A Guide to the 2015 Budget

CAPLE BANKS
WEALTH MANAGEMENT

As the effects of the 2014 Budget are still very current it's hard to believe twelve months have passed! The 2015 Budget as predicted by many was quiet in comparison, however, the main announcements were:

- Reduction in pensions lifetime allowance from 6th April 2016 (£1 million) and future increases of the allowance in line with CPI

- Consultation on the sale of annuities in payment

- Additional ISA flexibility and the introduction of the Help to Buy ISA

- Consultation on the avoidance of IHT through deeds of variation

Full details of all announcements and published documents can be found at https://www.gov.uk/government/topical-events/budget-2015.

For details of the various tax, tax credits, and national insurance rates and thresholds for 2015/16, click here.

Pensions

- Legislation will be introduced in the new Parliament to reduce the pensions-lifetime allowance to £1million from 6th April 2016. Fixed and individual protection regimes will be introduced alongside the reduction. Legislation will also provide for increases of the allowance in line with the consumer prices index (CPI) from 2018.

- No change to the annual allowance or the rates of pension tax relief.

- As announced in the Autumn Statement from April 2015, beneficiaries of individuals who die under the age of 75 with remaining uncrystallised or drawdown defined contribution pension funds, or with a joint life, guaranteed term or value protected annuity, will be able to receive any future payments from such policies tax free where no payments have been made to the beneficiary before 6th April 2015. The tax rules will also be changed to allow joint life annuities to be paid to any beneficiary. Where the individual was over 75, the beneficiary will pay the marginal rate of Income Tax, or 45% if the funds are taken as a lump sum payment. Lump sum payments are expected to be charged at the beneficiary's marginal rate from 2016/17.

- Annuity flexibility. The government believes people who have already bought an annuity should be able to enjoy the same flexibilities as those retiring from April 2015. The government will therefore change the tax rules in a future Finance Bill to have effect from April 2016 to allow people who are already receiving income from an annuity to sell that income to a third party as and when they choose. A consultation has been published to look at how best to remove the barriers to the creation of a secondary market in annuities.

- State Pension - In line with government policy, the basic State Pension will be increased by the triple lock – the highest of average growth in earnings, inflation or 2.5%. The rise in April 2015 will be 2.5%, a cash increase of £2.85 per week for the full basic State Pension.

- Pension Credit changes - the standard minimum income guarantee in Pension Credit will rise by the same amount as the cash increase in the basic State Pension. The Savings Credit threshold will rise by 5.1%. In consequence, the full new State Pension will rise to at least £151.25 a week; the actual amount will be set in autumn 2015.

- Pensions and means-tested benefits - for those over the pension credit qualifying age, the government will change the notional income rules applied to pension pots which have not been accessed, or have been accessed flexibly, from 150% to 100% of the income an equivalent annuity would offer, or the actual income taken if higher.

- Pensions tax relief: the age 75 rule – Following informal consultation since Budget 2014, the government has decided not to make changes to the age limit at which tax relief can be claimed on pension contributions. This will remain at age 75.

Property Taxes

Stamp Duty Land Tax (SDLT)

From 4th December SDLT on residential property purchases changed from a 'banding system' (where once the purchase price of the property enters a particular band the whole of the purchase price/transaction value is taxed at that rate) to a system (similar to the income tax system) where SDLT is payable at each rate on the portion of the transaction value/purchase price which falls within each band, as shown below.

Portion of transaction value	SDLT rate
Up to £125,000	0%
Between £125,001 and £250,000	2%
Between £250,001 and £925,000	5%
Between £925,001 and £1,500,000	10%
Over £1,500,001	12%

Scotland

From April 2015 SDLT will no longer apply to land transactions in Scotland. These will instead be subject to Land and Buildings Transaction Tax. Further details are available via the links below.

Annual Tax on Enveloped Dwellings (ATED)

The annual charges on the ATED will increase by 50% above inflation for residential properties worth more than £2million for the chargeable period 1st April 2015 to 31st March 2016. ATED applies to certain non-natural persons (such as companies) owning UK residential property.

Personal Tax

Personal allowance

Rises to:

- £10,600 for 2015/16 - this figure will apply to people born from 6th April 1938 onwards, i.e. the only people who will still receive 'age allowance' in 2015/16 will be those born before that date and their personal allowance remains frozen at £10,660 (so only £60 above the standard personal allowance) with an income limit of £27,700.

- £10,800 for 2016/17 (from 2016/17, there will be one income tax personal allowance regardless of an individual's date of birth – the 'age allowance' will end).
- £11,000 for 2017/18 From 6th April, up to £1,060 (10% of personal allowance) can be transferred to a spouse/civil partner as long as neither partner is a higher rate taxpayer.

