SG WEALTH MANAGEMENT
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Budget Summary
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The Conservative government presented its first Budget Statement in 19 years on Wednesday. George Osborne's Budget contained few surprises, but there were some interesting developments with regard to taxation, and a Budget wouldn't be a Budget without yet further changes to Pension legislation. This summary takes a closer look at what is changing and how you may be affected.

Introduction

Following on from the coalition governments Budget in March of this year George Osborne has presented his first conservative budget. His opening statement described this Budget as one that puts security first, and recognises the hard work and sacrifice of the British people over the last five years, and that this will not be put at risk. As ever the devil will be in the detail which will bear out over the coming weeks. Here we summarise the changes, and provide our initial thoughts, of course if you have any questions please do contact your Wealth Manager.

What state is the UK economy in?

George Osborne reiterated that the UK economy is in broadly good shape, highlighting revised 2014 growth of 3.0%, up from 2.6%.

The Office for Budgetary Responsibility (OBR) forecasts remained largely unchanged, with GDP growth this year revised down from 2.5% to 2.4%, 2016 unchanged at 2.3% and 2017 revised upwards from 2.3% to 2.4%.

The key question going into this Budget was whether the chancellor would maintain the pace of deficit reduction he set out in his March Budget or freed from the shackles of coalition, resolve to cut faster.

His answer was that the pace would be the same as in the previous parliament.

The new Fiscal Charter commits future governments to running a budget surplus in 'normal' times, defined as GDP growth of over 1%. This fiscal common sense is welcome, as is the chancellor's plan to tackle the UK's sluggish productivity growth.

We feel that continuing economic growth in the US, and a sustained economic recovery in Europe are going to be the key drivers supporting UK growth. We will continue to keep you updated on our views in regards to the economy through your regular review meetings, and our quarterly investment commentary.

Yet further changes to Pensions legislation?

Changes to the Lifetime allowance:

The changes announced in the March Budget will go ahead so the Lifetime Allowance will reduce from £1.25m to £1m from 6th April 2016.

The Summer Budget Statement confirms that there will be new fund protection options introduced to allow those with funds in excess of this limit to protect the greater amount held. There is also confirmation that the Finance Act 2016 will include indexation of the lifetime allowance in line with CPI from 6th April 2018.

In our Budget summary of earlier this year we discussed how the reduction in Lifetime Allowance will bring increasing numbers of middle earners into paying tax charges and added complexity into the system. Our views haven't changed, and with the changes to the annual allowance we feel that there is even less need for a Lifetime Allowance, but while it exists it is an important consideration for middle and high earners looking to plan for their retirement income.

The protection will be useful however it will not help those not currently in excess of the limit, but who are projected to be above £1m at a future date (unless the protection is offered on a different basis to previous protections which seems unlikely).

Changes to the Annual allowance:

To pay for the reforms to Inheritance Tax (IHT) covered later in this summary, there will be a reduced annual allowance from 6th April 2016 for those with 'adjusted annual incomes' of over £150,000.

The 'adjusted income' is broadly the total of your income (without deducting your own pension contributions) plus the value of any employer pension contributions made on your behalf.

The reduction will work by tapering with a £1 reduction in the annual allowance for every £2 of adjusted income above £150,000.

Therefore for example someone with an adjusted income of £180,000 will have an annual allowance of £25,000, and anyone with an adjusted income above £210,000 would have the minimum annual allowance of £10,000.

On top of the annual allowance reduction the government is aligning all pension input periods with the tax year.

All pension input periods already open will end on 8th July 2015. The next pension input period, the end date which can't be changed by a pension scheme member or provider will start on 9th July 2015, and end on 5th April 2016.

All subsequent pension input periods will then run in line with tax years and cannot be varied.

The change in rules will mean that for some extra vigilance is required when making Pension contributions, anyone with the available funds to do so should maximise Pension contributions for this tax year if their Lifetime Allowance allows. From 9th July most people will have a £40,000 annual allowance for the rest of the tax year, even if they have already made pension contributions this year. The rules are complex so please speak with your Wealth Manager before considering making further contributions.

Potential changes to Pensions tax relief:

The government has launched a Green Paper 'Strengthening the incentive to save: a consultation on pensions tax relief' consulting on whether there is a case for reforming pensions tax relief to strengthen incentives to save.

