



WINTER 2016

FA Staff Financial NEWSLETTER

Most Chancellors have to make do with two parliamentary set pieces every 12 months: a Budget in spring and an Autumn Statement. Over the last 12 months, George Osborne has managed to clock up four performances. His 2014 Autumn Statement was in December and, a March and July Budget later, his 2015 Autumn Statement took place in November. It might have been expected that he would have little to say in the Autumn Statement, but that proved not to be the case.

Although ostensibly the Autumn Statement was an adjunct to the five year spending review, like many of its recent predecessors the flavour was more of a mini-Budget with some surprises and some expected measures, as we explain below.

Topics

- **Buy-to-let attack continues**
- **Pensions**
- **2016/17 Tax Changes**
- **Inheritance Tax**

Buy-to-lets attack continues

In July Mr Osborne announced two tax changes targeting individual buy-to-let investors:

- He announced that the rate of tax relief on mortgage interest and other finance costs to acquire a buy-to-let property would be phased down to basic rate by 2020/21, with the first cut in 2017/18. The way in which this will be achieved – by providing the new relief as a tax credit – could also add to tax bills by increasing total income.
- From 2016/17 the existing 10% wear and tear allowance for furnished properties will be replaced with a new allowance based on actual expenditure.

In the Autumn Statement the Chancellor took two further steps to increase revenue from the buy-to-let sector:

- From 1 April 2016, the rate of stamp duty land tax (SDLT) on individual purchases of “additional properties” (e.g. buy-to-let and holiday homes) will increase by three percentage points. Only scant detail – subject to consultation – has so far been provided, but it looks as if a £250,000 property will cost you £2,500 in SDLT if it is your main home, but £10,000 if it is not. Property in Scotland will be unaffected as Land and Buildings Transaction Tax (LBTT) replaced SDLT there in April.
- From April 2019, any capital gains tax (CGT) due on the sale of a property will be payable on account within 30 days of completion. At present CGT is due on 31 January in the tax year following the tax year of sale, so the tax bill could be deferred by up to almost 22 months.

This quartet of tax rises will reduce the popularity of the buy-to-let property, which looks to be one of Mr Osborne’s subsidiary targets. In his speech he said “Frankly, people buying a home to let should not be squeezing out families who can’t afford a home to buy.”

Pensions

Alongside the July Budget the Chancellor published a brief consultation paper examining options for taxing pension savings. Until shortly before the Autumn Statement it had been expected that the Chancellor would reveal the outcome of the consultation in November. However, in late October he responded by what was probably a planted parliamentary question by saying that a decision would arrive in the March Budget.

Nevertheless, the Chancellor did make one subtle tweak in the Autumn Statement that will cut the pension tax relief bill by a total of £840m across 2017/18 and 2018/19. This useful boost to the Exchequer was garnered by adding six months to the start date for the two increases due to minimum auto-enrolment pension contributions. These will now rise from the current 2% of qualifying earnings (pay between £5,824 and £42,385 in 2015/16) to 5% from April 2018 and 8% from April 2019.

There is a growing expectation that the Chancellor will reform pension tax relief in 2016, with the announcement delayed until March giving the Treasury more time to work out how to handle the transition.

On state pensions, the Chancellor confirmed that the basic state pension would rise by 2.9% to £119.30 a week from April 2016 and, simultaneously, the new single tier pension would start life at £155.65 a week. Other state pensions, such as the state second pension, will be frozen because they are linked to the Consumer Prices Index which fell by 0.1% in the year to September.

GET READY FOR 2016/17 TAX CHANGES

Major tax reforms, which the Chancellor announced in his two 2015 Budgets, will become reality from 6 April 2016, with important repercussions for investment-ownership strategies.

Savings income

In the March Budget a new personal savings allowance was announced, to start in April 2016. As with the divided allowance, little information has emerged since, but what we do know is:

- If you are a basic rate taxpayer, the allowance will mean you will have no tax to pay on up to £1,000 a year of savings income (primarily interest). If you are a higher rate taxpayer, your allowance is £500 (but your maximum tax saving is the same - £200). If you are an additional rate taxpayer, you will not receive any allowance.
- Bank and building society interest will be paid without deduction of tax from next April because the majority of savers will have no tax to pay.
- The government is still considering whether to extend gross payment of interest to funds which invest in fixed interest securities, such as corporate bonds.
- The new allowance will apply in addition to the 0% starting rate band for savings income, which will remain at £5,000 for 2016/17.

Dividends

The July Budget announced a complete revamp of the taxation treatment of dividends from April 2016. Few details have emerged since, although draft legislation is imminent. The main points of the reform are:

- There will be a new £5,000 dividend allowance meaning that, regardless of your tax rate, the first £5,000 of dividends you receive will be UK tax free. However, that £5,000 will not completely disappear from the tax calculation – although called an allowance it is more like a 0% band in practice.
- The 10% tax credit, which currently comes with a dividend, will disappear so there will be no more grossing up of dividends for tax purposes. This could be

helpful if your total income, including dividends, is near to a trigger threshold, e.g. the £50,000 at which child benefit starts to be taxed.

- The effective rates of tax that will apply above the allowance are 7.5% higher. If you are a basic rate taxpayer you will pay 7.5% of the dividend, a higher rate taxpayer, 32.5% or an additional rate taxpayer, 38.1%.

The changes will leave most people no worse off and many higher and additional rate taxpayers better off. However, if you are a private company director who draws most of your income as dividends to avoid National Insurance contributions, you could end up paying significantly more tax.

Now what?

These changes have several important consequences for your financial planning:

- If you are married or in a civil partnership, it could be worthwhile to revisit the issue of independent tax planning. In theory, you should both aim to cover your dividend allowance and personal savings allowance when deciding who owns which investments. Ironically, this might mean transferring investments or savings from a basic rate taxpayer to a higher rate taxpayer – the opposite direction to what you might expect.
- If you use dividends to draw income from your company, you may want to pay an extra dividend in the current tax year. It seems likely some public companies will also accelerate dividend payments, as happened ahead of the introduction of additional rate tax.
- ISAs will become less attractive because tax-free interest and dividends will be easier to obtain. You may therefore want to review what assets you hold in your ISAs.
- The rules that can leave you paying tax on any income generated by gifts to your minor children will have less impact.

ACTION

Tax law never stands still, underlining the need for regular reviews of your planning.

As we near the tax year end, this is an area of planning that needs to be considered alongside the usual year-end list. In theory, in 2016/17 you could have £22,000 of income free of tax...but only if it is the right mix of income.

Inheritance Tax

There were two small but important announcements on the inheritance tax front:

- Following a consultation over the summer, there will be no changes to the rules on deeds of variation, which can effectively allow a will, or the outcome of intestacy provisions, to be amended after death. This does *not* mean that keeping your will up to date is any less important. Deeds of variation prove problematical, especially if minors or intransigent beneficiaries are involved.
- The Treasury confirmed that it would be introducing corrective legislation to make certain that pension funds in drawdown remaining on death will not be subject to inheritance tax as a general rule. There might still be a liability if death occurs within two years of a pension transfer.

There were no further announcements about the main residence nil rate band, which starts life at £100,000 in April 2017. In summer a consultation paper was issued on the thorny subject of home downsizing, the contents of which suggested considerable record keeping would be needed to make an appropriate claim on death.