Income Tax Bands

The basic rate band will be £31,785 so the higher rate threshold above which individuals pay Income Tax at 40% will be increased to £42,385 for 2015/16 (the Chancellor confirmed the higher rate threshold will be £42,700 in 2016/17 and £43,300 in 2017/18 meaning basic rate bands of £31,900 in 2016/17 and £32,300 in 2017/18).

The starting rate band for savings income increases to £5,000 (from £2,880) from 6th April 2015 and the rate reduces from 10% to zero. Those whose non-savings income (earnings, pension etc) is below £15,600 (£15,660 if born before 6th April 1938), i.e. personal allowance plus starting rate band, will be able to take advantage of the 0% starting rate band for their savings income (interest on deposits, offshore bond gains etc). It has been confirmed that the starting rate band will remain at this level in 2016/17.

Personal Savings Allowance

From 6th April 2016 a tax-free Personal Savings Allowance of £1,000 (or £500 for higher rate taxpayers) will apply to savings interest. That means from April 2016, tax won't be payable on interest if taxable income is less than £16,800. To be eligible for the £1,000 tax-free Personal Savings Allowance taxable income needs to be less than £42,700 a year. To be eligible for the £500 tax-free Personal Savings Allowance taxable income needs to be between £42,701 and £150,000 a year. The Personal Savings Allowance will not be available for additional rate taxpayers. The Personal Savings Allowance will be in addition to the tax advantages available from ISAs. In the lead-up to these changes, the government will discuss implementation issues with the savings and investment industry, and other interested groups.

Digital accounts - the end of the tax return

The government will abolish the tax return for millions of individuals and small business through the introduction of digital tax accounts. A roadmap setting out the policy and administrative changes will be published later this year. In addition, the government will consult on a new payment process to support the use of digital tax accounts which allow tax and NI contributions to be collected outside of Pay As You Earn and Self-Assessment - this will be legislated in the next Parliament.

National Insurance Contributions (NI)

- From April 2016 employer NI up to the upper earnings limit for apprentices aged under 25 will be abolished.

- From April 2015 the £2,000 annual Employment Allowance for employer NI will be extended to those households employing care and support workers.

- From 6th April 2015, liability to pay Class 2 NI will arise at the end of each year (rather than weekly as now) and be paid alongside income tax and Class 4 NI. Those that wish to spread the cost can still make regular payments of Class 2 NI throughout the year. From 6th April 2015, the 6-monthly billing system will end.

- From 6th April 2015, employer NI for employees aged under 21 will reduce to zero on earnings up to £42,385 (13.8% on earnings above this level should any under 21 earn a higher amount!).

- Abolition of Class 2 National Insurance contributions (NICs). The government announced its intention to abolish Class 2 NICs in the next Parliament and reform Class 4 NICs to introduce a new benefit test. The government will consult on the detail and timing of these reforms later in 2015.

Inheritance Tax (IHT)

- The Chancellor announced a review on the avoidance of inheritance tax through the use of deeds of variation.

- Inheritance Tax and trusts - As announced at Autumn Statement, legislation will provide new rules about adding property to trusts on the same day, to target inheritance tax avoidance through the use of multiple trusts. Legislation was published in draft on 10th December 2014. This will be legislated in a future Finance bill. Following consultation on the draft legislation, the government has made changes to the legislation so that the new rules apply only when property is added to more than one relevant property trust on the same day. Stakeholders were also concerned that small same day additions by the settlor to a number of trusts for say, trustee fees, would result in the property in those other trusts being aggregated and brought into the 10 year charge calculation. The revised legislation therefore provides that where the value of the addition is £5,000 or less there will not be a same day addition. The period of grace for not applying the new rules about additions to existing trusts to a will executed before 10th December 2014 has been extended by 12 months. The exclusion will now be limited to deaths before 6th April 2017. The calculation of trust charges will be simplified by removing the requirement to include non-relevant property in the computation. Changes are also being made in certain areas of the relevant property trust legislation to close a gap and ease the effects of the legislation elsewhere.

Capital gains tax

From 6th April 2015, individuals, trustees, and certain companies who are not resident in the UK and sell a UK residential property need to notify HMRC of the transaction. This is because the proportion of any overall gain that relates to the period after 5th April 2015 is chargeable to tax.

Taxation of UK resident non domiciles – Remittance Basis Charge

People who are not domiciled in the UK are able to elect to pay tax on the remittance basis so that any income and gains they hold offshore are only taxable as and when they are brought into the UK. The government believes it is fair to ask those non-domiciles who elect to use these generous rules to pay a higher charge when they have been living in the UK for a long time.

