MORTGAGEASSESS

CII

# Summer Budget – 8 July 2015

## Budget highlights

Some of the key tax points of the Budget are:

- Dividend tax credit will be abolished from April 2016 and there will be a new dividend tax allowance of £5,000 a year. Above that level the tax rates on dividends will rise by 7.5%.
- For private landlords the wear and tear allowance will be replaced by a new relief allowing the actual costs of replacing furnishings from April 2016; and individual landlords' tax relief for finance costs will be restricted to basic rate tax – to be phased in over four years from April 2017.
- The national insurance contribution (NIC) employment allowance of £2,000 will rise to £3,000 from April 2016.
- Non-UK domiciled individuals who have been UK resident for at least 15 of the last 20 years will be treated as UK domiciled for tax, including inheritance tax (IHT), from April 2017.
- There will be an extra transferable IHT nil-rate band for main residences passed on death to direct descendants, starting at £100,000 in 2017/18 and rising to £175,000 in 2020/21.
- The corporation tax rate will be reduced from 20% to 19% in the financial year 2017, and 18% in 2020.
- The annual investment allowance available to businesses will be reduced to £200,000 from 1 January 2016.

## CONTENTS



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## Introduction

The first Budget after a general election is traditionally the time for introducing unpopular measures. The Chancellor is not constrained by a coalition partner and has nearly five years until the next election. Mr Osborne's stated aim is to move the UK from a low wage, high tax, high welfare economy to a higher wage, lower tax and lower welfare economy.

Following the pattern of recent years, some of the Chancellor's announcements were well trailed beforehand. For example, the quantum of the benefits cuts (£12bn) and their targets (working age claimants) were well known. What came as something of a surprise was that the pain was spread over a three-year period rather than the expected two. The inheritance tax main residence allowance was well broadcast – the Chancellor even wrote about it in *The Times* at the weekend – but the allowance turned out to be less generous than the leaks suggested.

There was unexpected news for wealthier individuals with the introduction of higher rates of tax on dividends from next April alongside a new dividend tax allowance. The consultation on possible radical reform of pension tax relief could herald further major changes.

The government will legislate to set a ceiling for the main rates of income tax, the rates of VAT and employer and employee NIC rates so that they cannot rise above their 2015/16 levels.

## PERSONAL TAXATION

**Income tax – personal allowances and basic rate band**
The personal allowance for 2016/17 will rise from £10,600 to £11,000 and the basic rate band will rise by £215 to £32,000. From 2017/18 the personal allowance will increase to £11,200 and there will be a further increase in the basic rate band to £32,400. Once the personal allowance reaches £12,500, it will be uprated in line with the national minimum wage.

**Dividend taxation**
From 6 April 2016 the 10% dividend tax credit will be abolished and there will be a new dividend tax allowance of £5,000 a year. New rates of tax on dividend income will apply above the allowance at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers. The effect is to increase the rate of tax on dividends above the new allowance by 7.5%.

**Non-domicile status**
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 including inheritance tax. This will apply from April 2017 and a technical consultation will be published later this year.

From 6 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 while they are resident in the UK.

There will be no introduction of a minimum claim period for the remittance basis charge as a result of other reforms to the taxation of non-UK domiciled individuals. The government had previously proposed that non-domiciled individuals would have to claim the remittance basis for at least three years.

**Employment taxes and salary sacrifice**
The government will actively monitor the effect on tax receipts of salary sacrifice schemes that reduce employment taxes.

**Residential landlords – reform of the wear and tear allowance**
The wear and tear allowance will be replaced from April 2016 with a new relief that allows all residential landlords to deduct the actual costs of replacing furnishings. Capital allowances will continue to apply for landlords of furnished holiday lets.

**Residential landlords – restricting finance cost relief**
The relief on finance costs (e.g. interest) that individual landlords of residential property can receive will be limited to the basic rate of tax. The restriction will be phased in over four years, starting from April 2017.

