Don’t become prey to tax changes

‘The devil is in the detail’ sums up most Budgets: the Chancellor’s speech matters less than the accompanying welter of HMRC and Treasury papers, and 2013 proved to be no exception.

After last December’s Autumn Statement, it looked like George Osborne would have little to say in this year’s Budget or, for that matter, the Budgets for the following two years.

However, the Budget is the year’s set piece for any Chancellor and the opportunity to grab the headlines – or at least spring some surprises – is not to be missed.

Inheritance tax (IHT)

Last December the Chancellor announced that the IHT nil rate band would rise by 1% to £329,000 in 2015/16, ending the freeze at £325,000 that started in April 2009. This minor upgrading was thrown into doubt, however, when the Government revealed its plans for long-term care and said that these would in part be funded by a further freezing of the nil rate band. The Budget confirmed the Chancellor’s change of mind: the nil rate band will now be frozen until April 2018.

The Budget also revealed a new stance on how debts are to be treated on death. While the change was primarily aimed at IHT avoidance schemes, it could have unwelcome consequences for your estate’s IHT bill if you have borrowed to finance a business or buy farmland.

Income tax

The Chancellor’s main ‘rabbit out of the hat’ was the £560 increase in the personal allowance to £10,000 for 2014/15. While he made much of the number of people being taken out of tax, there was little fanfare for the future £145 cut in the basic rate band. The combined result is that the higher rate threshold (personal allowance + basic rate band) for 2014/15 will be £41,865, just 1% more than at present and about £2,000 lower than it was in 2009/10. The population of higher rate taxpayers and the amount of tax they pay will therefore continue to grow.

Corporation tax

Alongside the £10,000 personal allowance, the Chancellor reached another of his long term goals with the announcement that the main rate of corporation tax would fall to 20% from April 2015. This will mean that the smaller profits rate, currently also 20%, and the complex rules for marginal relief on profits between £300,000 and £1.5 million will disappear.

Self-invested personal pensions (SIPPs) and property

Sometimes Budgets produce misleading headlines and Mr Osborne’s statement on SIPPs and residential property was a case in point.

The Chancellor did no more than say that he would “explore with interested parties” the *possibility* of allowing SIPPs to convert unused space in commercial properties to residential use. This was not, as some commentators have suggested, a green light for buy-to-let SIPPs.

If any of these changes are important to you, please contact us for further advice.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.