FINANCIAL GUIDE

GUIDE TO THE

EMERGENCY BUDGET 2015

THE KEY ANNOUNCEMENTS THAT COULD INFLUENCE YOUR FINANCIAL PLANNING DECISIONS IN THE YEAR AHEAD AND BEYOND

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Welcome

In our guide to the key announcements from the Chancellor George Osborne's July Budget 2015, the message is very clear: this Chancellor is set on a major reform programme this Parliament.

We saw reforms to Inheritance Tax, a new National Living Wage, new tax on dividends, and a pension's tax relief restriction for high earners. We even saw changes to some forgotten taxes like Vehicle Excise Duty and Insurance Premium Tax.

In addition, the Chancellor is allocating additional funds to HM Revenue & Customs (HMRC) to tackle tax avoidance and compliance. This includes the introduction of a 'special measures' regime to tackle businesses that persistently adopt highly aggressive behaviours around tax planning.

One thing is clear – the tax lock has not stopped the Chancellor from increasing the overall tax burden. Over the six years, the tax changes alone raise an additional £29bn, more than the total amount raised in one year from either business rates or council tax. But even this pales compared to the cuts in spending, which amount to almost £46bn, giving a grand total of almost £75bn.

The Chancellor has also promised a plethora of consultation documents, some of which were provided and others that will appear over the summer, including the potential reform of pensions to be taxed like Individual Savings Accounts (ISAs).

All in all, the Chancellor delivered a surprising array of policies and reforms. Taxes have clearly risen but the impact is hard to see at first. However, that impact is something many individuals and businesses are likely to feel over the rest of this Parliament's lifetime. ■

ARE YOUR FINANCIAL PLANS STILL ON TRACK AFTER THE JULY BUDGET 2015?

There are likely to have been a number of key announcements in this Budget that could have a bearing on your current and future financial plans. To review what action you may require to take to keep your plans on track, please contact us.

Contents

Budget 2015

20 key announcements that could impact on your financial plans, both positively and negatively

1. 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. THE GOVERNMENT WILL RUN A SURPLUS IN 2019/20

The deficit is to 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 five years. This means a surplus (where more tax is raised than is spent) should be achieved in 2019/20, and debt falling annually.

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.

3. TAX-FREE PERSONAL ALLOWANCE TO 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.

The Government aims 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 won't pay Income Tax at all.

