2015 Summer Budget

George Osborne delivered his seventh Budget speech this week and it was not without a few surprises.

The underlying objective of balancing the Nation's books remains but the promised cost savings do not seem as immediately severe as expected and the measures he has introduced are designed to incentivise individuals and businesses.

Some of the measures were unforeseen will affect us all, especially the introduction of a new National Living Wage for the over 25's of £7.20 per hour from April 2016; a new lower rate of tax on dividends: restrictions in "buy to let" mortgage interest tax relief: reductions in Corporation Tax to compensate employers for possible higher wage bills; and far reaching reductions in many state benefits - including Child Tax Credits.

As always, the devil is in the detail and small print – and the full impact of the proposals will become more apparent over the next couple of months.

We will contact clients to discuss any action that may be required between now and the end of the fiscal year but in the meantime our summary of these and other tax changes and fiscal incentives is as follows:

Personal Tax and miscellaneous matters

The Tax Lock

The Government are to legislate to set a ceiling for increases to various taxes. This will ensure that they cannot rise above their 2015-16 levels for the duration of the current parliament. The taxes affected are:

- The main rates of Income Tax.
- The standard and reduced rates of VAT.
- Employer and employee Class 1 National Insurance Contribution (NIC) rates.

The NICs Upper Earnings Limit cannot rise above the Income Tax higher rate threshold and it will not be possible to remove any items from the zero or reduced rate of VAT.

Personal Tax allowance

The personal allowance will be increased to £11,000 from April 2016, with the promise of further yearly increases to meet the Government's target of £12,500 by the end of the current parliament. The rates for the current and next two tax years are:

- £10,600 for 2015-16
- £11,000 for 2016-17
- £11,200 for 2017-18

Income Tax rate bands

There was significant press commentary prior to the Budget predicting an increase in the threshold at which tax payers are liable to the 40% Income Tax rate. During the term of the current parliament it was promised this would rise to £50,000. As a first step the higher rate threshold will be increased to £43,000 from April 2016. For the current and following two tax years the thresholds are:

- £42,385 in 2015-16
- £43,000 in 2016-17
- £43,600 in 2017-18

If your income before personal allowances exceeds this amount you will be paying 40% Income Tax on the excess (this assumes that you are only entitled to the basic personal allowance).

The threshold at which the 45% rate starts is unchanged at £150,000.

There were no changes to the basic Income Tax rate (20%), the higher rate (40%) and the additional rate (45%).

Dividend tax credit to be abolished

From April 2016 Income Tax payers will no longer be able to claim a deduction for tax credits associated with the receipt of dividends. Currently, basic rate tax payers effectively pay no tax on dividend income.

In its place, a new Dividend Tax Allowance of £5,000 is to be introduced. If your dividend income is below this allowance you will pay no Income Tax. Dividends received in excess of £5,000 will be taxed as follows:

- 7.5% if you are a standard rate (20%) tax payer
- 32.5% if you are a higher rate (40%) tax payer
- 38.1% if you are an additional rate (45%) tax payer

General consensus has it that HMRC are attempting to recover some of the National Insurance saved by smaller businesses trading as a company.

Abolition of non-domicile status

The Government is to legislate such that, from April 2017, any person who has been resident in the UK for more than 15 of the previous 20 years will be deemed to be domiciled in the UK for tax purposes.

Additionally, from April 2017, individuals who are born in the UK, to UK domiciled parents, will no longer be able to claim non-domiciled status whilst they are resident in the UK.

IHT - Main Residence Nil-rate Band (MRNB)

Currently, IHT sits at 40% above a threshold of £325,000 for an individual and £650,000 for couples. From April 2017, a family homes allowance announced by the Chancellor will raise the threshold from £325,000 to £500,000 for an individual and up to £1m for couples.

A new nil-rate band for IHT purposes is to be introduced. It will be available when a residence is left on death to direct descendants. The amount of the MRNB will be:

- £100,000 in 2017-18
- £125,000 in 2018-19
- £150,000 in 2019-20
- £175,000 in 2020-21

Any unused MRNB can be transferred to a surviving spouse or civil partner. The allowance will still be available if the tax payer downsizes or ceases to own a home on or after 8 July 2015 and assets of an equivalent amount, up to the amount of the available MRNB, are passed on death to a direct descendant.

From April 2017, estates with a net value of more than £2m will be subject to a reduction of £1 in the available MRNB for every £2 the net estate exceeds £2m.

The basic nil-rate band of £325,000 will remain frozen at this level until April 2021.

