BRIEFING NOTE

July 2015

ROOKS RIDER SOLICITORS

UK Summer Budget 2015
Key Changes Onshore

The most significant onshore changes in the Budget are set out below. Key changes from an offshore perspective are set out in a separate Briefing Note.

1. Inheritance Tax (IHT)

- The nil rate band of £325,000 will remain frozen until April 2021, but a new "family home band" will be introduced from April 2017 so that married couples or civil partners can pass a family home valued at up to £1 million to their children, without a charge to IHT.

- The additional inheritance tax nil-rate band for family homes will be phased in starting at £100,000 in 2017 to 2018, £125,000 in 2018 to 2019, £150,000 in 2019 to 2020, and £175,000 in 2020 to 2021. It will apply only where the main residence, or the proceeds from its disposal, are passed to direct descendants. It is tapered for estates worth over £2 million, which will mean a marginal inheritance tax rate of 60 per cent on certain estates.

2. Income Tax

A reduction in the 45% rate of income tax was always going to be too much for top rate taxpayers to hope for, particularly from this Chancellor. Instead the focus was on raising thresholds and taking those at the bottom end of the earned income spectrum out of tax, with increases in the personal allowance and basic rate limit and higher rate threshold.

3. Corporation Tax

The main rate of Corporation Tax will be reduced from 20% to 19% in 2017, and then to 18% in 2020.

4. Dividends

- Currently, dividends are received with a notional 10% tax credit. The taxpayer is then taxed on the dividend (including the value of the notional tax credit) and their tax liability is reduced by the tax credit. For those who are within the basic rate band, no further tax is due. For those who are higher rate taxpayers, the effective rate on dividends is 25% and for those who are additional rate taxpayers, the effective rate is 36.11%.

- From April 2016, the notional tax credit will be abolished. Instead, there will be a new allowance specifically for dividends set at £5,000. Whether this will be lost for those on an income in excess of £100,000 (as is the case for the personal allowance) is not yet known.

- New rates of tax for dividend income above this allowance will be introduced, set at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers. The biggest jump is therefore for those who are higher rate taxpayers, where the marginal tax rate jumps by a significant 30%.

5. Reduced tax relief for investors in residential property

- From 2020/21 all finance costs incurred by a landlord will only receive basic rate relief.

- All buy to let landlords are currently able to offset the interest paid on mortgages taken out to acquire their buy to let properties, against their tax profits. Currently, individual landlords can deduct all of their finance costs (mortgage interest, interest on loans to buy furnishings and fees incurred when taking out or repaying mortgages or loans) from their rental income received to determine taxable profits on their rental investments. This means relief is currently given at the individual's marginal rate of Income Tax (20%, 40% or 45%). Tax relief available on interest payments for individual landlords against income from residential properties both in the UK and abroad will be restricted to the basic rate of Income Tax (20%) for all individuals. The changes, which will affect any higher and additional rate taxpayers, will be introduced gradually between April 2017 and April 2021.

- In 2017/18, 75% of finance costs will receive full relief with the balance only receiving basic rate relief.

- In 2018-19, there will be a 50% finance costs deduction and 50% given as a basic rate tax reduction.

- In 2019-20, there will be a 25% finance costs deduction and 75% given as a basic rate tax reduction.

- 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.

6. Capital Gains Tax

No changes were announced to capital gains tax rates but, perhaps significantly, Capital Gains Tax will not be included in the move to fix tax rates for the duration of the current Parliament.

7. Tax lock

The rates of Income Tax, VAT and employer and employee National Insurance contributions rates will not be able to rise above their 2015/16 levels for the duration of the current Parliament.

8. Pensions

- From 6 April 2016 onwards, high income earners will have their annual allowance reduced by £1 for every £2 of income exceeding £150,000. The maximum reduction in the annual allowance will be £30,000, so that anyone with annual income of £210,000 or more will have an annual allowance of only £10,000. Any unused annual allowance from the previous 3 tax years can be carried forward and added to the current year's annual allowance.

- Similar reductions in tax relief have been introduced where an individual makes a partial early withdrawal (or "money purchase") from their pension scheme. The changes follow several reductions in the lifetime and annual allowances over the last 5 years.

- The 45% tax rate that applies to lump sums paid from the pension fund of someone who dies aged 75 or over is reduced to the marginal rate of tax of the recipient from 6 April 2016.

9. Basic rate interest consultation

HMRC has published a consultation on possible changes to the rules for deducting income tax from savings income following the introduction of the personal savings allowance on 6 April 2016. The consultation document also sets out which types of income will fall within the personal savings allowance. The consultation closes on 18 September 2015.

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