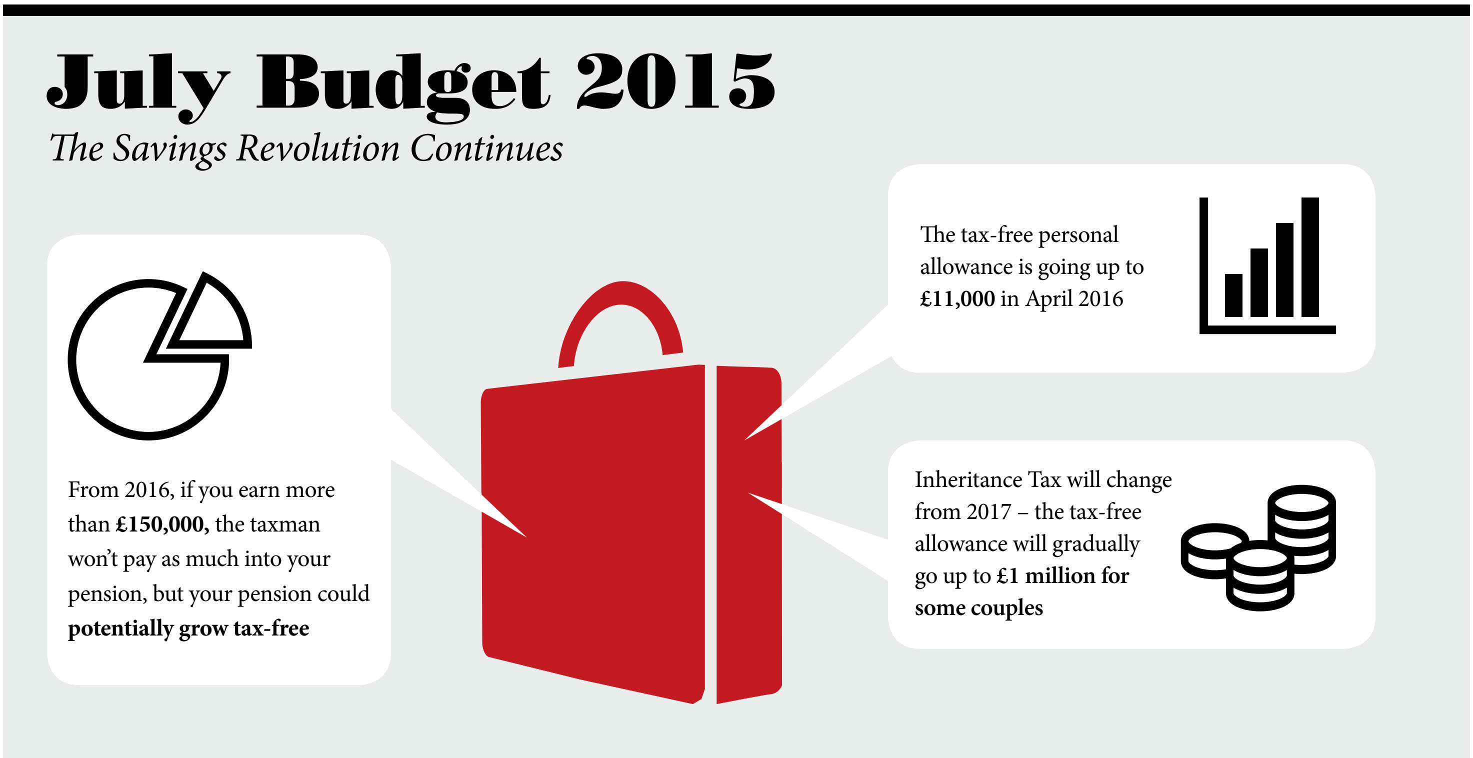
4. REFORMING THE WELFARE SYSTEM TO MAKE IT MORE AFFORDABLE

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 four 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 two 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 six months after the start of their claim

Continued on page 04 >>



- Rents for social housing will be reduced by 1% a year for four 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

5. TAKING THE FAMILY HOME OUT OF INHERITANCE TAX

Currently, Inheritance Tax (IHT) is charged at 40% on estates over the tax-free allowance of £325,000 per person. Married couples and registered civil partners can pass any unused allowance on to one another.

From 6 April 2017, each individual will be offered a new main residence transferable nil-rate band 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 IHT threshold, meaning the total tax-free allowance for a surviving spouse or registered civil partner will be up to £1 million in 2020/21.

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

6. THE AMOUNT PEOPLE WITH AN INCOME OF MORE THAN £150,000 CAN PAY TAX-FREE INTO A PENSION WILL BE REDUCED

Most people can contribute up to £40,000 a year to their pension tax-free. From 6 April 2016, this amount will be reduced for individuals with incomes of over £150,000, including pension contributions.

7. 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.

8. REFORMING DIVIDEND TAX

The dividend tax credit (which reduces the amount of tax paid on income from shares) will be replaced by a new £5,000 tax-free dividend allowance for all taxpayers from 6 April 2016. Tax rates on dividend income will be increased.

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.

9. 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.

Next year, businesses will be able to employ four people full time on the National Living Wage and pay no National Insurance at all.

10. 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%.

11. RESTRICTING TAX RELIEF FOR SOME 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. Individual landlords that receive tax relief at 40% and 45% will see their tax relief restricted to 20% from 6 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 receive tax relief when they replace furnishings.

12. 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 6 April 2017. From that date, anyone who's been resident in the UK for 15 of the past 20 years will be considered UK-domiciled for tax purposes.

