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2015 Summer Budget and Tax Planning Guide

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Introduction

The chancellor set about fulfilling the promises his party made during the election campaign with the 2015 Summer Budget.

There have been numerous changes and cuts to the welfare system plus a raft of changes to some long standing tax rules which will undoubtedly produce winners and losers.

The government have done this whilst trying to keep their promise of not increasing the majority of mainstream taxes.

This document summarises the Summer 2015 budget changes and provides an overview of the tax planning opportunities available..

Contents

Summer Budget 2015

Personal allowance and tax bands

The personal allowance will increase to £11,000 for 2016/17 and £11,200 for 2017/18. The basic rate tax band will increase to £32,000 for 2016/17 and £32,400 for 2017/18.

Interest relief for landlords

Tax relief on mortgage interest is to be capped at basic rate. This will be phased in over 4 years between 6 April 2017 and 6 April 2020.There will be no impact for basic rate taxpayers.

Wear and tear allowance

From 6 April 2016 the 10% wear and tear deduction for furnished properties will be scrapped. It will be replaced by a new relief to allow a deduction for the cost of replacement furnishings purchased in the year.

Rent a room relief

The flat rate deduction available to individuals who let out a room in their only or main home is to be increased from £4,250 to £7,500 from April 2016.

Non doms

Individuals resident in the UK for 15 of the last 20 tax years will become taxable on worldwide income from 6 April 2017.

From the 16th tax year of residence non doms will be deemed domiciled in the UK for inheritance tax purposes and worldwide personal assets will be within the charge to UK tax.

Dividend tax

The government have announced that from 6 April 2016 the tax system for dividends will be overhauled.

The notional 10% tax credit will be abolished and a dividend tax allowance will be introduced that will exempt the first £5,000 of dividend income per year.

The tax rates for dividends in excess of £5,000 will be 7.5%, 32.5% and 38.1% depending on whether you are a basic rate, higher rate or additional rate taxpayer.

Only higher or additional rate taxpayers that receive modest dividends will be better off under these changes. In all other cases these measures will increase the tax cost of receiving dividends by 3-4% on average.

For owner managed businesses, extracting profits by way of dividends will remain 7-10% more tax efficient than taking only a salary.

Inheritance tax

In the build up to the election the government promised to increase the inheritance tax threshold to £1m for families leaving the family home to their children.

They have followed this up with the introduction of a main residence nil rate band which will be in addition to the current nil rate band of £325,000 per person. The main residence nil rate band will be phased from April 2017, starting at £100,000 and then increasing by £25,000 annually until April 2020.

Thereafter, it will increase in line with the consumer price index (CPI). These amounts are per person and are transferred to the surviving spouse/civil partner on death. The main residence nil rate band will also be available when a person downsizes or ceases to own a home after 8 July 2015 and assets of an equivalent value are passed on death to direct descendants.

For estates worth in excess of £2m the additional main residence nil rate band will be reduced by £1 for every £2 over £2m.

There are no changes proposed to the current nil rate band of £325,000 until at least 2021.

Corporation tax

The rate of corporation tax will be reduced from 20% to 19% in 2017 and down to 18% in 2020.

Annual investment allowance

From 1st January 2016 the annual investment allowance which permits a 100% deduction for qualifying capital expenditure will reduce from £500,000 to £200,000. This is significantly better than the £25,000 level it was due to reduce to.

Goodwill

The circumstances in which tax relief on goodwill will be due is severely limited. Some relief may be due on the ultimate disposal of the intangible asset but amortisation of goodwill will no longer be tax deductible. This will affect all acquisitions and disposals from 8 July 2015.

Anti avoidance

The government will invest a further £800m in targeting tax avoidance during this parliament. They plan to triple the number of tax investigations that they undertake.

National insurance employment allowance

This will be increased from £2,000 to £3,000 from April 2016. Where the director is the sole employee of the company, the company will not be able to claim the allowance from April 2016.

