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SUMMER BUDGET REPORT 2015

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INTRODUCTION

No one quite knew what to expect in the first budget by a majority Conservative government for almost 20 years.

In his seventh Budget Statement as chancellor, George Osborne promised a 'big budget for a country with big ambitions'.

As predicted there were details on how the government will fulfil its pre-election goals of reducing welfare spending by £12 billion and changing the inheritance tax nil-rate band structure.

There were also some surprises such as the compulsory introduction of the national living wage from April 2016 and a reduction in corporation tax.

The Chancellor also gave an update on the wider economic picture using figures from the Office for Budget Responsibility (OBR). Growth for 2014 was 3% (up from the forecast of 2.6% in March) and is expected to be 2.4% in 2015 thanks to stronger private consumption and investment.

This is the second year in a row that the UK is forecast to have the strongest economic growth of any major advanced economy.

The OBR predicts that a million more jobs will be created by the end of the Parliament.

The deficit is forecast to be 3.7% of GDP in 2015 and will fall by around 1% each year until 2019 when there will be a small budget surplus of 0.4%.

Despite the continued growth in the UK, Osborne warned that the 'global economic risks are rising', pinpointing slowing growth in the USA and China as examples.

The following report summarises the announcements made by Chancellor George Osborne during the Summer Budget on Wednesday 8 July 2015.



Important information:

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future. The information in this report is based upon our understanding of the Summer Budget 2015, in respect of which specific implementation details may change when the final legislation and supporting documentation are published.

This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation. You should not make any investment decisions based upon its content.

Whilst considerable care has been taken to ensure that the information contained within this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information.

AT A GLANCE

The measures announced in Summer Budget 2015 include:

BUSINESS

CORPORATION TAX

The corporation tax rate will be cut to 19% in 2017 and 18% in 2020. Payment dates for large companies will be brought forward.

NATIONAL LIVING WAGE

A compulsory wage for over 25s of £7.20 an hour will be introduced in 2016, rising to over £9 in 2020.

DIVIDENDS

Dividend tax credit will be replaced by an annual tax-free allowance of £5,000. Tax rates of 7.5% and 32.5% will be set for basic rate and higher rate taxpayers on income from dividends.

ANNUAL INVESTMENT ALLOWANCE

The allowance will be £200,000 from 1 January 2016.

NATIONAL INSURANCE

The employment allowance will rise from £2,000 to £3,000 from April 2016.

APPRENTICESHIPS

An apprenticeship levy will be introduced for large companies to help fund training.

PERSONAL

PERSONAL ALLOWANCE

The personal allowance will rise from £10,600 to £11,000 from April 2016. The higher rate threshold will increase to £43,000 from April 2016.

INHERITANCE TAX

A £175,000 transferable threshold for residential property passed to children and grandchildren will be phased in from 2017.

PROPERTY TAX

Mortgage interest rate relief on buy-to-let property will be restricted to the basic rate of income tax. This will be phased in over 4 years starting in April 2017.

RENT-A-ROOM RELIEF

Rent-a-room relief will rise to £7,500 a year from April 2016.

NON-DOMICILES

The permanent non-domicile tax status will be abolished from April 2017.

PENSIONS

Pension contributions tax relief for additional rate taxpayers will be tapered to a minimum of £10,000 a year from April 2016.

CHILDCARE

Working parents with children aged 3 or 4 will receive up to 30 hours of free childcare from September 2017.

OTHER

TRANSPORT

A new roads fund will be created to ensure continued investment in the road network.

STUDENT MAINTENANCE GRANTS

Maintenance grants will be replaced by loans of up to £8,200 for new students from the 2016/17 academic year.

TV LICENCE FEES

The BBC will be responsible for funding the over-75s licence fee concession from April 2018.

NORTHERN INFRASTRUCTURE

£30 million in additional funding will be provided to Transport for the North over 3 years.

BANK LEVY

Bank levy will be reduced over 6 years and replaced with an 8% surcharge on banking sector profits from 1 January 2016.