The annual charge paid by non-domiciled individuals resident in the UK who wish to retain access to the remittance basis of taxation will therefore be increased. The charge paid by people who have been UK resident for 7 out of the last 9 years will remain at £30,000. The charge paid by people who have been UK resident for 12 out of the last 14 years will increase from £50,000 to £60,000. A new charge of £90,000 will be introduced for people who have been UK resident for 17 of the last 20 years. The Government will also consult on making the election apply for a minimum of 3 years.

Benefits in kind

As announced at Autumn Statement 2014, legislation will be introduced in Finance Bill 2015 to provide a statutory exemption from tax for qualifying trivial benefits in kind (BiKs) costing £50 or less. Following technical consultation on the draft legislation, an annual cap of £300 will be introduced for office holders of close companies, and employees who are family members of those office holders. Those affected by this cap will be able to receive a maximum of £300 worth of trivial benefits in kind each year exempt from tax. Corresponding legislation will also be introduced for National Insurance contributions purposes. These changes will have effect from 6th April 2015. From April 2016, the government will remove the £8,500 threshold below which employees do not pay Income Tax on certain benefits in kind and replace it with new exemptions for carers and for ministers of religion. It will also exempt certain reimbursed expenses and introduce a statutory framework for voluntary payrolling. The new exemption for reimbursed expenses will not be available if used in conjunction with salary sacrifice.

Tax credits: stopping overpayments

Building on the announcement made at Autumn Statement 2013, from April 2015 tax credit payments will be reduced in-year where, due to a change of circumstance, a claimant would otherwise receive an overpayment. This will prevent claimants building up unnecessary overpayments that must be repaid at a later stage.

Farmers averaging

As announced at Budget 2015, the government will extend the period over which self- employed farmers can average their profits for income tax purposes from 2 years to 5. The government will hold a consultation later in 2015 on the detailed design and implementation of the extension. This measure will come into effect from 6th April 2016 and be legislated for in a future Finance Bill.

Investments

Investments Individual Savings Accounts (ISAs)

- Transfer to spouses on death - For deaths on or after the 3rd December 2014, surviving spouses will have an additional ISA allowance, equal to the amount the deceased spouse had in their ISA, which can be used from 6th April 2015. The surviving spouse is given an additional one-off ISA allowance to be used on or after 6th April 2015.

- 2015/16 ISA allowance – will be £15,240.

- Introducing the Help to Buy ISA – every £200 people save towards their first home, the government will put in an extra £50, up to a maximum bonus of £3,000 paid at the time the property is bought. Access the Treasury's.

- Individual Savings Accounts (ISAs) and Child Trust Funds – Extending eligibility - Regulations will be introduced to extend the list of qualifying investments for ISAs and Child Trust Funds to include listed bonds issued by Co-operative Societies and Community Benefit Societies and SME securities that are admitted to trading on a recognised stock exchange, with effect from 1st July 2015. The government will also consult during Summer 2015 on further extending this list of qualifying investments to include debt securities (as announced at Autumn Statement 2014) and equity securities offered via crowd funding platforms.

- Individual Savings Accounts (ISAs) – Making ISAs more flexible - Regulations will be introduced in Autumn 2015, following consultation on technical detail, to enable ISA savers to withdraw and replace money from their cash ISA without it counting towards their annual ISA subscription limit for that year.

Junior ISA (JISA) and Child Trust Fund (CTF)

The Junior ISA and Child Trust Fund limits will both be increased to £4,080 for 2015/16. With regard to the introduction of the facility to transfer from CTFs to JISAs the government consultation on options for transferring savings held in Child Trust Funds into Junior ISAs has now ended and the proposals are being taken forward under the 2014 Deregulation Bill. Bank and building society accounts The automatic deduction of 20% income tax at source by banks and building societies is intended to cease from April 2016. NS&I The government confirmed that National Savings and Investment bonds for pensioners (over 65) would remain on sale until 15th May 2015. From 1st June 2015 the National Savings and Investment Premium Bond investment limit will increase to £50,000.

Social Venture Capital Trusts

The government will set the rate of income tax relief for investment in Social Venture Capital Trusts (Social VCT) at 30%, subject to state aid clearance. Investors will pay no tax on dividends received from a Social VCT or capital gains tax on disposals of shares in Social VCTs. Social VCTs will have the same excluded activities as the social investment tax relief (SITR). Legislation will be included in a future Finance Bill.

Venture capital schemes – renewable energy

As announced at Autumn Statement 2014, legislation will be introduced in Finance Bill 2015 to exclude investments in companies that benefit substantially from subsidies for the generation of renewable energy from the tax-advantaged venture capital schemes, the Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCTs), from 6th April 2015, unless the company is a qualifying community energy organisation. Following consultation, the legislation has been revised to ensure that investments in companies receiving foreign subsidies similar to contracts for difference will be excluded from the schemes from 6th April 2015.