National living wage

This will be introduced for workers aged 25 and above by adding a new premium on top of the minimum wage. From April 2016 this has been set at £7.20 per hour.

Venture capital schemes

All investments made through seed enterprise investment schemes(SEISs), enterprise investment schemes (EISs) and venture capital trusts (VCTs) will have to be made with the intention to grow and develop a business.

This requirement is subject to state aid approval and will take effect from Royal Assent to the Summer Finance Bill 2015.

From the same date:

- All investors will be required to be 'independent' from the company at the time of the first share issue.
- Relief will be limited to investment in companies within seven years of their first commercial sale and for 'knowledge intensive' companies within ten years of their first commercial sale.
- This will not apply where the investment represents more than 50% of turnover averaged over the preceding five years.
- There will be a new cap on the total investment a company may raise under VCTs, EISs and other risk finance investments of £20 million for knowledge intensive companies, and £12 million for other companies.
- A higher 500 employee limit will apply to knowledge intensive companies.
- Venture capital funds will be prevented from acquiring existing businesses, including extending the prohibition on management buyouts and share acquisitions to VCT non qualifying holdings and VCT funds raised pre-2012.

Personal savings allowance

From 6 April 2016 an allowance will be introduced to remove tax on up to £1,000 of savings income for basic rate taxpayers and up to £500 for higher rate taxpayers, as announced in the March 2015 Budget. Additional rate taxpayers will not receive an allowance. Automatic deduction of 20% income tax by banks and building societies on non-ISA savings will cease from the same date.

Pensions – lifetime allowance

From 6 April 2016 the lifetime allowance for pensions will be reduced from £1.25 million to £1 million, as previously announced. Transitional protection for pension rights that are already over £1 million will be introduced to ensure this change is not retrospective. The lifetime allowance will be indexed annually in line with the consumer price index (CPI) from 6 April 2018.

Pensions – reduced annual allowance

From April 2016 a tapered reduction to the amount of the annual allowance will be introduced for individuals with income (including the value of any pension contributions) of over £150,000. The rate of reduction in the annual allowance is £1 for every £2 that the individual's adjusted income exceeds £150,000, up to a maximum reduction of £30,000, creating a minimum allowance of £10,000.

At present, the rules for calculating the timing of tax relief on pension contributions are complicated due to the notion of a pension input period.

All pension input periods open on 8 July 2015 are closed on that date, with the next pension input period running from 9 July 2015 to 5 April 2016. All subsequent pension input periods will be concurrent with the tax year from 2016/17 onwards.

Future reform of pensions

There will be a consultation on whether and how to undertake a wider reform of pensions tax relief. The Chancellor did state that they may move pensions in to a system similar to ISAs with no or limited tax relief going in but then no further tax when the funds are extracted in future.

Personal & Capital Gains Tax Planning

OPTIMISING INCOME & GAINS

Due to changes either made or proposed in the last few years it has become very important for married couples/civil partners to ensure that they are maximising all of the reliefs available to both of them, particularly where one has a significantly higher income.

For 2015/16 the tax free personal allowance is £10,600. If one spouse has no or minimal income consideration should be given to transferring income producing investments into joint names to utilise their personal allowance.

For 2015/16 the capital gains tax annual exemption is £11,100. If one spouse is planning to sell an asset standing at a gain consideration should be given to transferring it into joint names before sale so as to utilise an additional annual exemption and potentially a lower capital gains tax rate.

From 6 April 2016 a savings allowance of £1,000 for basic rate taxpayers and £500 for higher rate taxpayers will be introduced. This is not available to individuals with income in excess of £150,000. You should ensure both spouses allowances are utilised.

The tax free dividend allowance of £5,000 is to be introduced from 6 April 2016. Could this be further utilised by transferring dividend producing investments to your spouse?

UK RESIDENCE AND DOMICILE

Where you are resident for tax purposes impacts on the level of your income that is subject to tax within that territory.

