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Financial Planning Ltd

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talkingpoints

Welcome to the Spring edition of talkingpoints – our regular round up of the latest taxation and legislative changes and how they could affect you.

In this issue we will focus on the changes announced in the recent Budget, and we will also take a closer look at the new Personal Savings and Dividend Allowances which will take effect from 6th April 2016.

The Chancellor's Budget message focussed on his intention to create an environment which will benefit future generations in the form of a stronger economy, improved health and fitness and better education.

The surprise "sugar tax" has grabbed most of the post Budget headlines, overshadowing announcements such as the introduction of a new ISA to encourage long term savings, the personal allowance being increased to lift more people out of taxation and tax changes to help small business owners and entrepreneurs.

Prior to the Budget the Chancellor had spoken of a weakening global economy, a hole in public finances and the need for the government to save an additional 50p for every £100 it spends by the end of the decade. He has also made no secret of the fact that he believes the current pension tax relief regime is unsustainable in the long term.

Financial forecasters had anticipated that a flat rate or Pension ISA style system would be introduced in this Budget as a potential alternative for pension tax relief.

However, with the European referendum on whether Britain should remain part of the EU fast approaching in June 2016, these radical changes did not materialise.

Many believe that this is an action postponed rather than abandoned, and it may well be revisited in the future.

The current rates of tax relief on pensions are very beneficial, particularly for higher earners.

Given the uncertainty about how long the current regime will be in place, it may make sense for those who can, to maximise their contributions, to take advantage of the tax relief available. If you require advice about maximising your own contributions please contact us.

As always, please be aware that any changes outlined in this issue may be subject to future amendment.

If you need advice or assistance in any area of your financial life we would be delighted to help.

We have a team of highly experienced and fully independent Financial Advisers situated throughout the UK advising both individuals and businesses in all areas of financial planning.

Please don't hesitate to contact us and we will explain the services we can offer and our charging structure.

All contact details are on the back page.

budget 2016

Tax Rates and Allowances

Income Tax

- The personal allowance is increasing from £11,000 in 2016/17 to £11,500 in 2017/18. The Government has also committed to raising the allowance to £12,500 by the end of Parliament. This increase means that the age allowance is no longer relevant.
- For those whose income exceeds £100,000 in any given tax year, the personal allowance is reduced by £1 for every £2 earned over £100,000. This means it will be reduced to nil for those with an income in excess of £122,000 in 2016/17 and £123,000 in 2017/18.
- The 40% higher rate tax threshold, which is £43,000 in 2016/17, will increase to £45,000 in 2017/18. The Government has committed to raising the higher rate band to £50,000 by the end of Parliament.
- Distributions from Fixed Interest funds held within OEICs or Unit Trusts will be paid gross from 2017 (the tax will be paid via self-assessment).

Capital Gains Tax (CGT)

The Chancellor stated that the UK currently has one of the highest rates of CGT in the developed world. However, from April 2016 CGT is being cut from 28% to 20% for higher rate tax payers and from 18% to 10% for basic rate tax payers.

Chargeable gains on any residential property that does not qualify for Private Residence Relief will continue to be taxed at 28% and 18%.

Corporation Tax

The current rate of corporation tax is 20%. It had been previously announced that this would reduce to 19% in 2017 and 18% in 2020. However, the Chancellor has now stated that the rate of corporation tax will fall to 17% in 2020.

National Insurance Contributions (NICs)

The self-employed currently pay Class 2 NICs at a flat rate of £2.80 per week and Class 4 NICs as a percentage of profits. Class 2 NICs will be abolished from April 2018 and Class 4 NICs will be reformed so that the self-employed can continue to build their entitlement to the State Pension and other contributory benefits.

This will create a simpler tax system for Britain's 3 million self-employed.

Individual Savings Accounts (ISAs)

Lifetime ISA

A new Lifetime ISA is to be introduced in April 2017.

The Lifetime ISA will be able to be opened by anyone aged 18 to 40. They will be able to make contributions of up to £4,000 each year (up to their 50th birthday) and receive a government bonus of 25% – that is a bonus of up to £1,000 a year.

These savings can be used in full, or in part, towards a deposit on a first home worth up to £450,000. This can be done at any age.

The accounts are limited to one per person rather than one per home so two first time buyers can both receive a bonus when buying together.

Anyone with a Help to Buy ISA can transfer their savings into the Lifetime ISA in 2017, or continue saving into both – but it will only be possible to use the bonus from one to buy a house.

If not used to purchase a first home, the Lifetime ISA can be used to save for retirement. The savings can be accessed, tax free, from age 60.

It will be possible to withdraw money at any time, but if the ISA is accessed before age 60 for any reason other than to purchase a first home the Government bonuses (and any interest or growth on this) will be lost. There will also be a 5% withdrawal penalty.

As with other ISAs there will be both Cash and Stocks and Shares options available.

The Government is still consulting on whether it will be possible to return withdrawn money to the account to reclaim the bonus – further confirmation is awaited.

It will be possible to contribute to a Lifetime ISA alongside other ISAs up to an overall ISA limit of £20,000.

Standard ISAs can be transferred to the Lifetime ISA and will not count against the overall ISA limit.

Standard ISA Allowance

The standard ISA allowance will increase from £15,240 to £20,000 from 2017/18.

Help to Save Credit

To encourage people to save, the Government has announced that it will add 50% to savings of up to £50 per month for anyone who is in receipt of the Universal Tax Credit and receiving more income than 16 hours at Living Wage; or anyone in receipt of the Working Tax Credit.