DUTIES

New vehicle excise duties will be introduced in 2017 and fuel duty will remain frozen.

Contact us today to discuss the Summer Budget

BUSINESS

CORPORATION TAX RATES

The corporation tax rate will reduce from 20% to 19% from 2017. A further reduction to 18% will follow in 2020.

CORPORATION TAX RATES	
1 April 2015 to 31 March 2017	20%
1 April 2017 to 31 March 2020	19%
From 1 April 2020	18%

CORPORATION TAX PAYMENT DATES

For accounting periods starting on or after 1 April 2017, the government will introduce new corporation tax payment dates for companies to pay in quarterly instalments in the third, sixth, ninth and twelfth months of their accounting period.

This measure affects companies with annual taxable profits of £20 million or more. Where a company is a member of a group, the £20 million threshold will be divided by the number of companies in the group.

ANNUAL INVESTMENT ALLOWANCE

The annual investment allowance for all qualifying investment in plant and machinery made on or after 1 January 2016 will be £200,000. The allowance is currently £500,000.

EMPLOYMENT ALLOWANCE

From April 2016, there will be an increase in the annual employment allowance from £2,000 to £3,000.

Companies where the director is the sole employee will no longer be eligible to claim the employment allowance from April 2016.

RESTRICTION OF CORPORATION TAX RELIEF

The corporation tax relief a company may obtain for the cost of 'goodwill', such as the amount paid for the reputation or customer relationships of the business purchased, will be restricted for all acquisitions and disposals on or after 8 July 2015.

This measure removes the tax relief that is available when structuring a business acquisition as a business and asset purchase so that goodwill can be recognised and amortised over time.

This advantage is not generally available to companies which purchase the shares of the target company. Removing this relief reduces this distortion and levels the playing field for merger and acquisition transactions.

R&D TAX CREDITS: UNIVERSITIES AND CHARITIES

A measure to amend an anomaly in the R&D tax credits legislation was announced so that universities and charities are unable to claim R&D credit, in line with the original intention of the policy. This will apply to expenditure incurred from 1 August 2015.

CONTROLLED FOREIGN COMPANIES LOSS RELIEF RESTRICTION

From 8 July 2015, the government will remove the ability for companies to use UK losses and reliefs against a controlled foreign company charge.

This change should improve the effectiveness of the controlled foreign company regime in both deterring the diversion of profits and taxing any diverted profits.

DISPOSAL OF STOCK OTHER THAN IN TRADE

Amendments are to be made to the legislation to stop corporate groups from using a transfer pricing override to manipulate the value of assets in intergroup transfers.

The changes relating to trading stock and intangible assets have been introduced to ensure that disposals made other than in the normal course of business are brought into account for tax purposes at full market value.

TAXATION OF CARRIED INTEREST

The government will introduce legislation to ensure that sums which arise due to investment fund managers by way of carried interest will be charged to the full rate of capital gains tax, with only limited deductions being permitted. This measure will be effective from 8 July 2015.



The annual investment allowance will be £200k from January 2016

EMPLOYEE BENEFITS AND EXPENSES

A statutory exemption is to be introduced from April 2016, which is intended to simplify the tax system by introducing a statutory exemption for trivial benefits in kind costing less than £50.

SELF-EMPLOYED NATIONAL INSURANCE CONTRIBUTIONS

Consultation will commence in autumn 2015 on abolishing Class 2 national insurance contributions (NICs) and reforming Class 4 NICs for the self-employed.

BANK CORPORATION TAX SURCHARGE

A supplementary tax of 8% on banking sector profits will be introduced from 1 January 2016.

The tax will apply to the banks' corporation tax profits prior to the use of any existing carried forward losses. The first £25 million of profit within a group will not be subject to this tax charge.

Where a company's accounting period straddles 1 January 2016, the period will be split and the surcharge will apply to profits of the notional period commencing on 1 January 2016.

BANK LEVY

A reduction to the full bank levy rate will be implemented changing the rate from 0.21% to 0.18% in 2016.

New legislation will also be introduced to change the tax base to UK operations only from 1 January 2021.

