

BUDGET CHANGES



BECKETT

SUMMARY OF KEY ANNOUNCEMENTS MADE IN THE MARCH 2016 BUDGET

ISA ALLOWANCES

ISA allowances will remain at £15,240 for the tax year 2016/17 and will increase to £20,000 from April 2017. Junior ISA allowances will also stay the same for the tax year 2016/17 at £4,080.

LIFETIME ISA

A new 'Lifetime ISA' will be launched in April 2017 for people under 40 and over 18. £4,000 can be contributed each year and the Government will add a 25% bonus (equivalent to 20% tax relief) to encourage people to save flexibly for the long term.

Any contributions to a LISA will be within the overall £20,000 ISA limit.

PENSIONS

Currently, you can take up to 25% of your pension as tax-free cash. There were no significant announcements regarding pensions but the reduction in the Lifetime Allowance to £1m, and the introduction of the Tapered Annual Allowance for individuals with 'adjusted income' over £150,000, will take effect from April 2016.

In support of the 'pension freedoms' reforms introduced last year, the following technical amendments will be introduced:

- The tax treatment of serious ill-health lump sums will be aligned with lump sum death benefits. This is designed to ensure that they can be paid tax-free when someone aged under 75 has less than a year to live but has already accessed their pension.
- Serious ill health lump sums will be liable to tax at an individual's marginal rate when paid in respect of individuals aged 75 and over.
- The conversion of dependants' flexi-access drawdown accounts to nominees' accounts when dependants turn 23 will be facilitated so that they do not have to take their funds as a lump sum taxed at 45%.

CAPITAL GAINS TAX

- The higher rate of Capital Gains Tax will be reduced from 28% to 20% and the basic rate from 18% to 10% for disposals made on or after 6 April 2016.
- However, the 28% and 18% rates will continue to apply for chargeable gains on residential property.
- Entrepreneurs' Relief will be extended to external investors in unlisted trading companies. The new rules will apply to newly issued shares purchased on or after 17 March 2016, providing they are held for a minimum of three years from 6 April 2016, and subject to a separate lifetime limit of £10 million in gains.

SECOND HOME STAMP DUTY

The proposed 3% increase in Stamp Duty Land Tax on additional properties will take effect from 1 April 2016.

IMPORTANT NOTE – THE CONTENT OF THIS ARTICLE IS FOR GENERAL INFORMATION ONLY AND IS BASED ON OUR UNDERSTANDING OF ANNOUNCEMENTS MADE IN THE 2016 AND 2015 BUDGETS. AS ALWAYS, SPECIFIC PROFESSIONAL ADVICE SHOULD BE TAKEN ON A CASE BY CASE BASIS BEFORE TAKING OR REFRAINING FROM ACTION BASED ON INFORMATION IN THIS ARTICLE.

INCOME TAX

- The Income Tax Personal Allowance will increase to £11,000 from 6 April 2016, and £11,500 from 6 April 2017.
- The higher rate tax threshold will rise to £43,000 from 6 April 2016, and £45,000 from 6 April 2017.
- The Upper Earnings Limit for National Insurance Contributions will remain aligned with the higher rate tax threshold.
- Class 2 National Insurance contributions for the self-employed will be abolished from April 2018.

THE FOLLOWING CHANGES WERE ANNOUNCED IN THE 2015 BUDGET AND TAKE EFFECT FROM 6TH APRIL 2016:

PERSONAL SAVINGS ALLOWANCE

The tax-free personal savings allowance (PSA) for savings income paid to individuals will change as follows:

- Basic rate taxpayers will be able to receive up to £1,000 a year of tax free savings income
- higher rate taxpayers will be able to receive up to £500 a year of tax free savings income

The PSA will not be available to additional rate taxpayers.

Banks, building societies and NS&I will cease to deduct tax from account interest they pay to customers. This means the onus falls on the individual to account for the tax due directly to HMRC.

DIVIDEND TAXATION

The dividend tax credit will be replaced by a new dividend allowance in the form of a 0% tax rate on the first £5,000 of dividend income per tax year. UK residents will pay tax on any dividends received over the £5,000 allowance at the following rates:

- 7.5% on dividend income within the basic rate band
- 32.5% on dividend income within the higher rate band
- 38.1% on dividend income within the additional rate band.

Savings and dividend income are treated as the highest part of an individual's income when calculating into which tax band any dividend income over the £5,000 allowance falls. Where an individual has both savings and dividend income, the dividend income is treated as the top slice.

Dividends received on shares held in an individual savings account (ISA) will continue to be tax-free.

The dividend allowance will apply to dividends received from UK resident and non-UK resident companies, and those received by OEICs, Unit Trusts and managed portfolios – not just direct equity holdings.

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