultation, the government has decided to delay implementation of this measure until 2017, in order to ensure there is a robust package to support consumers in making their decision. It will set out further plans for introducing this measure in the autumn.

Inheritance Tax

As announced in its manifesto, the government confirmed that it will introduce an additional main residence nil-rate band of £100,000 with effect from 6 April 2017, increasing each year to £175,000 from 6 April 2020, and rising in line with CPI thereafter. This is in addition to the existing Inheritance Tax nil-rate band of £325,000, which will remain frozen until April 2021. The additional allowance will taper at a rate of £1 for every £2 for estates with a net value of more than £2 million.

The additional nil-rate band will only apply to transfers on death and will be transferable between married couples and civil partners to the extent that it is not used on first death. The additional nil-rate band will not be available to use in relation to assets other than the family or main home, nor is it available where the home is left to family members other than direct descendants (i.e. children, step children, foster children, and their direct descendants).

The additional nil-rate band will also be available when an individual downsizes or ceases to own a home on or after 8 July 2015 and assets of an equivalent value, up to the value of the additional nil rate band, are passed on death to direct family descendants.

These proposals are subject to further consultation later this year.

Dividend Tax Allowance

The Chancellor announced reforms to the taxation of dividends by replacing dividend tax credits with a dividend tax allowance of £5,000 and introducing new dividend tax rates, with effect from April 2016, of 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers. Those whose receive significant dividend income will pay more tax under the new rules.

Non-domiciled residents

Non-UK domiciled individuals will be subject to new legislation. From April 2017, individuals who are born in the UK to parents who are domiciled here, will no longer be able to claim non-domicile status whilst they are resident in the UK.

In addition, permanent non-domiciled status will be abolished and replaced with a 15-year rule. Individuals who have been UK resident for more than 15 of the past 20 years will be deemed domicile for all tax purposes in the UK. For the avoidance of doubt, this means that they will become subject to UK tax on their worldwide income and gains on an arising basis and subject to UK Inheritance Tax on their worldwide assets. Excluded property trusts will continue to have the same Inheritance Tax treatment as at present, with the exception of UK residential property held within such a trust as outlined below. On departure from the UK, the deemed domicile status will be retained for five years.

It was also announced that UK residential property that is held by a non-domiciled individual will be assessed for UK Inheritance Tax on death, regardless of how that property is held. This means that properties held within trusts, corporate entities or other opaque structures will be subject to UK Inheritance Tax.

Further consultation has been announced and will be published towards the end of the summer. The resulting legislation will be effective from 6 April 2017.

Other key announcements

Buy-to-let

The government will restrict to the basic rate of tax the relief on buy-to-let financing costs available to individual landlords. The restriction will be phased in over four years, starting from April 2017.

ISA allowances

In the March Budget, the government announced that it will change the ISA rules this autumn to allow individuals to withdraw and replace money in their Cash ISA in the same tax year without the reinvestment counting towards their annual ISA allowance. This policy will also cover cash held in Stocks & Shares ISAs and will commence from 6 April 2016.

Increase in Insurance Premium Tax

The Chancellor announced an increase in Insurance Premium Tax from the current 6% to a new rate of 9.5%, which will drive up the cost of insurance from 1 November 2015. The increase will affect both individuals and companies. Where certain benefits are offered by employers, employees may incur an increase in the P11D value of their benefits.

There will be a four-month concessionary period during which premiums received that relate to policies entered into before 1 November 2015 will continue to be liable to Insurance Premium Tax at 6%. From 1 March 2016, all premiums received by insurers will be taxed at the new rate of 9.5%, regardless of when the policy commenced.

Allowances and rates

The Income Tax personal allowance will increase to £11,000 from April 2016 and the government committed to future increases to meet its manifesto pledge of attaining a personal allowance of £12,500. Subsequent increases will be linked to increases in the National Minimum Wage.

The threshold for higher rate tax will increase to £43,000 from April 2016, with a further manifesto pledge to raise this to £50,000.

Corporation Tax

The Chancellor announced a reduction in the rate of corporation tax to 19% from 1 April 2017, reducing to 18% by 2020.

VCTs and EISs

The government confirmed its previous announcement that companies investing in certain types of projects will no longer qualify for relief under VCTs and EISs. VCTs and EISs investing in community energy projects, anaerobic digestion and hydro remain eligible, with the government confirming it will review the list of qualifying activities as and when required. There were also changes to the amounts that a company can raise and some technical restrictions. However, there were no changes to the overall rates of reliefs available for individual investors.

Tax avoidance

The government confirmed its ongoing commitment to tackling tax avoidance and aggressive tax planning schemes.

Planning

Overall, the Summer Budget emphasises the need for careful consideration of how to structure your assets in a tax-efficient manner, and the importance of ensuring you maximise the opportunities available.

More information

Should you wish to discuss any of the detail contained in the note, please do not hesitate to contact my office.

The value of an investment with St. James's Place may fall as well as rise. You may get back less than the amount invested.

The levels and bases of taxation, and reliefs from taxation, can change at any time and are dependent on individual circumstances.