Talk to us about your business

PERSONAL

PERSONAL ALLOWANCE INCREASE

The income tax personal allowance will increase from £10,600 in 2015/16 to £11,000 in 2016/17. It will further increase to £11,200 from 2017/18.

PERSONAL ALLOWANCE INDEXATION CHANGE

The government will legislate to ensure that once the personal allowance reaches its target of £12,500 it will be uprated in line with the national minimum wage (NMW).

The aim of the proposal is to ensure that any person on the NMW working 30 hours per week or less is unlikely to pay income tax. A review into aligning the NMW timeline with the tax year was also announced.

HIGHER RATE THRESHOLD INCREASE

The higher rate threshold will increase from £42,385 in 2015/16 to £43,000 in 2016/17. It will increase to £43,600 in 2017/18. There will be a corresponding increase in the national insurance contributions upper earnings limit to ensure it remains aligned with the higher rate threshold.

HIGHER RATE THRESHOLD	
2015/16	£42,385
2016/17	£43,000
2017/18	£43,600

TAX ON DIVIDENDS

The government has introduced major changes to the taxation of company dividends. This is likely to increase the taxation liability of many director/shareholders of limited companies.

The dividend tax credit will be abolished and replaced with a new dividend tax allowance of £5,000 per year from April 2016.

New rates of tax on dividend income above the allowance will be introduced, which will be 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

The announcements were not accompanied by any detail so the impact of this change will become clearer as further documents are made available.

RESTRICTING FINANCE COST RELIEF FOR LANDLORDS

The government will restrict the relief on finance costs, including mortgage interest payments, available to individual landlords of residential property to the basic rate of tax. The restriction will be phased in over a 4 year period, starting from April 2017.

INCREASE IN RENT-A-ROOM RELIEF

The level of rent-a-room relief will increase from £4,250 to £7,500 from April 2016 to help the growing numbers of individuals renting out their spare rooms.

WEAR AND TEAR ALLOWANCE CHANGES

The government will replace the existing wear and tear allowance with a new relief that will allow all residential landlords to deduct the actual cost of replacing furnishings from April 2016. Capital allowances will continue to apply to landlords of furnished holiday lets. A technical consultation will be published on the new relief before the summer.

ABOLISHING NON-DOMICILE STATUS FOR LONG-TERM RESIDENTS

Legislation will be introduced from April 2017 to ensure that anybody resident in the UK for more than 15 of the past 20 years will be deemed to be domiciled in the UK for tax purposes.

NON-DOMICILE STATUS FOR UK BORN INDIVIDUALS

From April 2017, any individual who is born in the UK to parents who are domiciled here will not be eligible to claim non-domicile status while they are resident in the UK.

AMENDMENT TO VENTURE CAPITAL SCHEMES

Subject to state aid approval, new measures were introduced to amend enterprise investment scheme (EIS) and venture capital trust (VCT) rules. Some of the measures include:

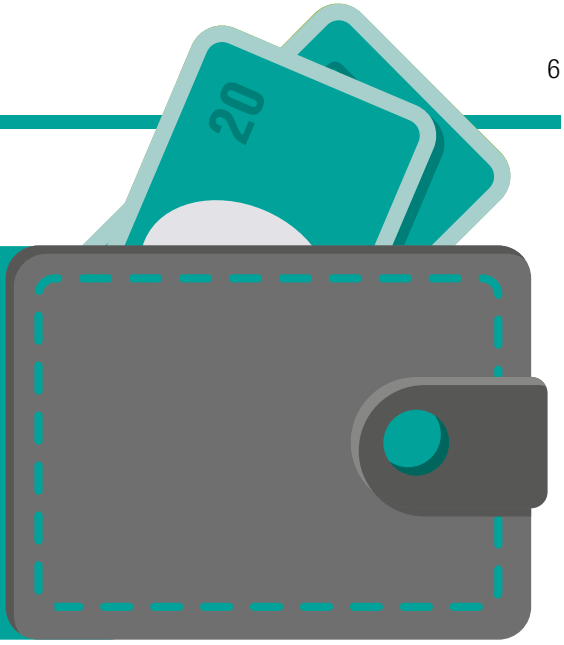
- a new cap on the total investments a company may raise under EIS, VCT or other risk finance investments of £12 million or £20 million for knowledge intensive companies
- preventing companies from using EIS or VCT investments to acquire a business and a requirement that investors are independent from the company at the time of the first share issue.

