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Chancellor's Budget Summary

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Photo BBC

SUMMARY OF THE MAIN ANNOUNCEMENTS IN THE BUDGET ON THE 8th JULY 2015

In today's budget the Chancellor announced that the government will:

- Increase the level of the personal allowance to £11,000 for 2016/17, up from £10,600 in 2015/16. The higher rate threshold will be increased from £42,385 to £43,000 from 2016/17.

- Cut Corporation Tax rates to 19% from 2017 and 18% by 2020.

- Reform taxation of dividends.

- Raise Insurance Premium Tax from 6% to 9.5% from November 2015.

- Require the BBC to fund free TV licences for the over 75s.

- Introduce a new National Living Wage set at £7.20 from April 2016. This is an increase of 70p on the present minimum wage. The Office for Budget Responsibility predicts a "fractional" effect on employment. Northern Ireland with a greater number of smaller employers may feel the effect more.

- Honour commitment of a "tax lock" to rule out increases in the main rates of income tax, VAT and National Insurance for the duration of this Parliament, providing certainty to working people.
- Build on the existing crackdown on tax avoidance, aggressive tax planning and evasion, which achieved £7 billion of annual savings over the last parliament.
- Improve tax compliance among small businesses, giving HMRC the power to acquire data from online business intermediaries and electronic payment providers to help identify businesses that are trading but not declaring or paying tax.
- Increase the National Insurance Employment Allowance by 50% to £3,000 per annum.
- Consult on abolishing Class 2 NIC and reforming Class 4 NIC.

FORECASTS

The Office for Budget Responsibility (OBR) forecasts GDP growth of 2.4% in 2015 and 2.3% in 2016, with employment to be 31.2 million in 2015, rising each year to 32.1 million in 2020.

The Organisation for Economic Cooperation and Development forecasts the UK to be the fastest growing G7 economy again in 2015.

Christine Lagarde, Managing Director of the International Monetary Fund, said "When we look at the comparative growth rates delivered by various countries in Europe it's obvious that what is happening in the U.K. has actually worked".

CORPORATION TAX

The current rate of Corporation Tax, currently 20% from 1st April 2015, will be cut further to 19% in 2017 and 18% in 2020.

ANNUAL INVESTMENT ALLOWANCE

Originally introduced as a temporary tax break, the Annual Investment Allowance (AIA) is to be set at £200,000 from January 2016. This is an increase of £175,000 from the previously announced limit of £25,000 and will particularly help manufacturing industry and agriculture.

DIVIDENDS

Major reform is announced for dividends. This has been long expected. The first £5,000 of dividend income will be tax free for all taxpayers. Above this limit the rates will go up from nil% to 7.5% for basic rate taxpayers, from 25% to 32.5% for higher rate taxpayers and from 30.56% to 38.1% for additional rate taxpayers.

These changes are intended to reduce the incentive to incorporate and remunerate through dividends rather than through wages to reduce tax liabilities.

Dividends paid within pensions and ISAs will remain tax-free and unaffected by these changes.