If you are resident but not domiciled in the UK and you have significant overseas income/assets you can benefit from claiming that you wish to only be taxed in the UK on the foreign income and gains you remit (bring) to the UK. This is known as the remittance basis. Once you have become a long term resident (UK resident for 7 out of the last 9 tax years) there is a tax charge of £30,000 if you wish to continue claiming the remittance basis.

If you have £2,000 or less of overseas income each year you can benefit from the remittance basis automatically which means that no long term residents tax charge is due.

For property disposals made by non residents after April 2015, the proportion of any capital gain arising after this date will be liable to UK tax.

If you have either been in the UK for 15 tax years or are approaching this then you should have your tax position reviewed prior to 5 April 2017 to determine the impact of the budget announcements. You may be taxed on worldwide income after this date and your assets subject to UK inheritance tax regardless of where they are based.

UTILISING YOUR PPR ELECTION

If you own more than one residential property and have made a property acquisition in the last two years then it is possible to elect for a different property to be treated as your main residence for tax purposes and benefit from the principal private residence (PPR) election. This exempts a proportion of the taxable gain on eventual sale.

Wear and tear allowance

From 6 April 2016 the ability to claim the 10% wear and tear allowance is being removed.

If you have a furnished rental property and are planning any expenditure on new furnishings you should consider whether this can wait until after 6 April 2016. Otherwise the additional expenditure will be covered by the wear and tear allowance in 2015/16 and effectively wasted for tax purposes.

OPTIMISING YOUR EMPLOYMENT PACKAGE

If you are an employee or have employees, how you take/offer remuneration influences both the taxation of the individual and the company.

Sacrificing salary or bonus for benefits in kind, share options or pension contributions in lieu of salary can be very tax efficient. It is especially efficient for individuals with taxable income levels approaching £100,000 or £150,000.

An example of a tax efficient benefit is HM Revenue & Customs Childcare voucher scheme where salary of up to £55 per week can be exchanged for vouchers free from tax and national insurance.

OBTAINING BUSINESS EQUITY

If you are going to purchase or be gifted equity in your employing company there could be unexpected tax and national insurance costs.

HMRC offer a number of tax advantaged share schemes to encourage employee share ownership. The most common of these are enterprise management incentives (EMIs) and company share option plans (CSOP) which, when optimised, can offer no tax charge on grant or exercise of the share options and only 10% tax due on a future sale.

Personal & Capital Gains Tax Planning

BUSINESS STRUCTURE

If you have your own business or are considering starting your own business, the correct structure can generate efficiencies and significant tax savings.

The right structure will depend on a number of factors such as the type of business you operate and what stage you are at in your business cycle.

Despite recent changes it may be advantageous for tax purposes to incorporate existing sole trades/partnerships making moderate to high profits.

There is also an ongoing tax benefit as corporate tax rates are falling (20% currently, falling to 19% in 2017 and 18% in 2020).

PENSIONS

Each individual in the UK with relevant earnings can contribute up to £40,000 a year in to their personal pension plan. Providing you were a member of a pension plan for any of the tax years 2012/13, 2013/14 or 2014/15 it is possible to utilise your unused allowances from those years.

Individuals with taxable income levels between £100,000 and £120,000 who make pension contributions can benefit from tax relief up to 60% by restoring their entitlement to the personal allowance.

For those with no earnings it is possible to put up to £2,880 into a pension plan and benefit from a 20% government subsidy lifting the contribution to £3,600.

With the tapered reduction to the amount an additional rate taxpayer (income in excess of £150k) can put in to their pension plan coming in from 6 April 2016 they should consider maximising pension contributions pre 6 April 2016.

INDIVIDUAL SAVINGS ACCOUNTS (ISAS)

Placing your investments inside a tax free wrapper such as an ISA offers the opportunity to develop a considerable amount of tax free investments for you and your family over a number of years.

HM Revenue & Customs made the ISA regime much more flexible and also increased the annual limits from 1 July 2014 to £15,000 for adults and £4,000 for minors.

This means that for a family of four it would be possible to save cash or investments of up to £38,000 a year in a tax free environment.

