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Financial Planning Ltd

August 2015 | Issue Four

# talkingpoints


**Welcome** to the Summer Edition of talkingpoints – our regular round up of any taxation or legislative changes which could affect your personal financial life.

It has been a busy few months in Westminster since our last edition.

The election in May already seems like a distant memory, when the Conservatives confounded all of the pollsters and were returned to power with an overall majority.

This was quickly followed by the state opening of Parliament and the Queen's Speech which set out the Government's agenda for the coming session, outlining proposed policies and legislation.

The Chancellor, George Osbourne, delivered his second budget of the year on 8 July, the 'Summer Budget'. His stated aim was to move the UK from a low wage, high tax, high welfare economy to a higher wage, lower tax and lower welfare economy. Time will tell if he achieves this.

Plans to cut the deficit have been eased, with the goal being to have a surplus and to start paying down our national debt by 2019/20 rather than 2018/19. The promised £12 billion in welfare cuts will be spread over three years rather than two.

But for now let's focus on the changes that may affect you. As always the following information comes with the caveat that some of these changes will be subject to amendment before the Summer Financial Bill 2015 is passed.

In this issue we'll be taking a look at the budgetary changes affecting:

- **Pensions**
- **Savings**
- **Taxation**
- **The Welfare System**

In other news we'll also look at:

- **The bank deposit compensation scheme**
- **Changes to National Savings & Investments (NS&I) savings allowances**

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.

# summer budget highlights

## Pensions

### The Lifetime Allowance (LTA) is to be reduced

The LTA is the maximum amount of pension savings you can have without incurring a tax charge (of up to 55%) and applies to all pension savings except the state pension. From April 2016 the lifetime allowance will be reduced from £1.25 million to £1 million. Transitional protection will be introduced for those with pension savings that are already over £1 million. The lifetime allowance will be indexed to increase in line with the consumer prices index (CPI) from 6 April 2018.There will be a deadline to apply for the transitional protection so if you have significant pension savings or are a member of a Defined Benefit scheme you should consider taking professional advice.

### The Annual Allowance (AA) is to be reduced for higher earners

The AA, currently £40,000, is the total amount of contributions that can be made into a pension scheme each year without tax penalties. From April 2016 a tapered reduction to the annual allowance will be introduced for individuals with adjusted income (with the value of any pension contributions added in) of over £150,000. The rate of reduction in the AA is £1 for every £2 that the individual's adjusted income exceeds £150,000, down to a minimum allowance of £10,000.

If you are making regular contributions of more than £10,000 p.a. you should check if you will be affected.

### Possible additional AA for 2015/16

The amount measured against the AA each tax year is the pension input in the Pension Input Period (PIP) ending in that tax year. Previously schemes could have a PIP to and from any date. However from 6 April 2016 all PIPs must be aligned to the tax year.

In order to achieve this HM Revenue and Customs (HMRC) has created transitional rules for the 2015/16 tax year only. These are complicated but in some circumstances they will allow individuals to pay up to an additional £40,000 to their pensions this tax year.

The impact of these changes and the associated AAs for both defined contribution and defined benefit pension schemes is complex and we would recommend that you seek advice if you are in any doubt about your own contributions.

## Savings

- **From April 2016 the Personal Savings Allowance will be introduced which will allow up to £1,000 of bank interest to be paid tax free for basic rate taxpayers and up to £500 for higher rate taxpayers. Additional rate tax payers will not receive any allowance.**
- **Banks and Building societies will no longer automatically deduct basic rate income tax at source from non-ISA savings accounts from April 2016.**

## Taxation

### Personal Allowance

The tax-free Personal Allowance – that is the amount you can earn before you have to start paying Income Tax – will increase from £10,600 to £11,000 in 2016-17 and to £11,200 in 2017-18.

The Government plans to increase the Personal Allowance to £12,500 by 2020, and a law will be introduced so that once it reaches this level, people working 30 hours a week on the National Minimum Wage won't pay Income Tax at all.

### Dividend tax

Dividend tax is the tax payable on any income from shares. At the moment, the 10% charge for dividend income which falls within the basic tax rate band is cancelled out by a 10% tax credit.

From April 2016, the dividend tax credit is being replaced by a new £5,000 tax-free dividend allowance for all taxpayers.

Tax rates on dividend income above this rate will be:

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

This system will mean that investors with less than £5,000 income from shares will see either a tax cut or no change in the amount of tax they owe. Those with significant dividend income will pay more tax.

### Inheritance Tax (IHT) and the Family Home Allowance

Currently, IHT is charged at 40% on estates over the IHT free nil rate band (NRB) of £325,000 per person. Married couples and civil partners can pass any unused NRB on to one another.

The IHT free NRB is to remain frozen at £325,000 until April 2021.

However, from April 2017, a new family home allowance will be introduced which allows spouses or civil partners to pass their home on to their children or grandchildren up to a value of £175,000 tax-free after their death.

