

BUDGET 2015



SUMMARY OF SUMMER BUDGET 2015

CORPORATE



Main rate of Corporation tax

The Chancellor continues to reduce the main rate of Corporation Tax. This was initially cut from 28% in 2010 to 20% in order to boost UK competitiveness. This will now fall further, from 20% to 19% in 2017, and then to 18% in 2020, set to benefit over a million businesses.

Annual Investment Allowance

The temporary increase on Annual Investment Allowance (AIA) from £25,000 to £200,000 in April 2014 was due to end in 31 December 2015. This measure has been made permanent from 1 January 2016 for all qualifying investment in plant and machinery.

Business tax roadmap

The government will be publishing a 'business tax roadmap' by April 2016 detailing plans for future changes over the rest of the parliament for business taxes.

Venture Capital Schemes

Three schemes, seed enterprise investment scheme (SEIS), enterprise investment scheme (EIS) and venture capital trust scheme (VCT) where set up to encourage individuals to invest in small and medium sized entities (SME), by offering large tax benefits to set off the addition risks associated with investing in such entities.

The government are proposing to introduce restrictions on the current EIS's and VCT's. The cap for money raised under will be reduced to £12m from £15m, although so-called 'knowledge intensive' companies will be capped at £20m. The annual limit of £5m will remain.

New qualifying criteria will be introduced. 'Knowledge Intensive' companies will need to be less than 10 years old, with all other qualifying companies to be under 7 years from their first commercial sale, at the time the first issue of shares under the scheme. This will not apply where the investment represents more than 50% of turnover averaged over the preceding five years, where the investment is intended to grow and develop the business.

Individuals will be denied EIS relief on new shares issued under the scheme if they already hold shares in the qualifying company, unless the shares they hold are themselves EIS or SEIS qualifying shares.

The rule currently imposed requiring that 70% of SEIS funds have to be spent before EIS or VCT investment can be made will be removed.



BCA PERSONAL TAX



Personal tax rates and allowances

The Chancellor committed to increasing both the personal allowance and higher rate thresholds.

The tax free personal allowance will increase to £11,000 in 2016-17, with 2020 seeing this allowance reaching £12,500. An introduction of new laws will be expected to be introduced so once this level has been reached an employee working 30 hours a week on minimum wage will not pay any income tax.

The higher rate threshold will increase from £42,385 in 2015-16 to £43,000 in 2016-17, before the individual starts paying 40% tax.

Dividend income

A reform of dividend income will be introduced from 6 April 2016. Currently dividend income receives a notional tax credit, which takes into account that corporation tax is paid through the company. Due to the falling corporation tax rates the chancellor will remove the notional tax credit.

In addition to this, dividend income will be taxed at 7.5% for basic tax payers, 32.5% for higher rate tax payers and 38.1% for additional tax rate payers. There will be a £5,000 tax free allowance.

Inheritance Tax

The Inheritance tax (IHT) nil band will remain at £325,000 until 5 April 2021, however an additional nil-rate band will be available to main residences from 2017-18, when passed on to their children or grandchildren on their death.

This family home allowance will start at £100,000 in 2017-18, rising to £125,00 in 2018-19, £150,00 in 2019-2020, and £175,000 in 2020-2021. The allowance will be added to the IHT threshold of £325,00, thus providing up to a total allowance of £1m in 2020-2021 for many couples (£325,000 + £175,000 = £500,000 each).

The Chancellor has also made this allowance available to those who downsize, or cease to own a home after 7 July 2015, and as a result have passed on assets of an equivalent value, up to the additional band to their descendants on death. This concession is however subject to a technical consultation.

For those leaving a net value of over £2m, the new allowance will be tapered away by £1 for every £2 over this amount.

Non-Domicile

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.

Landlords

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

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.

Pensions

As set out 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 £1.25m to £1m 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.

ISA's

A consultation document has been issued on extending qualifying investment offered via crowd funding platforms. Furthermore, plans to allow investment in loans arranged via peer-to-peer platforms under a new 'innovative finance' ISA are expected to go live from 6 April 2016.

In order to protect the ISA limits, cash withdrawn from an ISA and then replaced later in the same tax year, will no longer count towards their ISA investment limit in that year. This will be in effect from 6 April 2016.

The Government is providing assistance to help first time buyers, with a new 'Help-To-Buy- ISA, which will be made available from 1 December 2015 for a minimum of four years.

Individuals aged 16 and over will be able to contribute £200 a month, with the government adding 25% as a tax free bonus. An initial deposit of up to £1,000 can be made.

The bonus will be available on properties that are for residential purposes only, and not a buy-to-let, up to a value of £450,000 in London and £250,000 outside of London. These ISA's will be made available per person, rather than per home, meaning couples can benefit from both receiving the bonus.

Employment & Welfare



Reform of the welfare system

As expected the Chancellor targeted the welfare system saying it will be reformed to make it fairer for taxpayers who pay for it, while continuing to support the most vulnerable. The reform is expected to save the government £12b.

Working age benefit

Working-age benefits, including tax credits and Local Housing Allowance, will be frozen for 4 years from 2016-17.

Household benefit cap

The household benefit cap, which puts a ceiling on the amount of benefits for working age families 'out of work' can receive, will be reduced to £23,000 in London and £20,000 outside of London. The exemptions that currently apply will remain.

Child tax credits

Support will no longer be provided for a third or subsequent child born on or after 6 April 2016, as this will be limited to only 2 children. Transitional protections will be introduced to cover children with disabilities, temporary claims interruptions, multiple births and other special circumstances.

Childcare

From September 2017, working families with 3 and 4 year olds will receive 30 hours of free childcare – an increase from the 15 hours they're currently offered.

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.

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 6 months after the start of their claim.

Social Housing

Rents for social housing will be reduced by 1% a year for 4 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

Employment

National Living Wage

A new National Living Wage (NLW) 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.

In recognition that the NLW may increase costs for some businesses, the NIC employment allowance will increase from £2,000 to £3,000 a year from April 2016. The new level of employment allowance is intended to cover the employers' NIC costs of four full time workers earning the NLW. While the increase in the employment allowance is welcome for small employers, businesses with a large population of workers currently earning the NMW may notice a significant rise in their employment costs from April 2016.



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