TAX EFFICIENT INVESTMENTS

If you are considering investing in an unquoted company then HMRC have a number of tax advantaged schemes to encourage investment.

These are:

- Enterprise Investment Scheme (EIS)
- Seed Enterprise Investment scheme (SEIS)
- Venture capital trusts (VCTs)

EIS's can provide 30% income tax relief on up to £1m of investment and also offer exemption from capital gains tax on a future sale. The amount invested in EIS shares can also be used to defer capital gains arising in the year of investment. This makes EIS's appealing to both investors and businesses seeking to raise funds.

SEIS's are similar to EIS's but are aimed at smaller businesses. The maximum amount that can be invested is £100,000 and HMRC offer 50% income tax relief and capital gains tax exemption in the year of investment on up to 50% of the original investment.

VCTs provide 30% income tax relief and dividends are exempt from income tax. Providing the shares are held for five tax years there is no capital gains tax on a future sale.

SEIS example

SEIS cash subscription	£100,000
Income tax relief at 50%	£(50,000)
CGT re-investment relief at 28%	£(14,000)
Net cost of investment	£36,000
Inheritance tax relief could add another of tax savings.	£40,000

INTEREST RELIEF FOR LANDLORDS

Following the changes in the Summer budget restricting tax relief on finance costs for higher rate taxpayers, landlords impacted by the changes should now consider incorporating their property business to ensure that they continue to benefit from full relief for mortgage costs.

INVESTIGATIONS

With the government investing £800m in to HMRC in order to triple the number of tax investigations they open it may be prudent to consider taking out enquiry insurance. Please ask us for details if you do not already have this.

Inheritance Tax Planning

Wills

Do you have a valid Will in place that reflects your current circumstances (marriage, children, grandchildren)? If not then it is unlikely your estate will pass down to those that you intend it to. If no Will is in place then your estate will automatically pass under the rules of intestacy; rules allocate a set amount to your spouse and the remainder to specific family members.

In addition to the nil rate band of £325,000 you may also benefit from the main residence nil rate band from April 2017 of £100,000. If the value of your estate is worth in excess of these then your estate may be subject to tax at 40% without planning.

For married couples, the changes in 2007 and the summer 2015 budget mean that up to double the nil rate band of £325,000 and the main residence nil rate band of £100,000 may be available on the second death. Gifts to your spouse in lifetime or in death are always exempt.

Use your annual exemption

You can gift up to £3,000 in a tax year free from IHT. If you have not used the previous year's amount of £3,000 you can use this as well.

Make gifts out of income

Gifts which are made out of excess income are exempt from IHT. In order to claim this exemption a settled pattern of giving or an intention to give should be shown and those gifts must be out of net annual income. Gifts will only qualify if enough income is left after the gift to maintain a normal lifestyle without resorting to using capital.

Accurate records should be kept to support this.

Making large gifts

An outright gift of more than the annual allowance is a potentially exempt transfer ('PET') for IHT purposes provided the donor survives for at least seven years. If the donor dies within seven years the value of the gift is added to their estate for IHT purposes. If death occurs between three and seven years after making the gift, IHT due is reduced on a sliding scale according to the length of time the individual has survived after making the gift.

Using trusts

A gift of assets into trust (from which the donor is excluded) means they are outside of the estate for IHT purposes. A transfer into trust is a chargeable transfer for IHT purposes and amounts transferred above the nil rate band (currently £325,000) will be subject to IHT at 20% and a further 20% in the event of death within seven years. There will be no IHT charge if the transfer into trust is within the nil rate band. Charges at rates of up to 6% can become chargeable when assets leave the trust or at 10 yearly intervals.

Move your assets

Once your estate exceeds £325,000 the balance could be liable to up to 40% IHT. You could change your asset investments into assets that qualify for business property relief (BPR) as this can provide up to 100% relief from IHT. A summary of the typical assets that qualify for BPR and the rates are below:

Asset	BPR rate
Business or business interest	**100%**
Unquoted shares	**100%**
Land/building used for the business of a company or partnership	**50%**

The assets must be held for two years to qualify for BPR.