13. 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

14. 30 HOURS OF FREE CHILDCARE FOR THREE AND FOUR-YEAR-OLDS

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

15. 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.

16. 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 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 three years to four years.

17. PUBLIC SECTOR PAY WILL INCREASE BY 1%

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

18. 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%. It will now fall further, from 20% to 19% in 2017, and then to 18% in 2020.

19. 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.

20. 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
- 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

Budget 2015

At a glance

ECONOMY

- Economy grew by 3% in 2014
- 2.4% growth forecast in 2015, 0.1% lower than predicted in March, followed by 2.3%, 2.4% and 2.4% in the following years
- One million extra jobs predicted to be created by 2020

PUBLIC BORROWING/DEFICIT/ SPENDING

- Deficit to be cut at same pace as during last Parliament – reaching a budget surplus a year later than planned in 2019/20
- Borrowing set to fall from £69.5bn this year to £43.1bn, £24.3bn and £6.4bn before reaching a £10bn surplus in 2019/20
- Debt as a share of GDP to fall from 80.3% this year to 79.1%, 77.2%, 74.7%, 71.5% and 68.5% in successive years
- 1% public sector pay rise to continue for next four years
- £37bn of further spending cuts by 2020, including £12bn of welfare cuts, £5bn from tax avoidance and a £20bn reduction in departmental budgets

PERSONAL TAXATION AND PAY

- New national living wage to be introduced for all workers aged over 25, starting at £7.20 an hour from 6 April 2016 and set to reach £9 by 2020
- Low Pay Commission to advise on future changes to rates
- Inheritance Tax threshold changes to be phased in from 2017, underpinned by a new family home allowance
- Personal allowance, at which people start paying tax, to rise to £11,000 next year. The Government says the personal allowance will rise to £12,500 by 2020, so that people working 30 hours a week on the minimum wage do not pay Income Tax
- The point at which people start paying Income Tax at the 40% rate to rise from £42,385 to £43,000 next April
- Mortgage interest relief for buy-to-let homebuyers to be restricted to the 20% basic rate of Income Tax

WELFARE AND PENSIONS

- Tax credits and Universal Credit to be restricted to two children, affecting those born after April 2017
- Income threshold for tax credits to be reduced from £6,420 to £3,850
- Working-age benefits to be frozen for four years – including tax credits and local housing allowance, but maternity pay and disability benefits exempted
- Rents in social housing sector will be reduced by 1% a year for the next four years
- Subsidies for social housing will be phased out with local authority and housing association tenants in England who earn more than £30,000 – or £40,000 in London – having to pay up to the market rent
- Disability benefits will not be taxed or means-tested while State Pension triple lock to be protected
- 18 to 21-year-olds will not be entitled to claim housing benefit automatically, with a new 'earn to learn' obligation
- Employment and Support Allowance payments for new claimants who are deemed able to prepare for work to be 'aligned' with Jobseeker's Allowance
- Green Paper published on proposals for 'a radical change' to pension saving system

- Amount people can contribute to their pension tax-free to be reduced for individuals with annual incomes over £150,000
- Cost of funding free TV licences for the over-75s transferred from the Government to the BBC between 2018 and 2021
- Annual household benefit cap will be reduced to £23,000 in London and to £20,000 in the rest of Britain

HEALTH AND EDUCATION

- NHS will receive a further £8bn by 2020, in addition to the £2bn already announced
- Student maintenance grants to be replaced with loans from 2016/17, to be paid back once people earn more than £21,000 a year
- Maintenance loan to increase to £8,200

DEFENCE

- Government to spend 2% of GDP on defence every year
- Spending on defence to rise in real terms – 0.5% above inflation – every year during this Parliament
- New £1.5bn Joint Security Fund for investment in military and intelligence agencies
- Recipients of the Victoria Cross and George Cross will see annual pension annuities rise from £2,129 to £10,000, paid for by bank fines