**Rent-a-room relief**
From 6 April 2016 the level of rent-a-room relief will be increased from £4,250 to £7,500 a year.

## PENSIONS AND SAVINGS

**Personal savings allowance**
From 6 April 2016 an allowance will be introduced to remove tax on up to £1,000 of savings income for basic rate taxpayers and up to £500 for higher rate taxpayers, as announced in the March Budget 2015. Additional rate taxpayers will not receive an allowance. Automatic deduction of 20% income tax by banks and building societies on non-ISA savings will cease from the same date.

**Pensions – reduced lifetime allowance**
From 6 April 2016 the lifetime allowance for pensions will be reduced from £1.25 million to £1 million, as previously announced. Transitional protection for pension rights that are already over £1 million will be introduced to ensure this change is not retrospective. The lifetime allowance will be indexed annually in line with the consumer prices index (CPI) from 6 April 2018.

**Pensions – reduced annual allowance**
From April 2016 a tapered reduction in the amount of the annual allowance will be introduced for individuals with income (including the value of any pension contributions) of over £150,000 and who have an income (excluding pension contributions) in excess of £110,000. The rate of reduction in the annual allowance is £1 for every £2 that the individual's adjusted income exceeds £150,000, up to a maximum reduction of £30,000, creating a minimum allowance of £10,000.

All pension input periods open on 8 July 2015 are closed on that date, with the next pension input period running from 9 July 2015 to 5 April 2016. All subsequent pension input periods will be concurrent with the tax year from 2016/17 onwards.

**Pensions tax relief**
There will be a consultation on whether and how to undertake a wider reform of pensions tax relief.

**Unfunded employer financed retirement benefit schemes (EFRBS)**
There will be a consultation on tackling the use of unfunded EFRBS to obtain a tax advantage in relation to remuneration.

**Secondary market for pension annuities**
Following consultation after the March 2015 Budget, a secondary annuity market will not now open until 2017. Further plans will be published in the autumn.

**Venture capital schemes**
All investments made by seed enterprise investment schemes (SEISs), enterprise investment schemes (EISs) and venture capital trusts (VCTs) will have to be made with the intention to grow and develop a business. This requirement is subject to state aid approval and will take effect from Royal Assent to the Summer Finance Bill 2015. From the same date:

- All investors will be required to be 'independent' from the company at the time of the first share issue.
- Relief will be limited to investment in companies within seven years of their first commercial sale and for 'knowledge intensive' companies within ten years of their first commercial sale. This will not apply where the investment represents more than 50% of turnover averaged over the preceding five years.
- There will be a new cap on the total investment a company may raise under VCTs, EISs and other risk finance investments of £20 million for knowledge intensive companies, and £12 million for other companies.
- A higher 500 employee limit will apply to knowledge intensive companies.

- Venture capital funds will be prevented from acquiring existing businesses, including extending the prohibition on management buyouts and share acquisitions to VCT non-qualifying holdings and VCT funds raised pre-2012.

## INHERITANCE TAX

**Nil-rate band**
The inheritance tax (IHT) nil-rate band will remain frozen at £325,000 until April 2021.

**Main residence nil-rate band**
An additional nil-rate band will be available when a residence is passed on death to direct descendants. It will be £100,000 in 2017/18, £125,000 in 2018/19, £150,000 in 2019/20 and £175,000 in 2020/21. It will then increase in line with CPI. The band will be transferable where the second spouse or civil partner of a couple dies after 5 April 2017, regardless of when the first of the couple died.

The extra nil-rate band will also be available when a person downsizes or ceases to own a home after 7 July 2015 and assets of an equivalent value, up to the additional nil-rate band, are passed on death to their direct descendants. This element will be the subject of a technical consultation. For estates with a net value of more than £2 million, the additional nil-rate band will be withdrawn at £1 for every £2 over this threshold.

**UK residential property of non-domiciles**
From April 2017 IHT will be payable on all UK residential property owned by non-domiciles regardless of their residence status for tax purposes. This will include property held indirectly through an offshore structure. A full detailed consultation will follow later this year.

**Non-domiciles generally**
From April 2017, a non-domiciled individual will be deemed domiciled for IHT purposes after being UK resident for more than 15 of the past 20 years. If they leave the UK, they will lose their deemed domicile status after five years. Also from April 2017, individuals who were born in the UK to UK-domiciled parents will be treated as UK domiciled while they are in the UK.