Legislation will also be introduced in Finance Bill 2015 to extend eligibility for social Investment Tax Relief (SITR) to qualifying community energy organisations. The annual investment limit of £5 million will apply to money raised under EIS, SEIS, VCTs and Social Investment Tax Relief (SITR).

Amendments to rules for Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT)

Further legislation will be introduced in Finance Bill 2015 to amend the rules for the Enterprise Investment Scheme (EIS), Seed EIS and Venture Capital Trusts (VCT) to ensure that the UK continues to offer significant and well-targeted support for investment into small and growing companies, in line with new EU rules.

Business Issues

Business Issues Corporation Tax

- From 1st April 2015, the main rate of corporation tax, currently 21%, will be reduced to 20%. As the small profits rate is already 20%, the need for this separate code of taxation disappears. The small profits rate will be unified with the main rate. It is intended that it should remain at 20% for the financial year 2016.

- Children's television tax relief - A new corporation tax relief for the production of children's television programmes will be introduced from 1st April 2015 (25% relief on qualifying production expenditure).

- Orchestra tax relief - the Government will consult in early 2015 on the introduction of an orchestra corporation tax relief from 1st April 2016.
- High-end television tax relief - the Government will explore with industry whether to reduce the minimum UK expenditure for high-end TV relief from 25% to 10% and modernise the cultural test, to bring the relief in line with film tax relief.

- R&D tax credit - The rate of the above the line credit will increase from 10% to 11% and the rate of the small and medium (SME) scheme will increase from 225% to 230%. These will take effect from 1st April 2015.

- R&D tax credits - Qualifying expenditure. Legislation will be introduced to restrict qualifying expenditure for R&D tax credits so that the costs of materials incorporated in products that are sold are not eligible, with effect from 1st April 2015.

- R&D tax credits - An advance assurance scheme for small businesses making their first claim to R&D tax credits will be introduced along with new guidance. The Government will launch a consultation in January 2015 on the issues faced by smaller businesses when claiming R&D tax credits. Other issues

Other Issues

- Investment managers: disguised the fee income. As announced at Autumn Statement 2014, legislation will be introduced in Finance Bill 2015 to ensure that all sums which arise to investment fund managers for their services are charged to income tax. It will affect sums which arise to managers who have entered into arrangements involving partnerships or other transparent vehicles, but not sums linked to performance, often described as carried interest, nor returns which are exclusively from investments by partners. Following consultation, the legislation has been revised to better reflect industry practice on performance related returns, to restrict the charge on non-UK residents to UK duties, and to ensure that the rules apply to investment trust managers. The changes will take effect in respect of sums arising on or after 6th April 2015, whenever the fund was set up or the arrangements were entered into.

Anti-Avoidance and fairness

The Government has announced various measures to help tackle tax avoidance, address unfair tax outcomes and support investment. Unless otherwise stated, the legislation has already taken effect from 3rd December 2014.

- Corporation Tax - the Government will restrict the Corporation Tax relief a company may obtain for the acquisition of the reputation and customer relationships associated with a business ('goodwill') when the business is acquired from a related individual or partnership.

- Capital Gains Tax - Entrepreneurs' Relief (ER).

    - The Government will prevent individuals from claiming ER on disposals of the reputation and customer relationships associated with a business ('goodwill') when they transfer the business to a related close company.

    - The Government will allow gains which are eligible for ER, but which are instead deferred into investments which qualify for the Enterprise Investment Scheme (EIS) or Social Investment Tax Relief (SITR), to remain eligible for ER when the gain is realised. This will benefit qualifying gains on disposals that would be eligible for ER but are deferred into EIS or SITR on or after 3rd December 2014.

- Diverted profits tax - A new tax to counter the use of aggressive tax planning techniques by multinational enterprises to divert profits from the UK will be introduced. The Diverted Profits Tax will be applied using a rate of 25% from 1st April 2015.

- Strengthening civil deterrents for offshore tax evasion - Legislation will be introduced to enhance civil penalties for offshore tax evasion. Amongst other areas, this will amend the existing offshore penalties regime to include IHT. Most changes will come into effect from April 2016.

- Promoters of tax avoidance schemes - Legislation covering 'high-risk' promoters of tax avoidance schemes will be updated and clarified, ensuring that the 2014 legislation functions as intended.

- Disclosure of Tax Avoidance Schemes (DOTAS) - Legislation will be introduced to strengthen the DOTAS regime, including through updating existing scheme hallmarks, adding new hallmarks, and removing 'grandfathering' provisions for the future use of schemes that were excluded by those provisions.