These measures will take effect from royal assent to the Summer Finance Bill 2015.

TAX-FREE CHILDCARE

Due to a legal challenge, tax-free childcare is to be launched from early 2017. In the meantime the existing scheme, employer supported childcare remains open to new entrants until the new scheme is introduced.

Personal allowance will increase to £11k in 2016/17



SAVINGS AND PENSIONS

LIFETIME ALLOWANCE

The lifetime allowance for pension contributions is to reduce from its current level of £1.25 million to £1 million from 6 April 2016.

As on previous occasions when this allowance changes there will be transitional protection for pension rights already over £1 million in order to ensure that this change is not retrospective.

From April 2018 it is intended to index the allowance annually in line with CPI, which means that this should be the last of these reductions, which have seen the allowance reduce from £1.5 million.

REDUCED ANNUAL ALLOWANCE

From April 2016 there will be a reduction in the £40,000 annual pension allowance where income, including pension contributions exceeds £150,000.

The annual allowance will reduce by £1 for every £2 of income in excess of £150,000, down to a minimum of £10,000.

FURTHER CHANGES TO PENSION RELIEF

A consultation document was published which will further look at a reform of pensions tax relief. This will include reviewing whether the taxation of pensions should be more closely aligned with the taxation of ISAs.

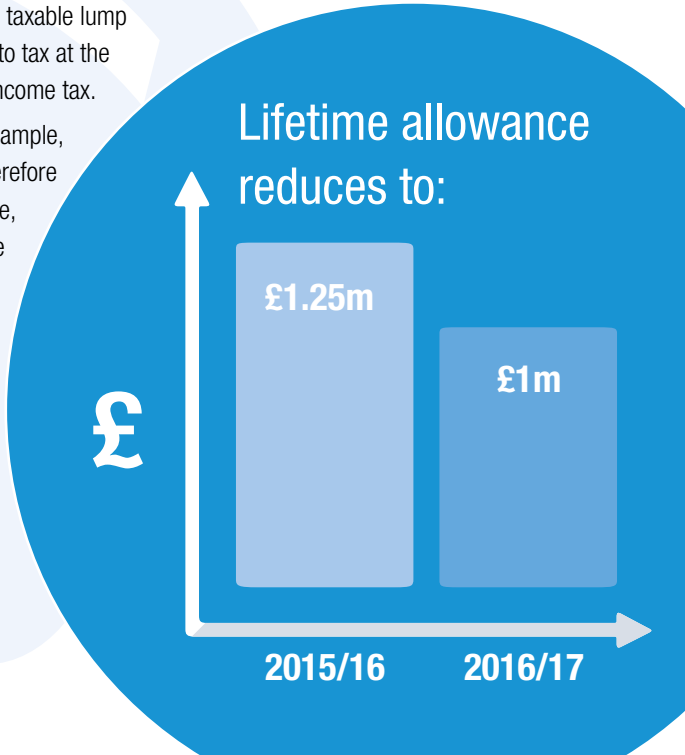
LUMP SUM DEATH BENEFITS

From or after 6 April 2016, where someone dies at the age of 75 or over, taxable lump sum benefits will be subject to tax at the recipient's marginal rate of income tax.

Where the recipient is, for example, a trust or a company and therefore does not have a marginal rate, the 45% charge will continue to apply.

EQUITABLE LIFE

The Equitable Life payment scheme will close to new claimants on 31 December 2015. Further endeavours are to be made to trace remaining policyholders due £50 or more. There will be a further payment to Equitable Life policyholders on pension credit who received 22.4% of their relative loss. This payment will be for an additional 22.4% and is to be made in early 2016.



