The UK Summer Budget 2015

9 July 2015

Introduction

The UK Chancellor, George Osborne, delivered his first Budget of the new Parliamentary term yesterday. As expected, many of the measures that have been announced will be subject to consultation, and will not be introduced immediately. The key points affecting individuals and families are summarised below:

The detail

Non-UK domiciled

The rules around the taxation of non-UK domiciled individuals will be changing from 6 April 2017.Where an individual has been resident in the UK for more than 15 out of the last 20 tax years, they will be "deemed domiciled" in the UK for all taxes. Previously, this was 17 years instead of 15, and only applicable to UK Inheritance Tax (IHT), not all UK taxes.

This means that deemed domiciled individuals will no longer be able to claim the remittance basis of taxation, and will, therefore, pay tax on their worldwide income and gains, as well as be subject to IHT on their worldwide assets, in the same way as UK domiciled individuals. This makes the £90,000remittance basis charge for those resident 17 out of 20 years redundant, as those individuals will bepaying tax on a worldwide basis.

There were also changes announced for individuals that were domiciled in the UK at birth, but have subsequently left the UK and acquired a domicile of choice overseas. Currently, it is possible for that individual to return to live in the UK whilst retaining their overseas domicile, and therefore access the remittance basis. The changes announced in the Budget will end this, so that anybody who was domiciled in the UK from birth will be taxed as if they were still UK domiciled when they resume their UK residence, even if they remain domiciled in the overseas territory under general law.

UK residential property owned by non-UK resident companies and other offshore structures

Currently, non-domiciled individuals, or non-UK trusts, that own UK residential property through companies, do not pay UK IHT on the value of the property. From 6 April 2017, however, IHT at 40%will be chargeable as if the individual or trust owned the property directly.

This means that IHT will be chargeable, for example, where the individual dies whilst owning shares in a non-UK company holding UK property. Further details on these measures are expected after the summer, following a consultation period.

Buy-to-let investment properties

Currently landlords that are individuals can deduct certain expenses from their rental profits, in order to calculate their taxable profit. This means that higher rate taxpayers receive tax relief at 40%, or 45%, on their expenses. New rules were announced to restrict the amount of tax relief to the basic rate (currently 20%), even if the landlord is a higher or additional rate taxpayer. The restriction will be in full force from the 2020/21 tax year, but will be phased in with effect from the 2017/18 tax year.

'Wear and tear' allowance for furnished lettings (calculated as 10% of rent less rates) is to be abolished, and replaced from April 2016 by a new system. This will only allow individual landlords to get tax relief when furnishings are actually replaced.

The restriction on the amount of interest which can be deducted for tax purposes is only relevant for individuals owning buy to let properties. It does not apply to commercial property. It is also not relevant for companies, as they are liable to income tax on rental profits at corporate tax rates.

Inheritance tax on family homes

Measures designed to remove the majority of family homes from the IHT net, where the residence is left to children or grandchildren on death, were announced yesterday. An additional 'main residence' nil rate band (NRB), which is the amount which can pass tax-free on an individual's death, will be introduced from April 2017. This additional NRB can only be used in connection with a property that has been the main residence.

This additional NRB will initially be at a maximum of £100,000 per person in 2017/18, increasing by £25,000 each year to a maximum £175,000 from 2020/21. At this point, spouses will each have a total NRB of £500,000, when this new amount is combined with the existing IHT nil rate band of £325,000, which will be frozen until 2020/21.

After 2020/21 the amount will be increased in line with the consumer price index. This additional element of the NRB starts to be reduced where the net value of the estate is over £2m, and is reduced to nil for estates worth more than £2.35m.

Other announcements

Tax on dividends

Dividend tax credits will be abolished and replaced by a **£5,000 tax-free dividend tax allowance**, effective from April 2016. Tax rates on dividend income in excess of the £5,000 allowance will be **7.5%** for basic rate tax payers, **32.5%** for higher rate tax payers and **38.1%** for additional rate tax payers.

Higher rate threshold

The 40% higher rate threshold will rise from £42,385 in 2015/16 to **£43,000 in 2016/17** and **£43,600 in 2017/18**. The NICs upper earning limit will also increase to remain aligned with the higher rate threshold. This is a step towards achieving a higher rate threshold of £50,000 by the end of the Parliament.

Personal allowance

The personal allowance will increase from £10,600 in 2015/16 to **£11,000 in 2016/17** and **£11,200 in 2017/18**. This is the first step toward achieving the Government's pledge of raising the personal allowance to £12,500 by the end of this Parliament.

Pensions

From 5 April 2016 those earning more than £150,000 , will have their annual pension contribution allowance reduced, effectively restricting their tax relief on pension contributions. The size of the annual allowance will be gradually reduced **from £40,000 to £10,000** for those earning £150,000 a year or more. The lifetime allowance will also be reduced to **£1m** from £1.25m.

Tax avoidance and evasion

The Treasury has committed to increased spending across HMRC allowing it to focus on tackling tax evasion, avoidance and non-compliance. In particular spending will allow HMRC to create specialist personal tax units to target serious non-compliance by trusts, pension schemes and non-domiciled individuals.

Let's talk

If you would like more detail on any of the points in this briefing then please get in touch with:

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