Possible outcomes could range from radical reforms, such as bringing pensions taxation into line with ISA taxation. Once further information is available we will provide you with the relevant detail. We feel that maximising Pension contributions under the current rules is likely to prove beneficial.

Other Pension changes:

- The government has confirmed that changes to how lump sum death benefits are taxed will go ahead. Lump sum death benefits payable to a beneficiary who is an individual will be subject to tax at the recipient's marginal rate of Income Tax (currently taxed at 45% if paid in tax year 2015/16). Where the recipient of the lump sum is not an individual, for example a trust or a company, the 45% charge will continue to apply. **Trustees are able to delay the payment of benefits until the 2016/17 tax year should the approach be beneficial.**

- Although rumoured beforehand, there are no changes being made to the operation of salary sacrifice arrangements. The government has noted though, that such arrangements are becoming more popular and the cost to the taxpayer is rising. **The government intend to actively monitor the growth of salary sacrifice schemes that reduce employment taxes and their effect on tax receipts so we should all be prepared for futures changes in this area.**

- In our last budget summary we discussed the secondary annuity market, and the proposals made. Having already consulted on the issue, the government will set out its plans for a secondary annuities market in the autumn. Implementation will be delayed until 2017. **We feel that in most cases the guaranteed income an annuity provides will have a greater lifetime value than a one-off**

cash payment. If an annuity was the most suitable retirement income option for you at the time it was taken out, it is highly likely that this remains the case.

- The State Pension triple lock will be maintained. The triple lock works by increasing the State Pension each year by the highest of the rate of increase in prices, the increase in earnings and 2.5%.

Changes to Dividend taxation:

The 10% notional tax credit for dividends is to be abolished from April 2016. This will be replaced by a new yearly £5,000 tax-free dividend allowance, which will be available to all tax payers.

From April 2016, where dividend income is greater than £5,000, a basic rate taxpayer will pay tax at 7.5%, a higher rate taxpayer will pay tax at 32.5%, and an additional rate taxpayer at 38.1% on their dividend income.

Pensions and ISAs won't be impacted by these measures.

A key tax planning point to consider is that should you receive dividends from a close company you will pay additional tax, meaning that there will be less incentive to be paid by dividend rather than salary.

The details are not yet completely clear but it looks like those receiving relatively small amounts of dividend income will be better off, but those with more significant portfolios will pay more tax.

Changes to Buy-to-let mortgage interest tax relief:

Mortgage interest relief for landlords is to be cut to basic rate.

This restriction will be introduced on a phased basis over four years starting from April 2017.

Also, the 10% wear and tear allowance is to be abolished and tax relief will only be available for costs that landlords actually incur.

These measures may make investments in buy to let properties slightly less attractive, this goes some way to levelling the tax playing field between investment property and shares.

Will Inheritance Tax (IHT) will be payable on my residential property?

IHT may not be payable on your residential property depending on your individual circumstances.

An additional main residence nil rate band is to be introduced with effect from April 2017 for each person passing their main residential property to their children or grandchildren only.

The additional allowance is going to be phased in over four years, as follows

- £100,000 in 2017/18
- £125,000 in 2018/19
- £150,000 in 2019/20
- £175,000 from 2020/21

Thereafter it will rise in line with the Consumer Prices Index (CPI).

As with the current nil rate band any unused allowance can be transferred to a surviving spouse for use on their subsequent death. This will mean that where couples own a main residential property, they will potentially be able to benefit from a combined nil rate band of £1m from 2020/21.

The value of the main residence nil-rate band for an estate will be the lower of the net value of the interest in the residential property (after deducting any liabilities such a mortgage) or the maximum amount of the band.

The qualifying residential interest will be limited to one residential property but personal representatives will be able to nominate which residential property should qualify if there is more than one in the estate.

A property which was never a residence of the deceased (such as a buy-to-let property) will not qualify.

There will be a tapered withdrawal of the additional allowance where the net value of the IHT estate is greater than £2m. This will be on the basis of a £1 reduction in the additional allowance for every £2 that the estate exceeds the £2m threshold.

