Financial Planning infobyte 2015

Newsletter

September 2015

scruttonbland
accountants tax advisers insurance brokers financial advisers

Family home allowance

It has long been a concern of Government that families are being squeezed by ever-increasing house prices and the currently frozen threshold of £325,000 above which inheritance tax is charged on estates, at the rate of 40%.

Reflecting this concern, a new 'family home allowance' was announced in the Chancellor's summer budget which, when combined with the £325,000 'nil rate band', may by 2020 exclude from inheritance tax estates of £500,000. This means that married couples and civil partners will together be able to pass on assets, including the family home, of £1 million without incurring an inheritance tax charge.

The allowance will be phased in gradually. In the tax year 2017/18 it will be worth £100,000; then £125,000 in 2018/19; £150,000 in 2019/20 and £175,000 in 2020/21. The value of the allowance will then increase each year to compensate for inflation.

In the case of estates worth more than £2 million, the value of the allowance will reduce by £1 for every £2 by which the estate exceeds £2 million, until it ceases to be available for estates worth £2.35 million or more.

To qualify for the allowance, the estate must include a property which has been the deceased's main home and it must be left to one or more direct descendants. If there is more than one property in an estate, only one will qualify for the allowance.

New tax on dividend income

The Chancellor's summer budget also announced changes to the system for taxing dividends, which will result in more tax being paid by higher earners.

Under the current system, tax is regarded as having been paid by companies paying dividends, and a tax credit of 10% (one ninth of the net dividend received) is given to investors. This has the effect of cancelling out the income tax charge for basic rate taxpayers and reducing the rate of tax on net dividends received to 25% for 40% taxpayers and to 30.56% for 45% taxpayers.

Under the new system, dividends will be subject to tax, but all taxpayers will receive a tax-free allowance of £5,000 per year. This will mean that, assuming an average net dividend of 3.7%, only share portfolios worth more than £135,000 will suffer tax on dividends.

Investors receiving dividends of more than £5,000 p.a. will pay tax at 7.5% on the excess if they are basic rate taxpayers, 32.5% if they are 40% taxpayers, and 38.1% if they pay tax at 45%.

The Treasury has stated that 85% of individual taxpayers who receive dividends will be unaffected or better off as a result of the changes. However, business owners may now find it less attractive to pay themselves dividends in lieu of salary. Taxpayers with equity investment portfolios in excess of some £135,000 will be likely to be worse off.

Since the new dividend allowance is available to all UK taxpayers, it makes sense for married couples and civil partners to divide their share portfolios and also to take full advantage of the £11,000 personal allowances which will apply from April 2016. Investors with no other income would be able to receive dividends of £16,000 each year without paying tax.

Happily, dividends received within ISAs and pension funds will continue to be free of tax.

More flexible ISAs

The Government has announced that as from 6 April 2016, investors will be permitted to withdraw and reinvest money held in both cash ISAs and stocks and shares ISAs.

The Chancellor has also issued a 'green paper' discussion document to gain views on the feasibility of bringing the system of tax reliefs on pensions into line with that for ISAs. That is to say, removing tax relief on pension contributions but making pension payments tax-free.

This would save the Government many billions of pounds in tax relief but could undermine the incentive to save and would cause problems for many occupational pension schemes.

Pension loophole closed

As reported in our previous newsletter, the annual allowance which limits the pension contributions which qualify for tax relief is to be further restricted for those who earn more than £150,000 per year.

Normally, the maximum permitted contribution is £40,000 per year, but this is to be reduced by £1 for every £2 of income over £150,000 until, for an income of £210,000, the value of the allowance would reduce by £30,000 to £10,000.

Always on the look-out for loopholes, the Government has realised that high earners would be able to get round this restriction by arranging for their employers to reduce their salary and pay a corresponding amount into their pension scheme as an employer's pension contribution – an arrangement known as 'salary sacrifice'.

Now, any new salary sacrifice arrangements entered into by people earning more than £150,000 p.a. will be disregarded by HMRC for the purposes of pension contributions, although existing arrangements will continue to be honoured.

Deposit guarantee to reduce

The increased in the value of the pound sterling relative to the Euro has been popular with holiday-makers, but it has one less happy consequence. The Government's guarantee of deposits held with UK banks is based on a limit of €100,000 laid down by an EU Directive, and in sterling terms it will reduce from £85.000 to £75,000 with effect from January 2016.

If you would like to discuss any of these matters further please contact us

Ipswich T: 01473 267000
Neil and James
Fitzroy House, Crown Street,
Ipswich, Suffolk IP1 3LG

Neil G Hewitt CFP, APFS, AIFP
Chartered Financial Planner
Neil.hewitt@scruttonbland.co.uk

James Wright BA(Hons), DipPFS
Independent Financial Adviser
James.wright@scruttonbland.co.uk

Colchester T: 01206 838400
Gary and Grant
820 The Crescent, Colchester Business Park, Colchester, Essex CO4 9YQ

Gary Riches ACII, APFS, AIFP, CFP
Chartered & Certified Financial Planner
Gary.riches@scruttonbland.co.uk

Grant Buchanan Dip PFS, Cert CII (MP&ER)
Independent Financial Adviser
Grant.buchanan@scruttonbland.co.uk