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Budget Bulletin

2015

The Budget Background

George Osborne's sixth Budget was inevitably a heavily political set piece, given the general election is just fifty days away (at time of going to print). Some measures seemed included only to give the Chancellor an opportunity to make a joke at Ed Miliband's expense - but carefully-scripted humour aside, there was some real content to the Budget. However, many of the proposals came with an unspoken condition that necessary legislation is dependent upon the outcome of the election.

The economic backdrop for this Budget was much healthier than for his first (emergency) Budget in June 2010. Last year produced solid economic growth of 2.6%, closely in line with the Budget 2014 prediction from the Office for Budget Responsibility (OBR) of 2.7%. For the coming year the OBR sees growth slowing only very marginally, to 2.5%. The government deficit for 2014/15 is predicted to be about £7bn less than last year's (at £90.2bn), much as the OBR had forecast last March. 2015 is meant to see a much bigger fall in the deficit - £15bn – but this is based on unchanged government policies, an assumption which 7 May could disrupt.

Inflation, running at 0.3% on the CPI measure and 1.1% on the now discredited RPI yardstick, has been a help to the Chancellor: the OBR thinks the Treasury will have save £4.2bn in the coming financial year on debt servicing costs because prices have been rising so slowly. Low inflation should continue to benefit the Exchequer in coming years according to the OBR: it does not now foresee the CPI returning to the Treasury's 2% central target until 2019.

The OBR's numbers gave the Chancellor a small amount of wriggle room to make some pre-election gestures. However, he was careful to limit his immediate generosity. The ever-present politics dictated that the Chancellor could not give UK plc too clean a bill of health, lest it eased the electoral path for the opposition.

So what did emerge from this year's Budget? The answer is that much of the news was reheated from the Autumn Statement or earlier announcements, spiced with the inevitable sweeteners, surprises, opposition-baiting and the odd horror:

- A rise of £600 in the personal allowance to £10,600 for 2015/16 and further £200 increases to £10,800 in 2016/17 and £11,000 in 2017/18.
- A £520 rise in the higher rate threshold for 2015/16, for once not far short of an inflation-linked increase. Future increases will take the threshold to £42,700 in 2016/17 and £43,300 in 2017/18 – still below the £43,875 at the start of this Parliament.
- The end of age allowance for those born after 5 April 1938, with their elders due to see the benefits of their age allowance – worth just £12 in 2015/16 – almost certain to disappear in 2016/17.
- An increase to £11,100 for the capital gains tax annual exemption in 2015/16.
- A new employer Class 1 National Insurance contribution (NIC) exemption for employees aged under 21 earning up to £815 a week, with a similar exemption for apprentices under age 25 from 2016/17.
- A new help to buy cash ISA for first-time buyers with a government bonus of £50 for each £200 saved up to a maximum bonus of £3,000 for £12,000 of savings.
- A new personal savings allowance worth up to £200 for basic and higher rate taxpayers, to be introduced in 2016/17.
- A cut in the pension lifetime allowance from £1.25m to £1m with effect from 2016/17, with new transitional protection introduced.

- A promise to review the annual investment allowance (currently £500,000) and "set at a much more generous rate" than the £25,000 to which it is due to revert at the end of 2016.
- A tightening up of the rules on entrepreneurs' relief.
- More anti-avoidance measures, with an emphasis on offshore and IHT arrangements.

In this Bulletin we look at the impact of the main changes on different groups of taxpayers.

12 Quick New Year Tax Tips

1. Don't waste your (or your partner's) £10,600 personal allowance.
2. Don't dismiss the starting rate band – it is 0% and £5,000 wide in 2015/16.
3. Don't ignore National Insurance contributions –they are really a tax at up to 25.8%.
4. Think *marginal* tax rates – the system now creates 60% (and higher) marginal rates.
5. With an election on 7 May, tax planning should not stop on 5 April.
6. The new marriage allowance starts in 2015/16: it might save you £212.
7. ISAs should normally be your first port of call for investments and then deposits.
8. Capital gains are usually taxed more lightly and less quickly than income.
9. Trusts can save inheritance tax, but suffer the highest rates of CGT and income tax.
10. File your tax return on time to avoid penalties and the taxman's attention.
11. Never let the tax tail wag the investment dog.
12. Don't assume that HMRC won't find out, as the news has recently demonstrated…

Investors and Savers

The Personal Allowance

Last year's Budget revealed that that the 2015/16 personal allowance would be £10,500, but the Autumn Statement added a further £100 bringing the figure to £10,600. However, many people do not even use the current personal allowance (£10,000 in 2014/15), and there remains a £2,500+ gap between it and the starting point for National Insurance contributions (£8,060 in 2015/16). At the other end of the income scale, about 1 in 50 taxpayers will have no personal allowance in 2015/16 because their income exceeds £121,200 at which point their allowance is tapered to nil. Further increases to the personal allowance are due in 2016/17 and 2017/18, taking it up to £11,000 and extending the income level at which the personal allowance is lost to £122,000.

If you or your partner does not use the personal allowance, you could be paying more tax than necessary. There are several ways to make sure you maximise use of your allowances:

- Choose the right investments: some investments do not allow you to reclaim tax paid while others are designed to give capital gain, not income.
- Couples should consider rebalancing investments so that each has enough income to cover the personal allowance.
- Make sure that in retirement you (and your partner) each has enough pension income. The basic state pension (£115.95 a week in 2015/16) alone is not enough.