MISC

- Rent-a-room relief scheme to rise to £7,500
- No rise in fuel duty this year, with rates continuing to be frozen
- Major reform to vehicle excise duties to pay for a new road-building and maintenance fund in England
- New VED bands for brand new cars to be introduced from 2017, pegged to emissions for the first year. Majority of car owners should pay a flat fee of £140 a year
- Alcohol and tobacco duties not mentioned in statement

BUSINESS

- Corporation tax to be cut to 19% in 2017 and 18% in 2020
- Permanent non-dom status to be abolished – from April 2017, anyone who has lived in the UK for 15 of the past 20 years will pay same level of tax as other UK citizens, raising an estimated £1.5bn
- £7.2bn to be raised from clampdown on tax avoidance and tax evasion with HMRC budget increased by £750m
- Bank levy rate to be gradually reduced over the next six years and a new 8% surcharge on bank profits introduced from 2016
- Cap on charges imposed by claims management companies and an increase in insurance premium tax to 9.5% from November
- New apprenticeship levy for large employers
- Climate Change Levy exemption for renewable electricity to be removed
- National Insurance employment allowance for small firms to be increased by 50% to £3,000 from 2016
- Dividend tax credit to be replaced with a new tax-free allowance of £5,000 on dividend income. Rates of dividend tax to be set at 7.5%, 32.5% and 38.1%.
- Annual investment allowance will be fixed permanently at £200,000 from January 2016

Personal allowance

Linking future increases

For 2016/17, the personal allowance will increase by a further £200 over previously announced levels to £11,000. The personal allowance will then increase to £11,200 in 2017/18.

The basic-rate limit for 2016/17 will be increased to £32,000, and to £32,400 for 2017/18. These combined changes will increase the higher-rate threshold above which individuals pay Income Tax at 40% to £43,000 for 2016/17 and £43,600 for 2017/18.

The Chancellor, George Osborne, reiterated that the changes are part of a goal to increase the personal allowance to £12,500 and to increase the higher-rate threshold to £50,000 by the end of the decade.

The Government has confirmed a Conservative manifesto commitment of linking future increases in the personal allowance, once it has reached £12,500, to increases in the national minimum wage. In future, the personal allowance will always exceed the amount which an individual on the national minimum wage could earn in 30 hours a week.

The previously announced personal savings allowance will also be introduced from 6 April 2016. ■

Inheritance tax

New main residence transferable nil-rate band

From April 2017, the Chancellor, George Osborne, announced there will be a new main residence transferable nil-rate band that will apply when a main residence is passed on to a direct descendant.

A property which was never a residence of the deceased such as a buy-to-let property would not qualify.

The allowance will initially be set at £100,000 in 2017/18, increasing to £125,000 in 2018/19, £150,000 in 2019/20 and up to £175,000 in 2020/21.

EXISTING INHERITANCE TAX

This new main residence transferable nil-rate band will work alongside the existing Inheritance Tax (IHT) nil-rate band which is currently £325,000. In the same way as with the current nil-rate band, any unused main residence transferable nil-rate band will be transferred to a surviving spouse or registered civil partner.

NIL-RATE BAND

It is possible therefore that by 2020/21, an individual will have their own nil-rate band of £325,000 as well as a main residence transferable nil-rate band of £175,000 in respect of their main residence, plus a nil-rate band of £325,000 inherited from their spouse and a main residence transferable nil-rate band of £175,000 inherited from their spouse. This gives the much advertised total of £1 million. It is worth noting that the current nil-rate band of £325,000 is now set to remain until 2020/21.

DOWNSIZING PROPOSALS

There are measures in place to make sure the new proposals do not discourage individuals from downsizing. These measures will only apply to someone who ceases to own their main residence on or after 8 July 2015. The example given in the Treasury policy paper is that if someone downsized from a house worth £200,000 to a home worth £100,000, they could still benefit from the maximum allowance of £175,000 in 2020/21 if they leave the home and £75,000 of other assets to direct descendants.

£2 MILLION ESTATES

It was also announced in this Budget that there would be a tapered withdrawal of the main residence transferable nil-rate band for estates worth more than £2 million.