Tax credits

As expected, George Osborne has made cuts to Tax Credits as part of his plan to reduce public expenditure. The following are the main changes:

- From April 2016, the income threshold that applies to Tax Credits will be reduced from £6,420 to £3,850.
- From April 2016, once a claimant earns above the income threshold, their Tax Credits award will be reduced by 48p for every additional £1 they earn. Presently, the taper rate is 41p for each additional £1 of income.
- The child element in Tax Credits and Universal Credits claims will be restricted to the first two children. There will no longer be awards for third or subsequent children born after 6 April 2017. There will be exceptions for multiple births, disabled children and other exceptional circumstances.
- The in-year income disregard (the amount by which a claimants income can increase in one year as compared to the previous year without affecting eligibility) is to be reduced from April 2016, from £5,000 to £2,500.

Insurance Premium Tax (IPT) hike

From 1 November 2015 IPT is to be increased from 6% to 9.5%

Business Tax

Corporation Tax rate

The main rate of Corporation Tax is to be reduced from the current 20% to:

- 19% from 1 April 2017, and
- 18% from 1 April 2020.

These reductions are intended to maintain the UK's competitive tax position and to compensate employers for the possible increases in their wages costs when the new National Living Wage for the over 25s is introduced from April 2016.

The National Living Wage arrives

It has fallen to a Conservative Government to make the important shift towards the implementation of a National Living Wage (NLW).

The long term goal is to set a rate of £9 per hour by 2020. As a first step, from April 2016, the NLW rate for over 25s will be £7.20.

National Insurance Employment Allowance (EA)

The Government is to increase the EA from April 2016. The allowance is as follows:

- £2,000 for 2015-16
- £3,000 for 2016-17

This means that most employers will not pay the first £3,000 of employers NIC from April 2016.

Annual Investment Allowance (AIA)

The current AIA limit is £500,000. This allows businesses to write off up to this amount in qualifying asset purchases (commercial vehicles, plant and machinery and computers etc.) against their taxable profits.

This is a temporary increase and from 1 January 2016 the maximum was set to revert to the previous permanent level of £25,000. It is now intended to increase this permanent limit to £200,000 from 1 January 2016.

This is a welcome announcement as businesses contemplating investment in qualifying plant and machinery of up to £200,000 will now have more time to make a buying decision, past the end of this year, and not lose a tax advantage.

Tax relief on acquisition of goodwill to be restricted

Acquisitions of goodwill after 8 July 2015 will be subject to restrictions for Corporation Tax relief purposes.

Savers and investors (including property investors)

Basic rate restriction for landlord finance costs

Landlords of residential properties will have tax relief on finance charges, such as mortgage interest, restricted to the present 20% basic rate of tax. This will be phased in over four years from April 2017.

Wear and Tear Allowance (WTA)

The WTA presently compensates residential landlords by allowing them to deduct 10% of their gross rents received (adjusted for some direct charges) before tax due is computed. The allowance is intended to cover replacements of furnishing made from time to time.

From April 2016, this WTA will no longer be available. In its place the actual replacement cost will be deductible.

Capital allowances will continue to apply for owners of furnished holiday let properties.

Rent-a-room relief increase

From April 2016 the present rent-a-room relief of £4,250 is to be increased to £7,500.

Pensions Lifetime Allowance to be reduced

This allowance is to be reduced from £1.25m to £1m from 6 April 2016.

Transitional arrangements will be in place to protect funds in excess of £1m, ensuring that the change will not be retrospective.

From 6 April 2018 the Lifetime Allowance will be indexed annually in line with the Consumer Price Index.

Pension's annual allowance reduced for high income earners

The present £40,000 Annual Allowance for pension contributions is to be reduced for high income earners from April 2016.

Those with income in excess of £150,000 will see their allowance tapered down to a minimum of £10,000.

Sundry items

New Vehicle Excise Duty

(VED) bands are to be introduced, with revenues eventually going towards a new Roads Fund, the chancellor has announced.

For cars registered after 1 April 2017, VED will be transformed into three bands - zero, standard and premium. The "standard" charge of £140 will cover 95% of all cars and this is less than the £166 currently paid. Revenues will be paid into the Roads Fund from 2020-21.

Fuel duty will remain frozen this year.

However, the new rates will not apply in the first year after registration. There will be special first year rates linked to a car's carbon emissions and this will be as much as £2,000 for the highest CO2 figures.

Alcohol and tobacco duties were not mentioned in the statement.