TAX E-NEWS

Monthly Update - Summer Budget 2015

Creasey Alexander & Co
Chartered Accountants

Dear Client,

Welcome to our monthly tax newsletter designed to keep you informed of the latest tax issues. In this issue we focus on tax changes announced in the Summer 2015 Budget which outlined the tax plans of the new Conservative government to be introduced over the next 5 years.

We hope you enjoy reading the newsletter; remember, we are here to help you so please contact us if you need further information on any of the topics covered.

Best wishes

Creasey Alexander & Co.

NEW "NATIONAL LIVING WAGE" TAX CREDIT CHANGES

The most radical announcement by the Chancellor on 8th July was a significant reduction in the amount the government plans to spend on tax credits and other State benefits. At the same time he announced that there would a new national living wage to be paid by employers, rising to £9 an hour by 2020. This strategy combined with the increase in the personal allowance to £11,000 for 2016/17, and eventually £12,500, means that employees will keep more of what they earn but the tax credits received to top up their income will be significantly reduced.

Employers will need to assess the impact of this change on the profitability of their business along with other factors such the increase in the employment allowance to £3,000 next year and the planned reductions in the corporation tax rate.

CORPORATE TAX RATE TO BE CUT TO 18%

The current UK corporation tax rate of 20% is the lowest rate in the G20, the 20 major trading nations. This rate continues to apply until 2017 when it has been announced that the rate will be reduced to 19% and then 18% in 2020.

This appears to make trading via a limited company more attractive but note that there are significant changes to the taxation of dividends that take effect from 6 April 2016.

CHANGES TO TAXATION OF DIVIDENDS

The Chancellor has announced that from 6 April 2016 there will no longer be a notional tax credit associated with dividends received and the following rates will apply after a £5,000 tax free dividend allowance:

Basic rate taxpayers	- 7 ½%
Higher rate taxpayers	- 32 ½%
Additional rate taxpayers	- 38.1%

This will mean that from 2016/17 individuals will be able to receive up to £17,000 tax free:

Personal allowance	£11,000
Tax free interest	£1,000
Tax free dividends	£5,000

IMPACT OF CHANGES TO DIVIDEND TAXATION ON FAMILY COMPANIES

A common strategy that we often advise to family company director/shareholders is that they extract profits from their company by way of dividends instead of paying themselves a salary. This is because there are no national insurance contributions on dividend payments and where the dividend income falls within the basic rate band (up to £42,385 for 2015/16) there is currently no income tax on dividends.

Where both husband and wife are directors and shareholders they will be able to pay themselves a salary of £11,000 each and then dividends of £5,000 each tax free. However the next £27,000 of dividends up to the new £43,000 higher rate threshold would be taxed at 7 ½ % resulting in income tax of £2,025 each being payable for 2016/17. Under the current rules there would be no tax on such dividends up to £42,385.

This measure has been introduced to counter tax-motivated incorporation to level the playing field between trading via a company versus an unincorporated business.

Note that dividends received in excess of the £43,000 higher rate threshold will be taxed at 32.5 % but without a notional credit thus increasing the effective rate from the current 25% to 32.5%.

ANNUAL INVESTMENT ALLOWANCE SET PERMANANTLY AT £200,000

The annual investment allowance (AIA) was due to be reduced from the current temporary level of £500,000 to just £25,000 from 1 January 2016.

The Chancellor has bowed to pressure from industry to stop tinkering with this allowance for expenditure on plant and machinery and set it at a permanent level so that businesses can plan their capital expenditure. He has decided on £200,000 for the new limit and businesses should consider bringing forward expenditure to before 1 January 2016 to benefit from the current higher allowance.

BUY TO LET LANDLORDS – INTEREST RELIEF TO BE RESTRICTED TO BASIC RATE

The Chancellor announced that the amount of income tax relief landlords can get on residential property finance costs (such as mortgage interest) will be restricted to the basic rate of tax.

To give landlords time to adjust, the change will be phased in gradually over 4 years:

2017/18 - the deduction will be restricted to 75% of finance costs, with 25% being available as a basic rate tax reduction.

2018/19 - 50% finance costs deduction and 50% given as a basic rate tax reduction.

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.

“RENT A ROOM” LIMIT INCREASED TO £7,500

The current £4,250 limit for tax free rental income from lodgers is to be increased to £7,500 from 6 April 2016. The relief is only available where individuals rent out a room in their main residence and the allowance includes heating and other services provided to the lodger.

PENSION TAX RELIEF RESTRICTED FOR HIGHER EARNERS

As mentioned in the Conservative party manifesto, tax relief for pension contributions is to be restricted for those with income in excess of £150,000 a year. We were told that this is intended to fund the increase in the inheritance allowance for passing on the family home.

The current £40,000 pension annual allowance will be reduced by £1 for every £2 of income in excess of £150,000 down to a minimum of £10,000 at £210,000 of income. So, for example, where an individual has income of £170,000 in 2016/17, the £40,000 annual allowance would be reduced to £30,000.

Note also that, as already announced, the pension lifetime allowance is due to be reduced from £1.25 million to £1 million from 6 April 2016 with transitional protection for those with pension savings in excess of the new limit.

The Chancellor also announced in the July Budget that there would be a further review of pension savings and pensions taxation.

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INHERITANCE TAX AND THE FAMILY HOME

As mentioned last month the Chancellor has confirmed the introduction of an additional inheritance allowance that will be available in addition to the current £325,000 nil rate band which will, when fully phased in, allow a couple to pass on the family home tax free up to a value of £1,000,000. The additional allowance, which will also be transferrable to the surviving spouse, will start at £100,000 for 2017/18. The allowance will then increase to £125,000 in 2018/19, £150,000 in 2019/20, and £175,000 in 2020/21.

Unfortunately the Chancellor also announced that the inheritance tax nil rate band will be frozen at £325,000 until 6 April 2021.

The main residence nil band is subject to a taper where the amount being left is more than £2,000,000 with £1 of the family home allowance being lost for every £2 of estate value over £2,000,000. This clawback is based on the value of the estate before reliefs such as business property relief and agricultural property relief and may result in some additional complications and redrafting of Wills.

CHANGES AFFECTING NON-DOMICILED TAXPAYERS

The Chancellor announced a number of important changes to the tax treatment of individuals who are resident but not domiciled in the UK. Such individuals currently benefit from a number of tax advantages such as exemption from UK inheritance tax (IHT) on assets situated outside the UK and in some cases only being taxed on overseas income and gains if those amounts are remitted to the UK.

From April 2017, IHT will be payable on all UK residential property owned by non-domiciles, regardless of their residence status for tax purposes, including property held indirectly through an offshore structure.

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.

The government will also legislate so that from April 2017 anybody who has been resident in the UK for more than 15 of the past 20 tax years will be deemed to be domiciled in the UK for all tax purposes. This is being reduced from the current 17 year deemed domicile rule for IHT.

TAX DIARY OF MAIN EVENTS FOR AUGUST / SEPTEMBER 2015

Date	What's Due
1 Aug	Corporation tax for year to 31/10/14
19 Aug	PAYE & NIC deductions, and CIS return and tax, for month to 5/8/15 (due 22 August if you pay electronically).
1 Sept	Corporation tax for year to 30/11/2014
19 Sept	PAYE & NIC deductions, and CIS return and tax, for month to 5/9/15 (due 22 September if you pay electronically).