HOW THE PROPOSED CHANGES COULD AFFECT YOU

Few taxes are quite as emotive – or as politicised – as IHT. The structures into which you transfer your assets can have lasting consequences for you and your family. The current rate of IHT payable is 40% on property, money and possessions above the nil-rate band. The rate may be reduced to 36% if 10% or more of the estate is left to charity. ■

Pensions tax relief

Reduction for earners of more than £150,000

A gradual reduction in tax-free limit on pension contributions from the current £40,000 a year to £10,000 for high earners was announced by the Chancellor, George Osborne.

High earners could see their retirement pots reduced by hundreds of thousands of pounds over a lifetime after he confirmed that pensions tax relief will be reduced for those earning more than £150,000.

The Government has pressed ahead with plans to progressively reduce the annual amount those earning over £150,000 can contribute tax-free to a pension each year.

TAPERED ANNUAL ALLOWANCE

With effect from 6 April 2016, the Annual Allowance of £40,000 will be reduced by £1 for every £2 of income over £150,000 per annum, up to a maximum reduction of £30,000. This means individuals with 'adjusted income' in excess of £210,000 will only have an Annual Allowance of £10,000.

The income definition of 'adjusted income' will include any employer pension contributions. This means that the tapered allowance cannot be manipulated by reducing income via salary sacrifice.

Whilst the annual contributions will be capped at this low level in future, there may still be an opportunity for individuals caught by this change to maximise contributions with the use of two particular measures.

CARRY FORWARD ALLOWANCES

All individuals are able to carry forward any amount of their Annual Allowance that remains unused for up to three full tax years. Whilst their levels of carry forward accrual will be significantly limited in the future, high earners who currently have carry forward relief should consider using it before it expires.

ANNUAL ALLOWANCES FOR THE PREVIOUS THREE TAX YEARS:

2012/2013	£50,000
2013/2014	£50,000
2014/2015	£40,000

Anyone who has not fully maximised their pension contributions across these back years could make use of accrued carry forward and receive additional-rate relief before the end of the current 2015/16 tax year. If the carry forward allowance for the above tax years is not used, it will start reducing as each year falls off and will be lost completely by 6 April 2019.

PENSION INPUT PERIODS

A further change which will considerably simplify the Annual Allowance is the alignment of Pension Input Periods (PIP) to the tax year. A PIP is the period over which an individual's pension savings are tested against the Annual Allowance. It has previously not always been aligned to the tax year, but all existing PIPs open on 8 July 2015 automatically ended on this date. A new PIP then opened on 9 July and will run to 5 April 2016. Future PIPs will then be aligned with tax years.

For those who have made contributions in the PIP ending 8 July 2015, the Annual Allowance for 2015/16 could be as much as £80,000. The £80,000 allowance is split between contributions paid in the two PIPs. Any allowance not used up to 8 July 2015 could be carried forward to the post–8 July PIP, but up to a maximum of £40,000.

This provides a one-off opportunity to those who have paid contributions in the pre–8 July 2015 PIP and have sufficient earnings to use against an additional contribution in the current tax year.

AMOUNT OF CONTRIBUTION WHICH COULD BE PAID BASED UPON DIFFERENT LEVELS OF CONTRIBUTION PAID BEFORE JULY 2015:

Contributions paid to 8 July 2015	Annual Allowance 9 July 2015 to 5 April 2016
£0	£40,000
£20,000	£40,000
£40,000	£40,000
£60,000	£20,000
£80,000	£0

Coming in a year that has witnessed the biggest shake-up to pensions in more than a century, the Chancellor also indicated he might be willing to go further with reforms to retirement savings.

He said the recent pension freedoms had helped those who had 'worked hard and saved hard all their lives', but that now it was time to look at those starting to save.

'For the truth is Britain isn't saving enough and that's something we need to fix in our economy, too,' he said. ■

Vehicle Excise Duty

Road tax reform for new cars

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.