INHERITANCE TAX

MAIN RESIDENCE AND THE INHERITANCE TAX NIL-RATE BAND

A change in line with the last 2 Conservative manifestos is to be introduced although the change is not to commence until 6 April 2017 and will not be fully implemented until 6 April 2020.

An additional inheritance tax (IHT) nil-rate band is to be introduced when a residence is passed on death to direct descendants.

ADDITIONAL NIL-RATE BANDS		
	ONE SPOUSE	TWO SPOUSES
2017/18	£100,000	£200,000
2018/19	£125,000	£250,000
2019/20	£150,000	£300,000
2020/21	£175,000	£350,000

Any unused nil-rate band will be transferred to a surviving spouse or civil partner. When added to the £650,000 existing nil-rate band (2 x £325,000) this could provide a total nil-rate band of £1 million for a married couple or civil partners.

From 2021/22 onwards the nil-rate bands will be increased in line with the CPI.

It was also proposed that this new nil-rate band will be available when a person downsizes or ceases to own a home on or after 8 July 2015 and assets of an equivalent value, up to the value of the additional nil-rate band, are passed on death to direct descendants.

Final details are subject to a technical consultation.

There will also be a tapered withdrawal of the additional nil-rate band for estates with a net value of more than £2 million. This will be at a withdrawal rate of £1 for every £2 over this threshold.

THE IHT NIL-RATE BAND

The government has confirmed that the current nil-rate band remains frozen at £325,000 until April 2021 – previously this was frozen until April 2018.

IHT AND NON-DOMICILES

From April 2017 the point at which a non-domiciled individual is deemed domiciled for IHT purposes will change to 15 out of 20 years.

It is also intended to treat individuals who were born in the UK to parents who are domiciled here, as UK domiciled while they are in the UK.

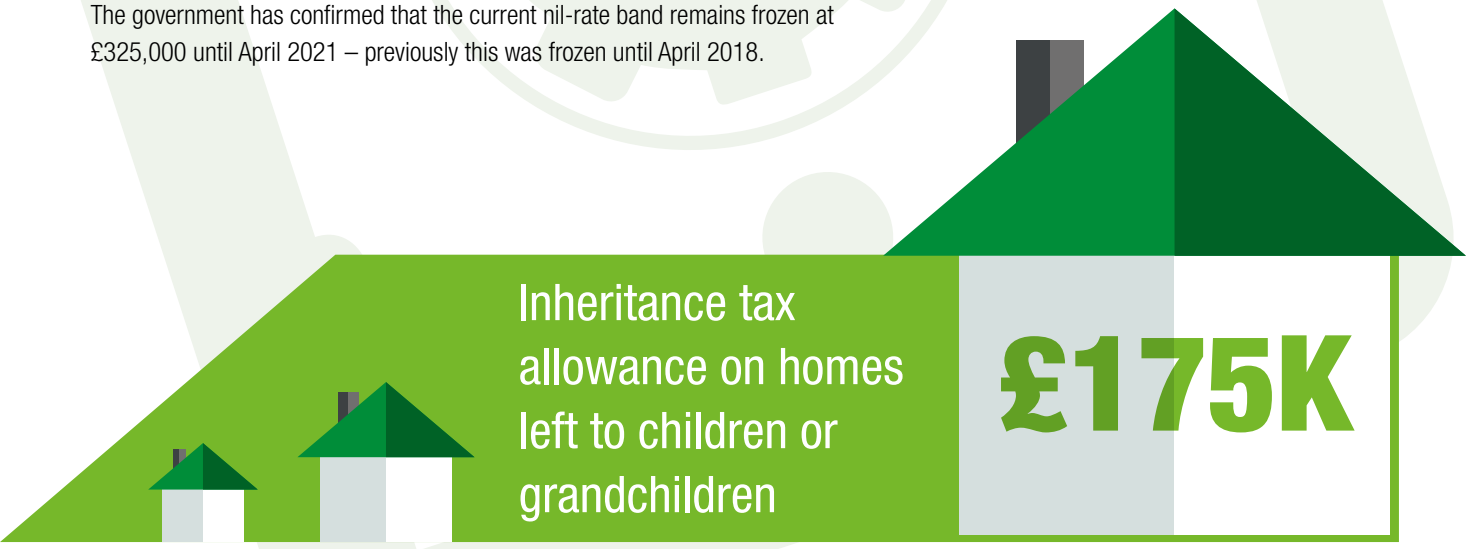
IHT ON UK RESIDENTIAL PROPERTY OF NON-DOMICILES

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

A detailed paper was also published which it is intended to provide a basis for consultation later in 2015.