**Trusts**
New rules will target avoidance through the use of multiple trusts as announced in the Autumn Statement 2014. The IHT calculation rules for trusts will also be simplified.

# BUSINESS TAXES

**Corporation tax rates**
The corporation tax rate will be reduced from 20% to 19% in financial year 2017 and to 18% in 2020.

**Corporation tax payment dates**
There will be new payment dates for companies with annual taxable profits of £20 million or more. For periods starting after 31 March 2017, such companies will have to pay quarterly instalments in the third, sixth, ninth and twelfth months of their accounting period. Where a company is a member of a group, the £20 million threshold will be divided by the number of companies in the group.

**Company distributions**
The government will consult on the rules for company distributions in autumn 2015.

**Annual investment allowance (AIA)**
The level of the AIA (currently £500,000) will be set at £200,000 for all qualifying expenditure on plant and machinery made on or after 1 January 2016.

**Business goodwill amortisation**
The government will restrict the corporation tax relief a company may obtain for the cost of goodwill. This will affect all acquisitions and disposals from 8 July 2015.

**Research and development (R&D) tax credits**
Charities and universities will no longer be able to claim the R&D expenditure credit for expenditure from 1 August 2015.

**National insurance contributions (NICs) employment allowance**
From 6 April 2016 the government will increase the annual NIC employment allowance from £2,000 to £3,000. Where the director of a company is the sole employee, the company will not be able to claim the allowance from April 2016.

**Orchestra tax relief**
As announced in the March 2015 Budget, tax relief will be available to orchestras at 25% on qualifying expenditure from 1 April 2016.

**Corporate debt and derivative contracts**
Wide-ranging changes will modernise the corporation tax rules on corporate debt loan relationships and derivative contracts. They include clarifying the relationship between tax and accounting, basing taxable loan relationship profits on accounting profit and loss entries, a new 'corporate rescue' relief and new anti-avoidance rules. The changes will generally take effect for accounting periods starting after 31 December 2015.

**Business tax future changes**
The government will publish a 'business tax roadmap' by April 2016 setting out its plans for business taxes over the rest of the parliament.

**Banks**
There will be a supplementary tax on banking sector profits of 8% from 1 January 2016. The full bank levy rate will be reduced gradually to 0.10% in 2021. Compensation expenses relating to a bank's widespread misconduct and mis-selling incurred after 7 July 2015 will not be deductible for corporation tax purposes.

**VAT on services used and enjoyed in the UK**
The government will apply VAT 'use and enjoyment' provisions, so that from next year it will be clear that all UK repairs made under UK insurance contracts will be subject to VAT in the UK. The government is considering a wider review of offshore-based avoidance in VAT exempt sectors, with a view to introducing additional use and enjoyment measures for services such as advertising in the following year.

**Insurance premium tax (IPT)**
The standard rate of IPT will increase from 6% to 9.5% from 1 November 2015 for insurers using the IPT cash accounting scheme. For insurers using the special accounting scheme, premiums relating to policies entered into before 1 November 2015 will continue to be liable to IPT at 6% until 29 February 2016, after which all premiums received by insurers will be taxed at 9.5%.

**Vehicle excise duty (VED)**
A new VED banding system will be introduced for cars registered after 31 March 2017. First year rates will depend on the carbon dioxide emissions of the vehicle, ranging from £0 for cars with zero $CO_2$ emissions to £2,000 for $CO_2$ emissions over 255g/km. After the first year there will be a flat standard rate of £140 for all cars except those with zero emissions, which will continue to pay £0. Cars with a list price above £40,000 will attract a supplement of £310 a year for the first five years in which the standard rate is paid.

**Company car tax rates**
As announced in the March 2015 Budget, the appropriate percentage of list price subject to tax will increase by three percentage points for cars emitting more than 75g/km of $CO_2$ to a maximum of 37% in 2019/20. There will be a three percentage point differential between the 0–50g/km and 51–75g/km bands and between the 51–75g/km and 76–94g/km bands.