George Osborne said the 'standard' charge of £140 would cover 95% of all cars. Revenues will be paid into the Roads Fund from the tax year 2020/21.

The Chancellor also said that fuel duty would remain frozen this year.

Mr Osborne said: 'There will be no change to VED for existing cars – no one will pay more in tax than they do today for the car they already own.'

He added that the £140 rate was less than the average £166 that motorists pay at present.

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. ■

New tax on dividends

Reform to simplify complex and archaic system

Basic-rate taxpayers will pay a new tax on dividends, and those in higher tax brackets will pay more, the Chancellor announced in the Budget. Investors who receive more than £5,000 from company dividends held outside tax-efficient plans such as Individual Savings Accounts (ISAs) will pay more tax from 6 April 2016.

EXEMPT DIVIDEND INCOME

Currently, dividends paid to basic-rate taxpayers are regarded as taxed already within the corporate tax system, so there is no further tax to pay. Under the new rules, only the first £5,000 a year of dividend income will remain exempt.

For dividend income above this allowance, basic-rate taxpayers will pay 7.5%, while higher-rate taxpayers will pay 32.5% tax, and those who pay the additional rate of 45% will pay 38.1% tax.

OVER A MILLION INVESTORS

Those with smaller shareholdings – around 85% or over a million investors – will see their dividend taxes cut as a result of the reform, Mr Osborne claims.

'The dividend tax system was designed partly to offset double taxation on profits. But the system has not changed despite sharp reductions in corporation tax. Lower rates are creating rapidly growing opportunities for tax planning.

'We have inherited a very complex and archaic system. So I am undertaking a major and long overdue reform to simplify the taxation of dividends,' said Mr Osborne.

According to the Chancellor, the new dividend allowance, in conjunction with the Personal Savings Allowance announced in the spring Budget, means savers will now be able to receive up to £17,000 in income a year tax-free. ■

COMPARISON OF THE CURRENT RATES WITH THE NEW RATES ANNOUNCED:

20% taxpayers	40% taxpayers	45% taxpayers
Effective dividend tax rate now 0%	25%	30.56%

RATE AFTER 6 APRIL 2016 (AFTER £5,000 EXEMPT ALLOWANCE)

20% taxpayers	40% taxpayers	45% taxpayers
7.5%	32.5%	38.1%

Source: HM Treasury

New domicile rules

Significant structural changes introduced from 6 April 2017

Permanent non-dom tax status will be abolished from 6 April 2017. The reform does not eliminate the tax status, but individuals who have lived in the UK for 15 of the past 20 years will lose the right to claim it.

THE PROPOSED MEASURES

- People who have been resident for more than 15 out of the past 20 years will be deemed domicile for all tax purposes, so no remittance basis will be available. Those who came to the UK in 2002 or earlier will be affected. No grandfathering of the old rules is proposed
- The £90,000 remittance basis charge for those who have been resident for 17 out of 20 years will no longer apply, as those individuals will be taxable on the arising basis
- Deemed domicile status can only be lost after an absence of at least five tax years (compared to the current four)
- Individuals who return to the UK after living abroad, but were born with a UK domicile, will not be able to use the remittance basis even if they have acquired a domicile in another country
- Non-doms who have set up Excluded Property Trusts (EPTs) prior to becoming deemed domiciled under the new 15-year rule will not pay tax on income and gains within the trust and will retain their beneficial Inheritance Tax (IHT) treatment, except for UK residential property
- IHT will be due on UK residential property held in any offshore structure

BIGGEST CHANGE

The biggest change is for those who have a UK domicile of origin (for example, born here of British parents). The remittance basis (ability to only pay UK taxes when bringing overseas funds here rather than on a worldwide basis) will no longer be available for such people on their return to the UK. The IHT advantages of non-dom status will only be available in limited circumstances after at least 15 years of non-residence and assuming that a legitimate domicile of choice is acquired in another country.