Take out life assurance

You could consider taking out life cover which pays out a lump sum on death calculated by reference to the value of the likely IHT payable. It is also possible to take out life cover payable in the event the donor fails to survive seven years after making a PET. A necessary step when taking out life cover is to write the assured sum in trust to ensure it passes outside of the estate and does not itself become subject to IHT.

Corporate Tax Planning

RESEARCH & DEVELOPMENT

The government offers very generous tax advantages for companies that invest in research and development in order to advance their trade.

It is a misconception that in order to be able to make a claim for the enhanced tax reliefs (up to 230% of expenditure) that you need to have a lab full of scientists creating the next great invention of our time. R&D claims are made by companies in all sectors and of all sizes, the key elements that are typically needed are:

- It must be a Trading company
- You incur costs on a project which can be staff wages or external workers and other associated costs.
- Research & Development takes place which has the aim of developing science or technology. This can be to develop a product, process or internal software. It can be a one off project or part of your ongoing business.
- The knowledge or advancement sought is not already freely available without undertaking the work. It doesn't matter if other businesses are already using something similar, it only matters that the firm undertaking the work does not already have access to the information or products.
- It is possible to go back up to two years to make a claim and to the extent that the R&D costs create a trading loss a generous cash repayment can be claimed from HMRC.

If you are thinking of undertaking a new project, or think that your current activities may be relevant why not discuss it with us so we can confirm whether R&D reliefs are available.

PATENT BOX

Does your company hold a patent? If so read on as the patent box regime was introduced on 1 April 2013. It is designed to encourage companies to develop and hold patents in the UK by providing for low rates of corporation tax on certain types of worldwide income. This includes profits from the sale of products containing patented items and income from the protection of patented items, as well as royalty and licensing income. The effective tax rates on qualifying income are 11.6% in 2015 and fall to 10% by 2017. These tax benefits apply in addition to any R&D tax credit available.

EXTRACTING PROFITS

There is a significant amount of tax planning that can be done with owner managed companies. Profits can be extracted through a combination of salary, dividends and pension contributions to minimise the tax chargeable to both the company and the individual shareholders.

Shares can also be given to spouse's to optimise the tax position when possible.

Typical planning would be for the Directors to take a basic salary benefitting from corporate tax relief but below personal allowance levels and then take the balance as dividends and pension contributions. Careful planning is required to operate this successfully.

Due to the dividend changes from 6 April 2016, owner managed businesses should consider accelerating dividends before this date to capture the lower tax rate in 2015/16. Please ask us for advice on your personal circumstances.

CAPITAL ALLOWANCES

In order to encourage companies to invest in their own business the government offers a number of generous allowances for capital expenditure. The main one is the annual investment allowance (AIA) which enables certain expenditure to benefit from a 100% deduction in the year of purchase up to certain limits (£500,000 for the year ending 31 December 2015). The AIA limit reduces to £200,000 from 1 January 2016 so consideration should be given to accelerating capital expenditure before this date if you believe there is a danger you may exceed £200,000 of expenditure in 2016.

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Our Services

We provide the full range of tax compliance and advisory services:

TAX COMPLIANCE

- Personal tax returns (SA100)
- Corporate tax returns (CT600) and computations
- Partnership and LLP tax returns (SA800)
- Repayment claims (R40)
- Quarterly and annual VAT returns
- Trust & Estate tax returns (SA900)
- Returns of benefits and expenses forms P11Ds and P11D(b)

TAX ADVISORY

- Owner managed business tax planning
- Residence & domicile tax planning
- Investing in the UK and abroad
- Share schemes and employee incentivisation
- Raising investment through EIS, SEIS and VCTs
- Research & Development tax claims
- Patent box claims
- Inheritance tax planning and mitigation
- Maximising capital allowance claims on capital expenditure

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