Anyone with a net estate over £2m will begin to see their property nil rate band reduced until it is completely lost once the estate is over £2.2m (2017/18) £2.25m (2018/19), £2.30m, (2019/20) or £2.35m (2020/21).

The nil rate band will be frozen at the current level of £325,000 until the end of 2020/21.

The additional allowance will only apply to transfers to children and grandchildren meaning those without children will miss out, and it is not possible to use the exemption for lifetime transfers which may discourage some people from passing on their wealth during their lifetime.

The freezing of the main nil rate band will increase the importance of IHT planning as more families are drawn into the IHT net through wealth inflation (leaving residences aside).

The main residence nil rate band will enable the Chancellor to claim that a £1m nil rate band has been achieved and will undoubtedly take some families out of the IHT net. However house price inflation may mean that the benefits of this additional nil rate band will be gradually eroded.

If you can benefit from the property nil rate band you may need to revisit your existing will to ensure it continues to reflect your wishes and remain as tax efficient as possible.

Other points of interest

Other changes set out in the budget that could be of interest to you are detailed as a snapshot summary over the next couple of pages:

Income Tax

- Currently the standard Personal Allowance (the amount an individual can earn before tax is paid) is £10,600 per annum. From the 6th of April 2016 this will be increased to £11,000 for 2016/17 and to £11,200 in 2017/18.
- Simultaneously the Basic Rate Tax Banding (20%) will increase from the current £31,785 to £32,000 for 2016/17, and to £32,400 for 2017/18.
- The rate at which people begin to pay Higher Rate Tax (40%) will increase from £42,385 to £43,000 in 2016/17, and £43,600 in 2017/18.

For those with an adjusted net income of under £100,000 per annum, an additional £400 per annum will be free of Income Tax (a saving of £80 per annum for a Basic Rate taxpayer, the saving will be greater for a Higher Rate taxpayer with adjusted income under £100,000 per annum). This announcement also increases the banding of the personal allowance reduction for those with an adjusted net income of over £100,000, meaning that the effective tax trap of 60% will apply from £100,000 to £122,000 in 2016/17, and £100,000 to £122,400 in 2017/18.

Insurance premium tax

- Insurance premium tax is to be increased from 6% to 9.5% from 1st November 2015.

Corporation Tax Rates

- Corporation tax rates will reduce from 20% to 19% in 2017, and then to 18% in 2020.

Addressing complexity in the tax system

- The Office of Tax Simplification (OTS) is to be established on a permanent basis. The terms of reference for the next reviews will be published shortly and these will include a review of a possible closer alignment of Income Tax and National Insurance together with a review of small company taxation.

Non-domiciled individuals

- From April 2017 anyone who has been resident in the UK for more than 15 out of the past 20 tax years will be deemed UK domiciled for tax purposes.
- This will bring more people into the IHT net on their worldwide assets, as the period of qualifying UK residency has been shortened from 17 tax years out of 20 to 15 years tax years out of 20.
- These deemed domicile rules will also impact on other taxes, such as Income tax and Capital Gains Tax (CGT) meaning that if an individual has been resident in the UK for 15 out of 20 tax years, they will be subject to UK income tax and capital gains tax on their worldwide income and capital gains.

If you have any questions in regards to any matters raised in this summary please do contact your Wealth Manager.

Risk Warnings and Other Important Information

We hope that this document is helpful in providing a summary of some of the key budget points. Please bear in mind the following important points:

- These comments are based on announcements made in the 9th July 2015 Summer Budget Statement, which may change before becoming law.
- Opinions are those of SG Wealth Management Ltd and Stan Gaskin Ltd at the time of writing and are subject to change. They are based upon our research and understanding of proposed legislation, which is subject to future ratification.
- Investors should not construe this document as specific advice and we take no responsibility for the outcome of any individuals taking actions personally (i.e. not via SG Wealth Management or Stan Gaskin Ltd) based upon the contents of this, or other published investment documents
- It is important that your affairs regularly reviewed to ensure it continues to be appropriate for your circumstances, needs and underlying economic conditions. We will do this with you as part of an ongoing client agreement.
- The value of pensions and investments and the income they produce can be affected by a number of factors and can go down as well as up, and the value you get back may be less than your initial investment.