IHT AVOIDANCE

New rules are to be introduced to target avoidance through the use of multiple trusts as previously announced in Autumn Statement 2014.



WELFARE

TAX CREDIT DEBT RECOVERY

The recovery of tax credits is to be more intensive. HMRC will recover overpayments of working tax credit (WTC) from payments of child tax credit (CTC), and recover overpayments of CTC from payments of WTC.

HMRC will extend the use of the private sector to improve the collection of tax credit debt where this is in excess of £3,000 and has already passed through the extending tax credits debt collection process.

INCREASE IN THE TAX CREDITS TAPER RATE

From April 2016 the taper rate in tax credits will increase from 41% to 48% of gross income. Once claimants earn above the income threshold in tax credits, it will be withdrawn at a rate of 48p for every extra pound earned.

UNIVERSAL CREDIT WORK ALLOWANCES

From April 2016 the income thresholds in tax credits will reduce from £6,420 to £3,850 per year.

Work allowances in universal credit (UC) will be abolished for non-disabled childless claimants, and reduced to £192 per month for those with housing costs and £397 per month for those without housing costs. Claimants earning below these amounts will retain their maximum award.

LIMIT CHILD ELEMENT IN TAX CREDITS AND UC

The child element of tax credits and UC will no longer be awarded for third and subsequent children born after 6 April 2017. Multiple births and other exceptional circumstances will be protected from the 2 children limit.

INCOME RISE DISREGARD IN TAX CREDITS

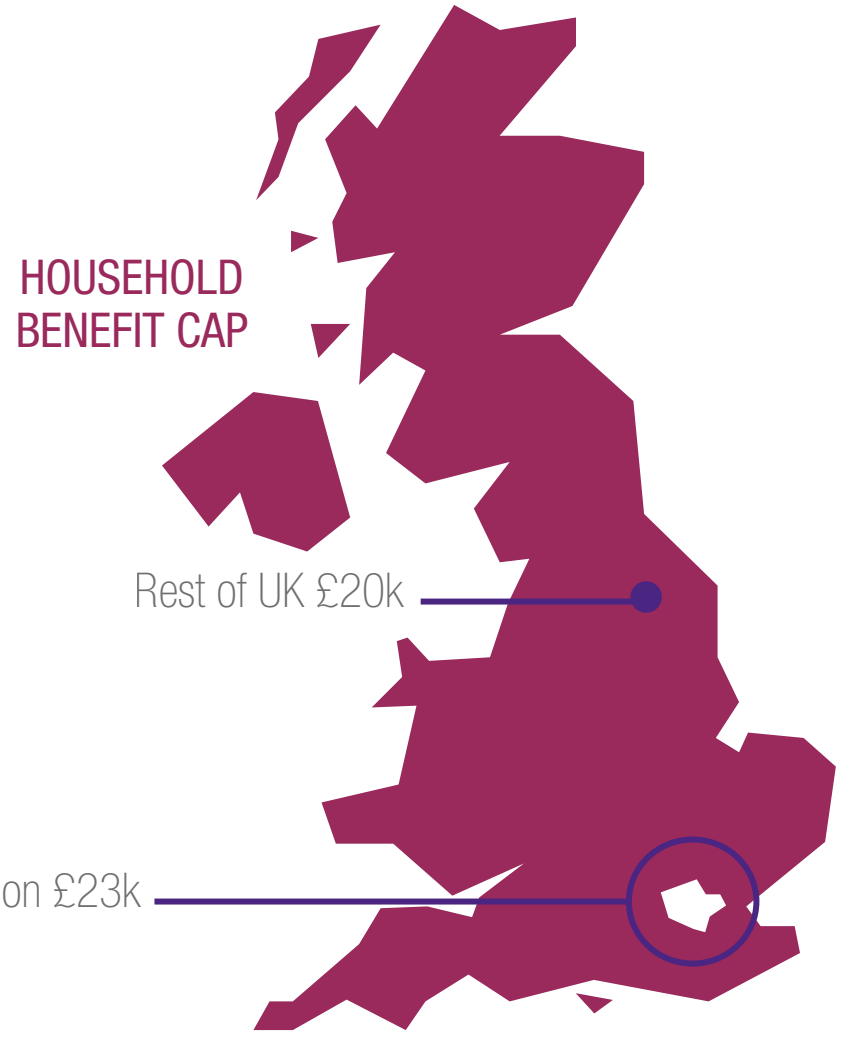
From April 2016 the amount by which a claimant's income can increase in-year compared to the previous year's income before it is adjusted is to be reduced from £5,000 to £2,500.