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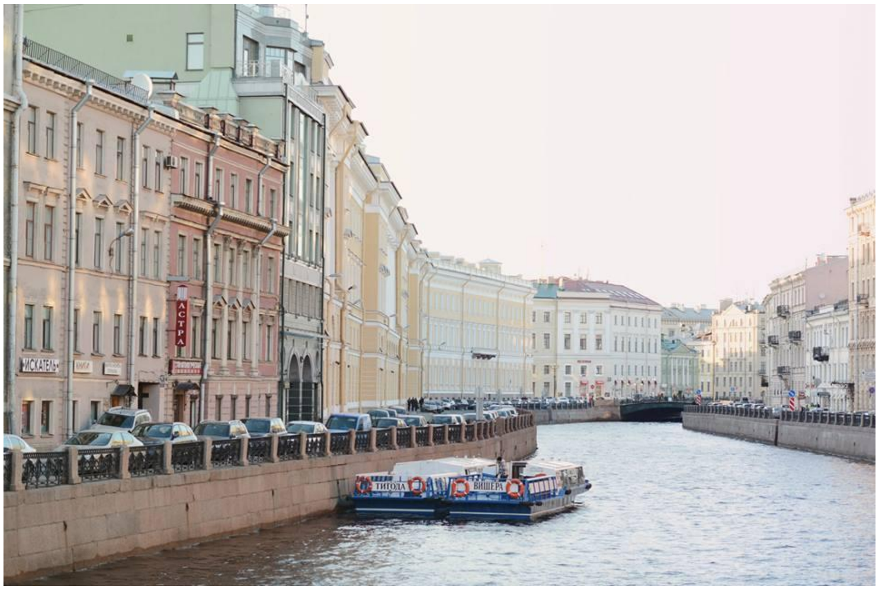
FARMERS AVERAGING

Extending averaging for farmers – As announced at March Budget 2015, the averaging period for farmers will be extended from 2 years to 5 years as of April 2016. The government will publish a consultation on the detail of the extension.

GOODWILL

Corporation Tax relief on the writing off of goodwill will be removed for goodwill purchased from 8th July, 2015 onwards.



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BUY-TO-LET PROPERTIES

The chancellor has announced plans to create a more level playing field between those buying a home to let and those buying a home to live in. He intends to do this by restricting mortgage interest tax relief to the basic rate of tax for those buying properties to let.

Landlords previously receiving up to 45% tax relief will eventually receive 20% tax relief on interest payments with the withdrawal of higher rate reliefs being phased in over a four year period, starting in April 2017.
It is hoped that this will curb the buy-to-let boom in the light of the Bank of England's warning that this could pose a risk to the UK's financial stability.

Reform of the Wear and Tear Allowance – From April 2016, the government will replace the Wear and Tear Allowance 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.

RENT A ROOM RELIEF

The tax relief will be raised from its current limit of £4,250 which has existed for 18 years to £7,500 from next year.

INHERITANCE TAX ON THE FAMILY HOME

From 2017 a new £175,000 allowance for homes bequeathed to direct descendants will be phased in. This will be in addition to the existing £325,000 threshold which will be fixed until the end of 2020-21.
The allowance will be up to £100,000 in 2017-18, up to £125,000 in 2018-19, up to £150,000 in 2019-20, and up to £175,000 in 2020-21.

Both allowances will be transferrable to spouse or partner.

The relief will be tapered away for estates worth more than £2 million.

The result will be that parents or grandparents can pass up to £1 million on to children or grandchildren free of inheritance tax.

PENSIONS TAX RELIEF REFORMS

From next year the Annual Allowance will be tapered away to a minimum of £10,000 for the highest earners.

The Chancellor wants to help those starting to save for a pension. He claims to be open to further radical change and in furtherance of that will today publish a Green Paper that 'asks questions, invites views, and takes care not to pre-judge the answer'.

WELFARE REFORM

'Those who can work will be expected to look for work, and take it when it is offered.'

For those aged 18-21 a new Youth Obligation is to be introduced that says they must either earn or learn. The automatic entitlement to housing benefit for 18-21 year olds is abolished, with exceptions made for vulnerable people and other hard cases.

From September 2017 all working parents of 3 and 4 year olds will receive free childcare of up to 30 hours a week.

Working age benefits will be frozen for four years including Tax Credits and Local Housing Allowance.

Statutory payments like Maternity Pay and the disability benefits – PIP, DLA and ESA Support Group will be excluded from the freeze.

Rents paid in the social housing sector will not merely be frozen, but reduced by 1% a year for the next four years.

From next year, the Government will reduce the level of earnings at which a household's Tax Credits and Universal Credit start to be withdrawn.

Child benefit - Tax credit and universal credit support to be limited to first two children from April 2017. But multiple births will be excluded from the limit.

