Budget Statement 2015 – Initial Analysis

18 March 2015

The coalition government presented its Budget Statement today. The following summary provides an overview of the main points set out in the Budget Statement and HMRC/DWP notes.

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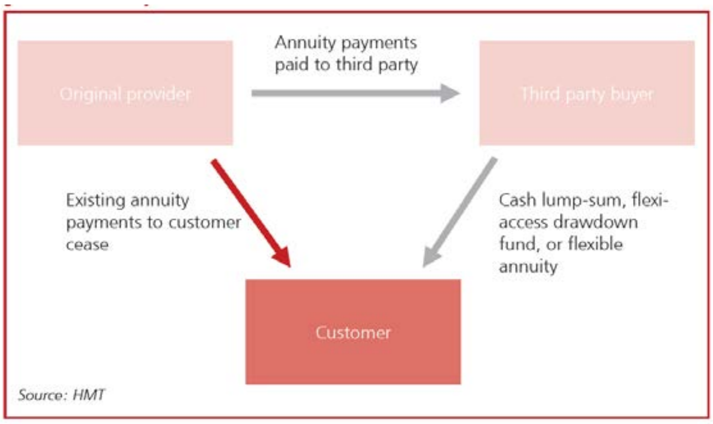
1. Pensions

Lifetime Allowance
The lifetime allowance will reduce from £1.25m to £1m from 6 April 2016. There will be new fund protection options introduced to allow those with funds in excess of this limit to protect the greater amount held. Indexation of the lifetime allowance in line with CPI will be introduced from 6 April 2018. This will be a welcome announcement for those able to build up significant pension savings.

Annuities
The government will legislate from April 2016 to allow people who are already receiving income from an annuity to agree with their annuity provider to assign their annuity income to a third party in exchange for a lump sum or an alternative retirement product.

This will include the removal of the “unauthorised payment” tax charge of up to 55% (or even 70%) that deters annuity holders from currently assigning their annuity. Individuals will, upon agreement with their annuity provider, have the opportunity to assign their annuity to a third party in return for a lump sum. Individuals can take this lump sum directly, or transfer the lump sum to an alternative retirement income product, drawing income down over a number of years and being taxed at their marginal rate.

The diagram below show a simple illustration of how the process will work:



Source: HMT

Further details can be found in the government consultation document ‘Creating a secondary annuity market’ [here](#) .

To ensure consistency of treatment, the government proposes to apply the £10,000 annual allowance to individuals who assign their annuity to a third party. This will apply in the following circumstances:

- for individuals who receive their payment in the form of a cash lump sum, this will apply from the date that they receive the cash payment.
- for individuals who use their payment to reinvest in a flexi-access drawdown fund, this will apply from the date that they first draw down from this fund.
- for individuals who use their payment to purchase a flexible annuity, this will apply when the first payment is made under the flexible annuity.

2. Other

Making tax easier – digital tax accounts
The Chancellor announced plans to reduce the administrative burden on self-assessment taxpayers by introducing digital tax accounts and scrapping self-assessment tax returns. Tax details will be held in one place and this will operate in a similar way to an online bank account. Information on pensions, employment income and savings income will automatically be collated to calculate the tax liability. Individuals will be able to see changes to tax codes and they will be able to pay their tax on an ongoing basis. The first of these accounts will be available early 2016 although individuals who choose to submit paper tax returns can continue to do so. There will be a consultation later this year on how this is going to operate. This will not only make it easier for taxpayers (individuals & businesses) to view all their relevant taxation elements in one place but will also allow HMRC to improve their monitoring of tax avoidance.

Corporation tax
Legislation will be introduced in Finance Bill 2015 to set the main rate of Corporation Tax at 20% for the financial year 2016/17.

Income Tax

Personal Allowance
The income tax personal allowance will increase from £10,600 to £10,800 from 6 April 2016 and then to £11,000 from 6 April 2017. The eventual aim is to reach a personal allowance of £12,000.

Personal Savings Allowance
A Personal Savings Allowance will be introduced of up to £1,000 of a basic rate taxpayer's savings income, and up to £500 of a higher rate taxpayer's savings income each year from 6 April 2016. The Personal Savings Allowance will be in addition to the tax advantages available through ISAs. The Personal Savings Allowance will not be available for additional rate taxpayers.

It's worth bearing in mind that a chargeable event on an onshore bond comes with a 20% non-recoverable tax credit. So an onshore bond policyholder may not be able to benefit from this change.

Banks and building societies will no longer have to deduct 20% income tax on interest from non-ISA savings from April 2016.

Personal tax & NI bands
The higher rate tax threshold above which higher rate tax applies will increase from £42,385 to £42,700 from 6 April 2016 and then to £43,300 on 6 April 2017.

Class 2 National Insurance contributions are to be scrapped for the self-employed. The Government will consult on the detail on timing of these reforms later in 2015.