The family home allowance will be added to the existing £325,000 threshold, meaning the total tax-free allowance for a surviving spouse or civil partner will be up to £1 million by 2020-21.

The allowance will be gradually withdrawn for estates worth more than £2 million at £1 for every £2 over this threshold.

The additional nil-rate band will only be available when a residence is passed on death to direct descendants (therefore, for example, an aunt couldn't pass a property onto a niece or nephew). It also only counts for property, so someone with £1 million in cash but no property would still only have the £325,000 nil rate band allowance.

The allowance will increase in the following steps:

- **£100,000 in 2017/18**
- **£125,000 in 2018/19**
- **£150,000 in 2019/20**
- **£175,000 in 2020/21**
- **Then in line with the consumer prices index (CPI)**

The band will be transferable where the second spouse or civil partner of a couple dies after 5 April 2017, regardless of when the first of the couple died.

The extra nil-rate band will also be available when a person downsizes or ceases to own a home after 7 July 2015 and assets of an equivalent value, up to the additional nil-rate band, are passed on death to their direct descendants. This will be the subject of a technical consultation with details to follow.

### Ending the permanent non-domicile status

Non-domiciled individuals (non-doms) are those who live in the UK but consider their permanent home to be elsewhere. The UK rules allow non-doms to pay UK tax on their offshore income only when they bring it into the UK.

Permanent non-dom status will be abolished from April 2017. From that date, anyone who's been resident in the UK for 15 of the past 20 years will be considered UK-domiciled for tax purposes, including inheritance tax.

From 6 April 2017 individuals who are born in the UK to parents who are domiciled here will no longer be able to claim non-dom status while they are resident in the UK.

### Restricting tax relief for wealthier landlords

Currently, individual landlords can deduct their costs – including mortgage interest – from their profits before they pay tax – meaning some landlords receive tax relief at 40% or 45%. This tax relief will be restricted to 20% for all individuals by April 2020.

In addition, from April 2016, the 'wear and tear allowance', which allows landlords to reduce the tax they pay (regardless of whether they replace furnishings in their property) will also be replaced by a new system that only allows them to get tax relief when they replace furnishings.

### Tax Avoidance

The Government plans to clamp down on tax avoidance and evasion and will increase resources for HM Revenue and Customs (HMRC) so they can make sure people pay the tax that's due.

## The Welfare System

The welfare system is to be reformed with the intention of making it fairer for taxpayers who fund it, while continuing to support the most vulnerable. Changes include:

- **working-age benefits, including tax credits and Local Housing Allowance, will be frozen for 4 years from 2016-17 (this doesn't include Maternity Allowance, maternity pay, paternity pay and sick pay)**
- **the household benefit cap will be reduced to £20,000 (£23,000 in London)**
- **support through Child Tax Credit will be limited to 2 children for children born from April 2017**
- **those aged 18 to 21 who are on Universal Credit will have to apply for an apprenticeship or traineeship, gain work-based skills, or go on a work placement 6 months after the start of their claim**
- **rents for social housing will be reduced by 1% a year for 4 years, and tenants on higher incomes (over £40,000 in London and over £30,000 outside London) will be required to pay market rate, or near market rate, rents**

### Introducing the National Living Wage

From April 2016 a new National Living Wage of £7.20 an hour for the over 25s will be introduced – replacing the current minimum wage. This will rise to over £9 an hour by 2020.

# and finally - in other news...

## The Financial Services Compensation Scheme (FSCS) limit is to be reduced

The FSCS is an independent body, set up by Government, which gives you your money back (within certain limits) if an authorised financial services provider fails.

In July the Government announced that the FSCS limit for deposits will be reduced from £85,000 to £75,000 with effect from 1 January 2016 (the current £85,000 limit will remain in place until that time).

The compensation limit is set by the Prudential Regulation Authority (PRA), and is linked to the value of Sterling relative to 100,000 Euros. As Sterling has increased in value compared to the Euro, the limit is to be reduced to £75,000.

The limit is per person, per firm. So if you hold more than £75,000 with any one organisation your funds could potentially be at risk if the bank or building society were to become insolvent.

Firms will write to their customers to inform them about these changes before they come into effect.

## Premium Bonds

**From June 2015 the amount that you can invest in Premium Bonds rose to £50,000. The minimum investment is £100.**

**Although no interest is paid on premium bonds, and prizes are not guaranteed, your money is secure as it is backed by the Government's retail bank – National Savings & Investments (NS&I).**

**There are two tax-free £1 million monthly jackpots and more than two million other prizes ranging from £25 to £100.**

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www.pannellsfp.co.uk

## Contact us

**For Newsletter and General Enquiries:**
Sarah Cook on 0121 609 3210
Email: sarah.cook@pannellsfp.com

**For Mortgage and Equity Release Enquiries:**
John Studman on 0121 609 3247
Email: john.studman@pannellsfp.com