Pensions

Access to Financial Advice

To support the provision of affordable and accessible advice for everyone the government will be increasing the existing £150 Income Tax and National Insurance relief for employer-arranged pension advice to £500.

It will also consult on introducing a Pensions Advice Allowance to allow people before the age of 55 to withdraw up to £500 tax free from their defined contribution pension to redeem against the cost of financial advice.

Dependant Flexi-Access Drawdown

Currently if a dependant child under the age of 23 is nominated as the beneficiary of the member's pension fund on their death, the entire fund must be withdrawn before they reach 23. This can often mean a high rate of tax is applied to extract the fund in a limited number of years. New legislation will allow dependant's drawdown to be converted to nominee drawdown at age 23. This means that the drawdown can remain in place and the dependant does not have to take all of the money out prior to their 23rd birthday.

Serious Ill-health

A serious ill-health lump sum can be paid at any age where an individual has a life expectancy of less than 12 months. Subject to the lifetime allowance, the lump sum is paid tax-free if the individual is under age 75. Existing rules limit the payment of a serious ill-health lump sum to uncrystallised funds only.

New legislation means that a serious ill-health lump sum can now also be paid from crystallised funds. In addition, where the individual is over age 75 the payment will be taxed at their marginal rate rather than at 45%.

This re-aligns the tax treatment of serious ill-health lump sums with lump sum death benefits.

Pension Dashboard

A Pension Dashboard is to be introduced. This is where an individual can view all of their retirement savings in one place digitally. The government requires the industry to design, fund and launch the Dashboard by 2019.

Salary Sacrifice

It was anticipated that the Government may have scrapped Salary Sacrifice schemes, and it has reiterated that it remains concerned about the growth of such schemes and is considering limiting the range of benefits that attract the income tax and National Insurance Contribution advantages of these schemes. However, for now they will be retained for pension saving, childcare and health related benefits. Other areas are under review.

Taxation of Savings and Investments

The Personal Savings Allowance

Tax is payable on the interest or income you receive from a savings account unless your savings are tax-free, for example in an ISA, or the income you receive each year falls within your annual tax-free allowance (the basic personal allowance for 2016/17 is £11,000).

Prior to 6th April 2016 basic-rate (20%) tax was deducted from savings interest at source (for example directly from your bank or building society account).

However, from April 2016 a new Personal Savings Allowance is being introduced and the following allowances will be available on the interest you earn on your savings:

- **£1,000 per tax year for basic rate taxpayers***
- **£500 per tax year for higher rate taxpayers.**
- **Additional rate taxpayers will not receive a Personal Savings Allowance.**

This allows you to receive interest or certain other investment income up to these amounts before you start to pay tax on savings income.

Tax will no longer be deducted by your bank or building society and all interest will be paid gross.

If the interest you receive from all sources exceeds these limits, any tax due will be collected through a self-assessment tax return or via an adjustment in your PAYE tax code.

*Those whose earned and property income is less than £16,000 in 2016/17 can also receive up to £5,000 tax free interest in addition to the £1,000.

The Dividend Allowance

For those who invest in company shares, or in funds that do, the taxation of dividend income is also changing from 6th April 2016.

Prior to this date, dividends were deemed to be taxed at source at the rate of 10%. This was regardless of whether you chose to reinvest them or had the dividends paid out to you in cash. The 10% deducted was called a tax credit. For non- and basic-rate taxpayers there was no further tax to pay, higher-rate taxpayers paid dividend tax at 32.5% and additional rate taxpayers paid dividend tax at 37.5%.

From 6th April 2016 a new Dividend Allowance is being introduced, meaning that the first £5,000 you receive in dividends from investments will be tax free.

Dividends above £5,000 will be taxed as follows:

- **Basic rate taxpayers - 7.5%**
- **Higher rate taxpayers - 32.5%**
- **Additional rate taxpayers - 38.1%**

Dividends are taken as an individual's last slice of income (in other words, after all other income and allowances).

Higher-rate and additional-rate taxpayers must declare any dividend income on their tax return. If you don't normally complete a tax return and are a higher-rate taxpayer who receives dividends, you need to let your tax office know.

Dividends and interest received in ISAs and pensions will continue to be exempt from tax.

Considerations

Despite these new tax allowances, those saving for the future would still be well advised to take advantage of their ISA allowances and pension savings each year.

Although interest rates remain at an all-time low, they may rise in future, at which point it is more likely that the annual interest earned could exceed these allowances.

Equally, if saving for retirement, most people would hope to achieve a level of income above these allowances, so maximising the funds available to generate tax free income, such as in ISAs, will still be valuable.

It is well worth noting that if assets are organised correctly and income can be managed, it is possible to receive up to £22,000 tax free each year.

If you require advice about this or any other area of financial planning, please don't hesitate to contact us.

and finally - in other Budget news...

The death knell has finally sounded for the much derided Money Advice Service (MAS) as the Chancellor revealed that it is to be axed as part of a restructure of financial guidance.

Two bodies are to be created; one responsible for pensions and one for money support.

The pensions body will combine The Pensions Advisory Service, Pension Wise and elements of the MAS into a new pension guidance service, whose key objective will be to make sure consumers can get all of their pension questions answered in one place.

A new money guidance body will have a specific remit to identify gaps in the guidance market. It will then commission providers to fill these gaps to ensure consumers can access debt advice and money guidance.

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