UK Budget 2015

Latest news, comment and analysis

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1. The economy - overview

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The economy - overview

- Growth forecast in 2015 at **2.5%**.
- The Office for Budget Responsibility (OBR) - the Government's independent fiscal watchdog:

  - **revised up** its forecasts for **UK growth** in 2015 to 2.5%, from a December prediction of 2.4%;

  - **revised down** its forecast for the **unemployment** rate in 2015 from 5.4% to 5.3%.
- **Growth in 2016 was also upgraded to 2.3%,** from 2.2%.

The economy - overview

- GDP grew 2.6% in 2014, the strongest annual growth since 2007 and **the fastest in the G7;**
- Earnings growth has been strengthening, with total pay up 2.1% in the three months to December 2014 compared to a year earlier;
- **Inflation was 0.3%** in January 2015, down from 0.5% in December 2014;
- At the end of 2014, employment was at its highest ever level at 30.9 million, **more than 1 million above its pre-crisis peak**. OBR has revised down its forecast for the unemployment rate in 2015 from 5.4% to 5.3%.

The economy - overview

- **Deficit reduction** has been Osborne's central economic policy since 2010, when Britain's budget gap was 10.2% of GDP (one of the highest for a major economy).
- The OBR forecasts that the **current account deficit will diminish over the forecast period** from 4.3% of GDP in 2015, to 3.2% in 2016 and 2.3% in 2019
- Public sector net debt is forecast to peak at 80.4% of GDP in 2014-15, the same level as at Autumn Statement 2014
- Debt is forecast **to fall to 71.6%** of GDP in 2019-20

2. Corporate income tax

Corporate income tax

- From April 2015, **<u>Corporation Tax will be cut to 20%</u>**
  - **Lowest in G20**

    Italy: 31.4% (IRES+IRAP); Germany 29.58%; France 33.33%
  - This will also simplify the system as the **main rate will be the same as small companies rate**, currently at 20% for companies with taxable profits of up to GBP 300,000.

Corporate income tax

- Confirmation of **Diverted Profits Tax** (so-called 'Google Tax' *)* – Risks of reduction of inward investments and clashes with double tax treaties
- **Entrepreneurs Relief** remained largely untouched – but tighten the rule on the minimum 5% stake directly in the trading company
- **Bank levy** – increased to 0.21% from April 2015
- **Oil and gas** taxation - new investment allowance and reduced petroleum revenue tax (35% from 50%)
- **Business rates** – announced review with further options for local taxation of property and businesses

3. Personal income tax

Personal income tax

- **Income Tax Personal Allowance**
  - **Increased to £10,600** from 1 April 2015 (from £6,475 in April 2010).
  - Increased further to £10,800 from 1 April 2016 and £11,000 from 1 April 2017
- Resident non-domiciles taxed on a remittance basis and taxpayers with income **above £120,000 cannot claim personal allowance**
- Class Two national insurance contributions for the self-employed to be abolished

Personal income tax

- In budgets before 2014, the increase in the personal allowance had been financed with a reduction of the threshold at which taxpayers pay the 40p higher rate, but
- Budget 2015: The higher-rate threshold will rise in line with the personal allowance:

  - £42,385 in 2015/16
  - £42,700 in 2016/17 and £43,000 in 2017/18

By 2017, an individual earning £20,000 will pay £1,800 in Income Tax = 33% reduction in the tax paid compared to 2010.

- There is no change in the top rate of tax at 45%.

Personal income tax

Savings and Pensions

- **Increased ISA flexibility** - ISA savers will be able to withdraw and replace money from their cash ISA without counting towards their annual ISA subscription limit for that year, as long as the repayment is made in the same tax year.
- **Help to Buy ISA** – to assist first time home buyers. For every £200 a first time buyer saves, the government will provide a £50 bonus up to a maximum bonus of £3,000 on £12,000 of savings.
- **Pension pot lifetime allowance** falls from £1.25m to £1m from next year, netting Treasury £600m annually
- Pensioners will be given **access to annuities**, with **55% tax charge abolished** and tax applied at the marginal rate

Personal income tax

UK Non-Domiciles: **increased remittance basis charge**

- From April 2015 the charge paid by individuals who have been resident in the UK in at least 12 of the last 14 years will increase from £50,000 to £60,000. A new annual charge of £90,000 will be introduced for individuals who have been resident in the UK in at least 17 of the last 20 years.
- The remittance basis charge of £30,000 for individuals resident in the UK for 7 of the last 9 years remains unchanged.

Personal income tax

Tax evasion and avoidance - new criminal offences for tax evasion, and new penalties for professionals who assist tax evaders.

- Details of the financial accounts held offshore by UK resident taxpayers in over 90 countries will be shared with HM Revenue & Customs under the Common Reporting Standard ("CRS")
- New Common Reporting Standard Disclosure Facility ("CRSDF") from 2016 to mid 2017. Less generous terms than previous disclosure facilities, as penalties will start at 30% with no immunity from criminal prosecution.
- Lichtenstein Disclosure Facility and the various Crown Dependencies Disclosure Facilities will be closed by the end of 2015, earlier than previously announced.

Personal income tax

- **Farewell to the Self Assessment Tax Return?**

Annual tax return will be scrapped and replaced with a digital tax account on line.

- Where there is a digital tax account HM Revenue & Customs will assess what you owe from data collected from various sources, e.g. your bank, your employer etc., and <u>you will have to check it.</u>
- Taxpayers with <u>complex tax affairs</u>, and we expect that this includes <u>non-doms claiming the remittance basis</u>, will <u>still need to prepare tax returns</u>.

4. Taxation of real estate

Taxation of real estate

- Tax on homes owned through a corporate vehicle **extended** from residential properties worth more than £2m to those worth more than £500,000. Such homes will be levied:
- Stamp Duty Land Tax at **15%**
- Annual Tax on Enveloped Dwelling (ATED)
  - From April 2015, properties valued between **£1m and £2m will be charged £7,000 annually**
  - From April 2016, properties valued between **£500k and £1m will be charged £3,500 annually**
- Capital gains tax at 28%
- Treasury has also increased the current ATED bands
- Trusts are excluded

Taxation of real estate

Extended non-residents capital gains tax (NR CGT)

- The **new NR CGT** will apply to **all disposals** post 6th April 2015 of all UK properties, regardless of their value and there will be no relief for lettings businesses.
- It will apply to most non-residents, including non-resident individuals, offshore corporate trustees and close non-resident companies with the same rates of resident individuals/entities.
- **Non-resident companies and funds** which are not close companies will not be caught by the new regime.
- Where both ATED CGT and NR CGT apply, ATED CGT takes priority.
- **New private residence relief occupancy test** - stay overnight at the property at least 90 times during the tax year.

Conclusion

Conclusion

- The budget mostly confirm what anticipated on the Autumn budget with minor surprises
- Reduced income tax bill for 20p and 40p taxpayers
- Announced major changes in the self-assessment procedure
- Reduced appeal for non-residents to invest in UK real estate market
- Confirmed war to tax evader/avoider and profit-shifting companies

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