The income threshold in tax credits will be reduced, from £6,420 to £3,850.

Universal Credit work allowances will be similarly reduced – and will no longer be awarded to non-disabled claimants without children.

Taken all together, the freeze in working age benefits, the downrating of social rents, and the focus of tax credits and Universal Credit on the lowest income households are projected to reduce the welfare bill by £9 billion a year by 2019-20.

The Chancellor reiterated his belief that the benefits system should not support lifestyles and rents that are not available to the taxpayers who pay for that system. As a consequence, the benefits cap will be reduced from £26,000 to £23,000 in London, and £20,000 in the rest of the country.

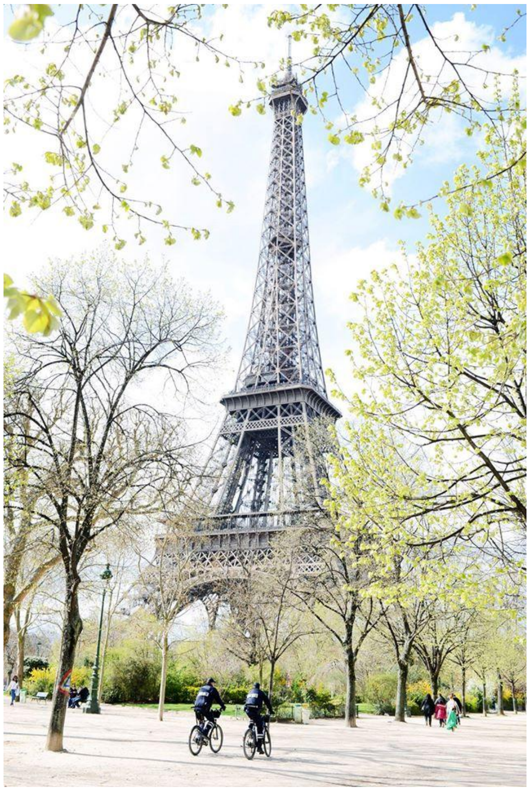
TAX ON BANKS

The Chancellor will add an 8pc additional tax on banks' profits from January 2016. The tax will apply to banks' entire annual profits, with no relief given for losses made in previous years. In return, he will start to cut back the bank levy, reducing it from 0.21pc to 0.18pc next year, then gradually reducing it to 0.1pc in 2021.

IR35

The Government will attempt to improve the effectiveness of existing IR35 legislation. This is intended to prevent people working through a limited company where they would normally be regarded as employees. It is estimated that the exchequer loses £400m annually through this arrangement.

NON DOMICILED INDIVIDUALS



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From April 2017, anybody who has been resident in the UK for more than 15 of the past 20 tax years will be deemed UK-domiciled for tax purposes. Furthermore, it will no longer be possible for somebody who is born in the UK to parents who are UK domiciled to claim non-domicile status if they leave but then return and take up residency in the UK. These changes will bring an end to the permanent non-domicile status.

From April 2017 the government will also introduce new rules so that everybody who owns residential property in the UK and would otherwise pay inheritance tax on that property cannot avoid paying it by holding it in an offshore structure. These changes will limit abuses of the rules by people with non-domicile status who use complicated structures to make their UK homes look like offshore assets.

VEHICLE EXCISE DUTY RATES AND BANDS

New cars will not need an MOT until they are four years old, rather than three at the moment.

Fuel duty has been frozen for another year.

Insurance premium tax is being increased from 6pc to 9.5pc.

Vehicle Excise Duty is also being reformed. New cars will pay a variable rate, but beyond the first year, drivers will pay £140 in tax on most cars. Drivers are exempt if the car has zero carbon emissions.

One exception is for expensive cars - if the vehicle costs more than £40,000 and incurs the £140 charge, the driver will pay an additional £310 annual surcharge.

FEEL FREE TO CONTACT ME FOR FURTHER DETAILS ON ANY OF THE ABOVE
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