## TAX SIMPLIFICATION

**Office of Tax Simplification (OTS)**
The OTS will be established on a statutory basis as a permanent office of HM Treasury. The government will commission the OTS to review the closer alignment of income tax and national insurance contributions, and to review the taxation of small companies.

**Self-employed national insurance contributions**
The government will consult in autumn 2015 on abolishing class 2 NICs and reforming class 4 NICs.

**Employee benefits and expenses**
A statutory exemption for trivial benefits-in-kind costing less than £50 will be introduced from April 2016.

**Travel and subsistence expenses**
A discussion paper has been published, outlining a potential framework for new rules for the tax treatment of travel and subsistence expenses, following a report by the OTS.

**Simplified expenses – partnerships**
The simplified expenses regime will be amended to ensure that partnerships can fully access the provisions in respect of the use of a home and where business premises are also a home.

**Termination payments**
The government will consult on the tax and NIC treatment of termination payments to make the system 'simpler and fairer'.

**Consortium link company rule**
As announced in the Autumn Statement 2014, the government has removed all the requirements relating to the location (UK or elsewhere) of the 'link company' for consortium claims to group relief with effect from 10 December 2014.

**Tax administration for individuals and small businesses**
The government will publish a roadmap by the end of the year showing how it will transform tax administration for individuals and small businesses over this parliament.

**HMRC debtor and creditor interest rate**
The rate of interest on taxation-related debts payable under a court judgement or order by HMRC will be set at a rate equal to the Bank of England base rate plus 2%. The late payment interest rate of 3% will apply to taxation-related debts owed to HMRC under a court judgement or order. The changes will apply to all judgements and orders in respect of interest accruing after 7 July 2015.

## ANTI-AVOIDANCE MEASURES

**Disguised employment IR35 reform**
The government will consult with stakeholders this year on how to improve the effectiveness of the intermediaries' legislation (IR35) to protect against disguised employment.

**Employment intermediaries and tax relief for travel and subsistence**
The government has published a consultation document on detailed proposals to restrict tax relief for travel and subsistence for workers engaged through an employment intermediary, such as an umbrella company or a personal service company. The changes will take effect from 6 April 2016.

**Controlled foreign companies (CFCs)**
Companies will be prevented from using UK losses and reliefs against a CFC charge from 8 July 2015.

**Direct recovery of debts**
New legislation will modernise and strengthen HMRC's powers to recover tax and tax credit debts directly from debtors' bank accounts, including funds held in cash ISAs. The measure will be subject to robust safeguards, including a county court appeal process and a face-to-face visit to debtors before they are considered for debt recovery in this way.

**Financial intermediaries**
Legislation will require financial intermediaries, including tax advisers, to notify their customers about the common reporting standard, the penalties for evasion and the opportunities to disclose.

**General anti-abuse rule (GAAR) penalty**
The government will consult on the detail of introducing a GAAR penalty and consider new measures to strengthen the GAAR.

**Serial avoiders**
The government will consult on measures to deal with serial avoiders who persistently enter into tax avoidance schemes that are defeated.

**Resources and powers to tackle evasion and avoidance**
The government is providing additional resources to HMRC to step up criminal investigations into serious and complex tax crime; tackle non-compliance by small and mid-sized businesses, public bodies and affluent individuals; tackle evasion, avoidance and aggressive tax planning by large businesses; target non-compliance by wealthy individuals; and tackle serious non-compliance by trusts, pension schemes and non-domiciled individuals. The government is consulting on further measures including naming serial avoiders.

Subject to consultation, a 'special measures' regime will be introduced to tackle businesses that persistently adopt highly aggressive behaviour associated with tax planning. There will be an extension to HMRC's powers to acquire data from online intermediaries and electronic payment providers to find those operating in the hidden economy. A new digital disclosure channel will make it simple for taxpayers to disclose unpaid tax liabilities.

## WELFARE

**Tax credits income thresholds and universal credit work allowances**
The tax credits income threshold will be reduced from £6,420 to £3,850 a year from April 2016. Work allowances in universal credit will be abolished for childless claimants who are not disabled and will be reduced for many other claimants.