BENEFITS UPRATING

Most working-age benefits, for example Jobseeker's Allowance and Income Support, will be frozen for 4 years from April 2016. This freeze also applies to CTC and WTC (excluding disability elements).

HOUSEHOLD BENEFIT CAP

The household benefit cap will be reduced to £20,000, except in Greater London where the cap will be £23,000.





OTHER MEASURES

VAT ON SERVICES ENJOYED IN THE UK

HMRC 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.

INSURANCE PREMIUM TAX

From 1 November 2015 the standard rate of insurance premium tax will increase from 6% to 9.5%.

VEHICLE EXCISE DUTY

Purchasers of cars first registered on or after 1 April 2017 will be liable to a first year rate, which starts at £10 for cars with emissions of 1-50 g/CO_2/km to £2,000 for cars with emissions in excess of 255 g/CO_2/km.

A flat standard rate of £140 will apply in all subsequent years, except for zero-emission cars, which will continue to attract a £0 rate. Cars with a list price of over £40,000 will attract a supplement of £310 per year for the first 5 years in addition to the standard rate.

From 2020/21 all of the revenue raised from vehicle excise duty in England will be invested in England on the English Strategic Road Network.

CLIMATE CHANGE LEVY

The climate change levy (CCL) exemption will be removed for renewably sourced electricity from 1 August 2015. There will be a transitional period for suppliers, from the same date, to claim the CCL exemption on any renewable electricity generated before that date.

AGGREGATES LEVY

The 2014 legislation that suspended exemptions from the aggregates levy is to be repealed. All exemptions apart from shale will be fully restored. Once the reinstatement of exemptions comes into force on 1 August 2015, businesses will be able to claim a refund of any aggregates levy paid since 1 April 2014 (with interest) on materials for which the exemption was found to be lawful by the European Commission.

The national living wage for over-25s will be £7.20 an hour in 2016/17

NATIONAL LIVING WAGE

A new premium for those aged 25 and over starting at 50 pence will be introduced leading to a new national living wage (NLW) of £7.20 in April 2016. It is envisaged that the NLW could reach the government's target of over £9 by 2020.

NATIONAL MINIMUM WAGE

The main NMW rate is set to increase by 20p per hour to £6.70 on 1 October 2015. The premium referred to above means that a current NMW worker working 35 hours a week can expect to see their income increase by over £1,200 from April 2016.

ILLEGAL WORK ENFORCEMENT

Additional investment is to be made available in NMW enforcement to tackle non-compliant employers and to help ensure that workers are aware of their obligations and rights.

STUDENT MAINTENANCE

Maintenance loan support will rise for students from low and middle-income backgrounds up to £8,200 a year when studying away from home, outside London.

From the 2016/17 academic year, maintenance grants will be replaced with maintenance loans for new students from England, due to be repaid when their earnings exceed £21,000 a year.

CHILDCARE

Free childcare entitlement is extended to 30 hours a week for working parents of 3 and 4 year olds from September 2017.

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