

BUDGET 2016

George Osborne delivered his eighth Budget as Chancellor on Wednesday 16th March. Here is a summary of the main points that we think are most relevant to your financial plans.

PENSIONS

No changes to pension tax relief - It's business as usual for pension saving as the Chancellor confirmed there will be no imminent changes to pension tax relief. However, we can't rule out future changes and it may well be a good idea, especially for higher rate tax payers, to consider making pension contributions in the 2015/16 and 2016/17 tax years.

Salary sacrifice is here to stay: In more good news for employers and employees, the Government has confirmed that salary sacrifice will continue (for now, anyway) to be a tax and NI efficient option to fund a pension (as well as other mainstream employee benefits, such as childcare or health-related provision).

Pension dashboard coming soon: To help pension planning, a new digital pension dashboard, giving a single view of an individual's total pension savings, will be launched by 2019.

SAVINGS AND INVESTMENT

LIFETIME ISA (LISA)

The Chancellor unveiled plans to introduce a new Lifetime ISA (LISA) from April 2017.

The Government aims to encourage long term saving with the inclusion of an 'invest £4 get £1 free' bonus, but with the ability for first time home buyers to use savings to get a foothold on the property ladder.

How it works when you pay money in

The new LISA will only be available to anyone aged 18 to 40 and will include a 25% Government top up at the end of each tax year. It won't be possible to pay as much into the LISA as you can into your pension. Contributions will be limited to £4,000 each year which will be topped up to £5,000 and savers will stop receiving their top up once they reach age 50.

LISA contributions will count towards the total ISA savings limit which will increase to £20,000 in 2017/18.

How it works on the way out

Funds can be accessed tax free after the age of 60 but, to help first time buyers, funds may be withdrawn tax free to cover the cost of a deposit on their first home. And anyone already saving in a help to buy ISA will be able to transfer their existing savings to the new LISA.

Accessing savings before age 60 for reasons other than buying a first home will be allowed but the Government Bonus, and the growth on it, will be lost. There will also a 5% tax charge applied on the amount withdrawn.

As with other ISA schemes, the LISA will form part of the estate for Inheritance Tax purposes.

TAX

CAPITAL GAINS TAX (CGT)

Investors can benefit from a CGT cut from 6 April 2016. The rate changes are:

- 10% instead of 18% where an individual is not a higher rate tax payer
- 20% instead of 28% where the investor is a higher rate taxpayer, or the gain takes them into the higher rate band.

Trustees and legal personal representatives also win, as their tax rate on trust and estate gains falls to 20%.

However, landlords or second property owners will continue to pay 18% or 28% on any gains when they come to sell.

INCOME TAX

In April 2017, the Personal Allowance will rise from £11,000 to £11,500 and the higher rate threshold will increase from £43,000 to £45,000.

These two changes will see the take home pay of higher rate taxpayers increase by £500 each year, while for basic rate taxpayers the increase will be £100 each year.

CLASS 2 NATIONAL INSURANCE CONTRIBUTIONS

From April 2018, self-employed individuals will no longer have to pay Class 2 NICs, currently £2.80 per week.

They will still have to pay Class 4 NICs, which will be reformed to allow them to build up an entitlement to State Pension and other contributory benefits.

CORPORATION TAX

As an encouragement to UK business, the Corporation Tax rate will be further cut to 17% from 2020. The current rate is 20%.

WHAT WE ALREADY KNEW

Here's a reminder of the changes we already knew were coming for 2016/17...

Lifetime Allowance (LTA) cut to £1M

The pension lifetime allowance is to cut from £1.25M to £1M with new protection options for those expecting to caught by the LTA charge.

Annual Allowance (AA) cut for higher earners

The standard £40k AA will be reduced by £1 for every £2 of 'income' clients have over £150k in a tax year, until their allowance drops to £10k.

£5k Dividend Allowance

A new allowance will see the first £5k of dividends paid tax free. The changes also introduce new rates of tax for dividends in excess of the allowance and an end to the notional 10% tax credit.

Personal Savings Allowance

Also from April 2016 the first £1k of savings interest will be tax free (£500 for higher rate taxpayers). Interest will also be paid gross so that non-taxpayers no longer have to reclaim tax deducted at source. Additional rate tax payers will not benefit from this new allowance.

If you have any questions or feel that you need any advice on anything raised in the Budget 2016, please do not hesitate to contact your Financial Planner at Harvey Curtis.