ORIGIN OUTSIDE UK

For those who have a domicile of origin outside the UK and are here only for a limited time, the remittance basis remains available, and there are still considerable advantages to be had with careful planning. Once a stay in the UK extends beyond 15 years, it will be more important to take stock of their global financial affairs and consider how they can be arranged, as at that point the remittance basis ceases to be available and worldwide income and gains will be taxable.

BEST WAY FORWARD

Individuals who have been resident for more than 15 years in the UK have some 18 months to consider the best way forward. For many people, the £90,000 charge was already a step too far; the remittance basis was not practical and its abolition may not be missed. The Income Tax and Capital Gains Tax points may therefore have a limited impact, although double tax relief points should not be overlooked.

Of perhaps greater significance for this group are the IHT changes. There are a small number of people who will have been here for 15 years as of 5 April 2017, and so their deemed domicile status will be accelerated.

An Excluded Property Trust (EPT) will remain valuable for IHT protection on overseas assets, but from now on, if there are any withdrawals from the trust after the 15-year date, these will be taxed in full, regardless of where in the world the distribution is made. For property staying in the trust, the IHT protection previously afforded by holding UK property through an offshore company is now removed. So from this point, every trust holding UK residential property – even indirectly – can face IHT costs in the same way as UK trusts.

As the Annual Tax on Enveloped Dwellings (ATED) remains, there may be little purpose in using a company in an offshore family trust – at least as far as real property is concerned.

A similar transparency will apply on the death of the owner or shareholder of a partnership or company holding UK residential property, regardless of whether the property is let or self-occupied and regardless of its value.

The combination of these rules will mean that the focus of IHT planning will change. ■

Buy-to-let

Tax relief to be cut

The Chancellor, George Osborne, announced cuts in the amount of tax relief buy-to-let landlords can claim on mortgage interest payments. The amount that landlords will be able to claim will be set at the basic rate of tax (which is currently 20%) by 2020 and introduced gradually from 6 April 2017.

In addition, the 10% wear and tear allowance will be abolished for furnished properties, and landlords will be entitled to deduct the actual cost of replacing furnishings instead.

Currently, property investors can claim tax relief on their monthly interest repayments at the top level of tax they pay. The move is aimed at creating a 'level playing field' between homeowners and investors, Mr Osborne said.

FURNISHED HOLIDAY LETS

Mortgage interest in relation to furnished holiday lets will continue to be deducted in full and not limited to basic-rate relief.

RENT-A-ROOM RELIEF

A rise was also announced in the rent-a-room allowance, which allows individuals to let rooms in their main home to lodgers tax-free up to a prescribed limit. The threshold is being increased from £4,250 to £7,500 per annum. ■

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Venture Capital schemes

Refinements to the rules to be included in summer Finance Bill 2015

Further refinements to the rules for venture capital schemes to be included in the summer Finance Bill 2015 and to take effect from Royal Assent were announced. These will be subject to State Aid approval.

The new legislation will introduce the following measures:

- All investments must be made with the intention to grow and develop a business
- Investors will be required to be 'independent' from the company at the time of the first share issue
- New qualifying criteria limiting relief will apply for 'knowledge-intensive' companies within 10 years of their first commercial sale, and for other qualifying companies within seven years of their first commercial sale
- A cap for total investments into knowledge-intensive companies will be introduced at £20m as previously announced, whilst the cap for other qualifying companies will be introduced at a lower limit of £12m
- An increase to the employee limit for knowledge-intensive companies to 499 employees, as previously announced
- New rules to prevent Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) funds being used to acquire existing businesses
- As previously announced in Budget 2015, the requirement that 70% of the funds raised under SEIS must have been spent before EIS and VCT funding can be raised will be removed for qualifying investments made on or after 6 April 2015

The Government has also stated that it will continue to monitor the use of Venture Capital schemes for investments in community energy organisations benefiting from subsidies for the generation of renewable energy.

This follows restrictions introduced in Finance Act 2015 excluding some such companies from Venture Capital schemes from 6 April 2015. ■

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