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Summer Budget 2015

George Osborne, in his first Budget speech of the majority Conservative government, emphasised that the new Budget would be for 'One Nation' and that we are 'all in it together'. Plenty of the changes announced were widely anticipated, and many will be welcomed by those who voted in the Conservative majority. Here are the highlights:

Inheritance tax (IHT) threshold increased to £1 million - in a few years

The government has carried out the Conservative manifesto pledge to introduce an additional IHT nil-rate band, applicable to family homes passed to children and grandchildren. This additional band will be increased gradually from 6 April 2017, starting with a value of £100,000, and increasing each tax year until it reaches £175,000 in April 2020. Like the current nil-rate band (now frozen at £325,000 until April 2021), this additional band will be transferable between spouses and civil partners, meaning couples may eventually have up to £1m to pass on free of IHT. The band will be restricted for estates with a net value of over £2m and provisions will be made for when individuals have downsized or ceased to own their home.

Domicile and the remittance basis - more in it together

The Conservatives were widely expected to change the rules relating to the taxation of those not domiciled in the UK (broadly those that consider their ultimate home abroad, known as non-doms). This follows many recent changes in this area to tackle perceived abuses of those with non-dom status. In what appears to be a balanced proposal, the Chancellor announced that rather than scrapping the system altogether, from April 2017 all persons who have been long-term resident in the UK (described as being resident here for 15 out of 20 years), will be treated as UK domiciled for all tax purposes. This affects the advantages available to non-doms for IHT and for income and capital gains tax.

Those domiciled within the UK are subject to IHT on their worldwide estate. Currently, only when non-doms have been resident in the UK for 17 or more years of the previous 20 tax years do they become liable to IHT on their worldwide assets. Before then just their UK assets are liable to IHT. This proposed new rule therefore shortens the time before which a non-dom becomes subject to worldwide IHT. It also at the same time lengthens the time it takes to lose the deemed domicile status by being resident abroad (to 5 years).

For income and capital gains tax the proposed change means that those who have been long-term resident in the UK will no longer be able to claim the remittance basis of taxation. Their foreign income and gains will then be liable to UK income and capital gains tax as it arises, rather than having the option of it being taxed just when remitted or brought into the UK.

In addition, there will be changes to ensure that those who have a UK domicile of origin (broadly those born in the UK or with parents with UK domicile status) should not be able to access the tax advantages available to non-doms. Currently this can arise if a person has lived abroad for a long time but then returns and becomes resident in the UK.

Continuing the theme, there are also proposed changes to ensure that UK residential property held indirectly by non-doms or by certain trusts, and which are currently not subject to IHT, will come within the scope from April 2017. Consultation on these points will commence soon.

Property rental - restriction on interest relief

There is to be a change for those higher and additional rate taxpayers who have invested in buy-to–let properties. There will be a restriction to the mortgage interest which can be deducted as an expense against the rent received. The limit will be tied to the basic rate of income tax.

Property owners renting out a spare room, however, can expect the amount of rent they can receive tax free to increase to £7,500.

Corporation tax - better for business

Carrying on with the trend of recent years of making the UK 'open for business', corporation tax is set to reduce from the current rate of 20% to 19% in 2017, and then to 18% in 2020.

And also

The annual tax relief on pensions is to be restricted to £10,000 per year for high earners. Increases to the income tax personal allowance and basic rate threshold are minimal.

There is to be a £5,000 tax-free dividend annual allowance introduced in 2016, with tax rates on dividends otherwise increased. This will mostly affect those with either small or very large amounts of dividend income.

There are to be numerous changes to benefits, tax credits and social housing rent conditions. But there is to be an increased living wage to £7.20 per hour for those over 25 from next year, increasing to £9 per hour from 2020.

Conclusion

The projected budget surplus has been pushed back by one year to 2019-20, and we will have to wait and see whether that is realistic. In the coming days we will be able to analyse the details of the proposed changes to better understand the effects for clients.

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