ISAs

ISAs – additional flexibility
Regulations will be introduced in Autumn 2015, following consultation on the technical detail, to enable ISA savers to withdraw and replace money from their cash ISA in the tax year, without it counting towards their annual ISA subscription limit for that year.

Help to buy ISA
To help first time buyers save a deposit for a property, the government is launching 'help to buy ISAs' in Autumn 2015. For every £200 a first time buyer saves, the government will provide a £50 bonus up to a maximum bonus of £3,000 on £12,000 of savings. Savers will have access to their own money and will be able to withdraw funds from their account if they need them for another purpose but the bonus will only be made available for home purchase.

Premium Bonds
The investment limit for premium bonds is rising to £50,000 from 1 June 2015.

Inheritance Tax

Deeds of variation
As part of a review of tax avoidance, the government announced it is looking into the use of deeds of variation. This is where a will is varied within 2 years of the death of the testator and the beneficiary(ies) who is impacted by the variation agrees to the change. The consultation is scheduled for the Autumn.

Inheritance Tax (IHT) and trusts
It has again been confirmed, that the plans to split one nil rate band between all the lifetime trusts created by the same settlor for the purposes of the calculation of ten year charges and exit charges have been abandoned. There will be revised legislation to target a specific area of IHT avoidance, where multiple trusts are used and additional property is added to these trusts on the same day. Draft legislation had originally been published on 10 December 2014. The new rules will apply when property valued at above £5,000 is added to more than one relevant property trust on the same day. The new rules will apply to additions to existing trusts to a will executed before 10 December 2015. The calculation of trust charges will also be simplified by removing the requirement to include non-relevant property in the computation.

Tax avoidance

DOTAS (Disclosure of Tax Avoidance Schemes)
The government aims to strengthen the DOTAS regime and will introduce legislation, which, amongst other things, will strengthen the descriptions of schemes which must be disclosed and expand the coverage of IHT to include schemes seeking to avoid IHT charges during a person's lifetime and following death. We therefore await this legislation, which will be included in a future Finance Bill, to examine what trusts are included.

Common Reporting Standard (CRS)
There will be legislation published shortly after the budget to implement the UK's Automatic Exchange of Information Agreements and to adopt the updated EU Directive on Administrative Co-operation. The legislation may require financial institutions to inform their UK resident customers, with UK or overseas accounts, about the Common Reporting Standard, the penalties for evasion and the opportunities to disclose.

3. Bands of taxable income and corresponding tax rates

	2014-15	2015-16
	Per cent of income / £ a year	
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting rate for savings income (*)	10%	0%
Dividend ordinary rate	10%	10%
Dividend upper rate	32.5%	32.5%
Dividend additional rate	37.5%	37.5%
Trust rate	45%	45%
Starting rate limit (savings income)	£2,880	£5,000
Basic rate band	£0 - 31,865	£0 - 31,785
Higher rate band	£31,866 - 150,000	£31,786 - 150,000
Additional rate band	Over £150,000	Over £150,000

Income tax allowances

	2014-15	2015-16	Change
	£ a year		
Personal Allowance			
those born after 5 April 1948	10,000	10,600	600
those born between 6 April 1938 and 5 April 1948	10,500	10,600	100
those born before 6 April 1938	10,660	10,660	-
Income limit for personal allowance (*1)	100,000	100,000	-
Income limit for personal allowances (born before 6 April 1948) (*2)	27,000	27,700	700
Married couple's allowance (*3)			
maximum amount (*4)	8,165	8,355	190
minimum amount (*5)	3,140	3,220	80
Blind person's allowance	2,230	2,290	60
Transferable Tax Allowance for married couples and civil partners (*6)	-	1,060	-

**1 The personal allowance reduces where the individual's income is above this limit by £1 for every £2 above the limit. This applies regardless of the individual's date of birth.*

**2 This allowance reduces where the individual's income is above the income limit by £1 for every £2 above the income limit until it reaches the level of the personal allowance for someone born after 5 April 1948.*

**3 Available to people born before 6 April 1935. Tax relief for this allowance is restricted to 10 per cent.*

**4 This allowance is reduced when the individual's income is above the income limit. This is at a rate of £1 for every £2 above the income limit until it reaches the minimum amount. Any reduction in the married couple's allowance applies after any reduction to the individual's personal allowance.*

**5 This is also the maximum relief for maintenance payments where at least one of the parties is born before 6 April 1935.*

**6 Available to spouses/ civil partners born after 5 April 1935. This allowance is 10% of the personal allowance for those born after 5 April 1938. It allows a spouse or civil partner who is not liable to income tax above the basic rate to transfer this amount of their personal allowance to their spouse/ civil partner. The recipient must not be liable to tax above the basic rate. The recipient is eligible to a tax reduction of 20% of the transferred amount.*