**Child element in tax credits and universal credit**
The child element of tax credits and universal credit will no longer be awarded for third and subsequent children born after 6 April 2017. This will also apply to families claiming universal credit for the first time after April 2017. Transitional protections will be introduced to cover children with disabilities, temporary claims interruptions, multiple births and other special circumstances. Consequential changes will be made in housing benefit from April 2017.

**Income rise disregard in tax credits**
From April 2016 there will be a reduction from £5,000 to £2,500 in the amount by which a claimant's income can increase in-year compared with their previous year's income before their award is adjusted (the 'income rise disregard').

**Taper rates for tax credits**
From April 2016 the tax credits taper rate will be increased from 41% to 48% of gross income.

**Employment and support allowance**
From April 2017 new claimants of employment and support allowance who are placed in the work-related activity group will receive the same rate of benefit as those claiming jobseeker's allowance.

**Tax credits, universal credit and housing benefit – first child**
From April 2017 the family element in tax credits and the equivalent in universal credit will no longer be awarded when a first child is born. Transitional protections will be introduced to cover children with disabilities, temporary claims interruptions and other special circumstances.

**Parent work conditionality**
From April 2017 parents claiming universal credit, including lone parents, will be expected to prepare for work when their youngest child turns two, and to look for work when their youngest child turns three.

**Housing benefit entitlement for young people**
Those out of work aged 18 to 21 making new claims to universal credit will no longer be automatically entitled to the housing element from April 2017.

**The household benefit cap**
The benefit cap, which puts a ceiling on the amount of benefits out-of-work working-age families can receive, will be lowered to £20,000, except in Greater London where the cap will be £23,000. The current exemptions to the cap will continue to apply.

**Support for mortgage interest (SMI)**
From 1 April 2016, the SMI waiting period will be lengthened to 39 weeks, but the capital limit will remain at £200,000. From April 2018, new SMI payments will be made as a loan repayable on sale of the property, or when the claimant returns to work. Payments will accrue interest at a rate tied to the Office for Budget Responsibility (OBR) forecast for gilts.

**Benefits and tax credits uprating**
Most working-age benefits, child tax credit and working tax credit (excluding disability elements) will be frozen for four years from April 2016.

**National living wage**
A new premium will be introduced for those aged 25 and over starting at 50p an hour leading to a new national living wage of £7.20 an hour in April 2016. The government’s ambition is for the national living wage to increase to 60% of median earnings by 2020, by which time it is expected to reach over £9 an hour.

## INCOME TAX

| Allowances and reliefs | 2015/16 | 2014/15 |
|---|---|---|
| Personal (basic) | £10,600 | £10,000 |
| Personal allowance reduced if net income exceeds* | £100,000 | £100,000 |
| Transferable tax allowance for married couples/civil partners | £1,060 | N/A |
| Personal (age) if born between 6/4/38 and 5/4/48 | N/A | £10,500 |
| Personal (age) if born before 6/4/38 | £10,660 | £10,660 |
| Personal (age) reduced if net income exceeds* | £27,700 | £27,000 |
| Married couples/civil partners (minimum) at 10%† | £3,220 | £3,140 |
| Married couples/civil partners (maximum) at 10%*† | £8,355 | £8,165 |
| Child benefit charge | | |
| 1% of benefit for every £100 of income between £50,000 and £60,000 | | |
| Blind person's allowance | £2,290 | £2,230 |
| Rent-a-room tax-free income | £4,250 | £4,250 |
| Venture capital trust (VCT) at 30% | £200,000 | £200,000 |
| Enterprise investment scheme (EIS) at 30% | £1,000,000 | £1,000,000 |
| EIS eligible for capital gains tax (CGT) deferral relief | No limit | No limit |
| Seed EIS (SEIS) at 50% | £100,000 | £100,000 |
| SEIS CGT reinvestment relief | 50% | 50% |
| Registered pension scheme: | | |
| • annual allowance | £40,000 | £40,000 |
| • money purchase annual allowance | £10,000 | N/A |
| • lifetime allowance | £1,250,000 | £1,250,000 |

* *£1 reduction for every £2 of additional income over the income threshold.*
† *Where at least one spouse/civil partner was born before 6/4/35.*

| Rates | 2015/16 | 2014/15 |
|---|---|---|
| Starting rate | 0% | 10% |
| on savings income up to* | £5,000 | £2,880 |
| Basic rate of 20% on income up to | £31,785 | £31,865 |
| Higher rate of 40% on income | £31,786– | £31,866– |
| | £150,000 | £150,000 |
| Additional rate of 45% on income over | £150,000 | £150,000 |
| Dividends for: | | |
| • basic rate taxpayers | 10% | 10% |
| • higher rate taxpayers | 32.5% | 32.5% |
| • additional rate taxpayers | 37.5% | 37.5% |
| Trusts: | | |
| • standard rate band generally | £1,000 | £1,000 |

| | | |
|---|---|---|
| • dividends (rate applicable to trusts) | 37.5% | 37.5% |
| • other income (rate applicable to trusts) | 45% | 45% |
| * *Not available if taxable non-savings income exceeds the starting rate band.* | | |

## NATIONAL INSURANCE CONTRIBUTIONS

| **Class 1 (Employees)** | | | | |
|---|---|---|---|---|
| **Not Contracted-out of State Second Pension (S2P)** | | | | |
| | **2015/16** | | 2014/15 | |
| | **Employee** | **Employer** | Employee | Employer |
| NIC rate | 12% | 13.8% | 12% | 13.8% |
| No NICs on the first: | | | | |
| Under 21 | £155 pw | £815 pw | £153 pw | £153 pw |
| 21 & over | £155 pw | £156 pw | £153 pw | £153 pw |
| NICs charged up to | £815 pw | No limit | £805 pw | No limit |
| NICs on earnings over | £815 pw: 2% | N/A | £805 pw: 2% | N/A |

| **Employment allowance per business** | **2015/16** | 2014/15 |
|---|---|---|
| Offset against employer's Class 1 NICs | £2,000 | £2,000 |

| **Earnings limit or threshold** | | | **2015/16** | | | 2014/15 |
|---|---|---|---|---|---|---|
| | **Weekly** | **Monthly** | **Annual** | Weekly | Monthly | Annual |
| | **£** | **£** | **£** | £ | £ | £ |
| Lower earnings limit | 112 | 486 | 5,824 | 111 | 481 | 5,772 |
| Secondary earnings threshold | 156 | 676 | 8,112 | 153 | 663 | 7,956 |
| Primary earnings threshold | 155 | 672 | 8,060 | 153 | 663 | 7,956 |
| Upper accrual point | 770 | 3,337 | 40,040 | 770 | 3,337 | 40,040 |
| Upper earnings limit | 815 | 3,532 | 42,385 | 805 | 3,489 | 41,865 |

| **Contracted-out S2P rebate** | **2015/16** | 2014/15 |
|---|---|---|
| On band earnings* | £112–£770 pw | £111–£770 pw |
| Employer rebate | 3.4% | 3.4% |
| Employee rebate | 1.4% | 1.4% |
| * *Salary related schemes only.* | | |

| **Class 1A (Employers)** | **2015/16** | 2014/15 |
|---|---|---|
| Most taxable employee benefits | 13.8% | 13.8% |

| **Class 2 (Self-Employed)** | **2015/16** | 2014/15 |
|---|---|---|
| Flat rate | £2.80 pw £145.60 pa | £2.75 pw £143.00 pa |
| Small profits threshold | £5,965 pa | £5,885 pa |

| **Class 4 (Self-Employed)** | **2015/16** | 2014/15 |
|---|---|---|

| | | |
|---|---|---|
| On profits | £8,060–£42,385 pa 9% | £7,956–£41,865 pa 9% |
| | Over £42,385 pa 2% | Over £41,865 pa 2% |
| | | |
| **Voluntary** | **2015/16** | 2014/15 |
| Class 3 Flat rate | £14.10 pw £733.20 pa | £13.90 pw £722.80 pa |
| Class 3A (from 12/10/15) | amount depending on age | N/A |