The Starting Rate Band

For 2015/16, the starting rate band for savings income has been widened from £2,880 to £5,000 and the rate reduced from 10% to 0%. The Chancellor was able to make these changes because most people are not able to take advantage of the starting rate band: if your earnings and/or pension income exceed £15,600 in 2015/16, then that includes you. However, if you (or your partner) do qualify, you will need to ensure you have the right type of investment income to pay 0% tax.

If all of your income falls within the personal allowance plus starting rate band, usually you will be able to register to receive interest with no tax deducted at source, just as you can now as a non-taxpayer.

Year End Planning: If you don't anticipate using all your personal allowance in 2014/15 think about creating more income by closing deposit accounts before 6 April and crystallising the interest in this tax year. But beware early closure penalties and shutting down accounts with better interest rates than are available now!

The same principle will apply in March 2016, but this time allowing for the starting rate band, too.

The Personal Savings Allowance

For 2016/17, there will be a new savings allowance, effectively exempting from tax the first £1,000 of savings income for basic rate taxpayers and the first £500 for higher rate taxpayers. Additional rate taxpayers will not receive any allowance. This will be worth a tax saving of up to £200 and, according to the Chancellor, “will take 95% of taxpayers out of savings tax altogether.”

Capital Gains Tax (CGT)

Capital gains are currently taxed as the top slice of income, but the rates are lower than those that apply to income. Gains are taxable at 18% to the extent they fall in the shrinking basic rate band and 28% if they fall into the higher or additional rate bands. For 2015/16, the capital gains tax annual exemption will rise by £100, with increases thereafter meant to be inflation-linked. However, that will be a post-election decision and there have already been Liberal Democrat proposals to cut the exemption to £2,500 and increase the rate of tax.

For now, the tax rates and annual exemption (per person, not per couple) mean that if you can arrange for your investment returns to be delivered in the form of capital gains rather than income, you should generally pay less tax. Indeed, the annual capital gains exemption often means that there is no tax to pay. While investment decisions should never be made on tax considerations alone, favouring capital gains over income when setting your investment goals will normally be a sensible approach.

Year End Planning: Good Friday falls on 3 April in 2015 so, if you do not use your £11,000 annual exemption by 2 April, you will lose it and a possible tax saving of over £3,000. You might also want to think about using your £11,100 exemption soon after, before any new government’s first Budget.

Individual Savings Accounts (ISAs)

The annual ISA investment limit for 2015/16 will rise by £240 to £15,240 (all of which may now be placed in a cash ISA). The limit for the Junior ISA (JISA), which is attracting more university-fee-planning investors, will rise to £4,080. The necessary legislation allowing transfers from Child Trust Fund accounts into JISAs *should* be operative from April 2015 as draft regulations were issued last November.

ISAs remain one of the simplest ways to save tax, with nothing to report or claim on your tax return. The inflation-linked annual limit may be modest, but over time substantial sums can build up: if you had maximised your ISA investment since they first became available in April 1999, you would by now have placed over £135,000 largely out of reach of UK taxes.

As announced in the Autumn Statement, ISAs are now inheritable by surviving spouses or civil partners, adding to their attractions as a means of providing income in retirement.

Help to buy cash ISAs will be introduced for first-time buyers, probably from autumn 2015. These will offer a government bonus equal to 25% of the amount saved, up to a maximum of £3,000 on £12,000 of savings, provided the capital is applied to a first home purchase. The maximum initial deposit is £1,000 (to cover the delay from April) with a maximum monthly contribution of £200.

The Chancellor also announced an extension to the list of eligible ISA investments, due to take effect in summer 2015. From autumn 2015 savers in cash ISAs will be able to withdraw money from their ISA and replace it *in year* without the replacement counting as part of their ISA subscription for that year.

Year End Planning: It says something about how uncompetitive the cash ISA market has become that at the time of writing the best instant access rate was 1.5% from National Savings & Investments. If you do choose a cash ISA remember you can now transfer into a stocks & shares ISA *and* back into a cash ISA at any time.

Venture Capital Trusts (VCTs) and Enterprise Investment Schemes (EISs)

There have been several technical rule changes for VCTs and EISs in recent years, with more on the way both in this year's Finance Bill and in later legislation, once EU state aid approval has been received. Some are advantageous, while others have (or will) close down perceived abuses, such as the use of schemes to access renewable energy incentives.

Interest in VCTs and EISs has grown as more aggressive forms of tax planning – think film schemes – have come under HMRC's cosh. In this respect a definite incentive to consider the VCT/EIS route was the arrival last year of the 'accelerated payments' regime, which can force users of avoidance schemes to pay up-front the tax they had hoped to avoid or defer.

Year End Planning: VCT investment offers frequently allow you to choose the tax year to which your investment relates. You can therefore split your investment between 2014/15 and 2015/16 – particularly useful in an election year. But do not forget the risks!

Pay Later, Not Now?

For higher and additional rate taxpayers, there can be a case for considering the options for tax deferral, once the decision on which sector to invest in has been made. The potential advantages and disadvantages of tax deferral include:

- What would be going to the Treasury instead remains invested, enhancing potential returns.
- There is the possibility that tax rates will be lower when the investment is realised. However, there is the opposite risk that the 50% top tax rate will soon reappear under a new government.
- Some tax liability might disappear completely. For example, under current rules there is generally no capital gains tax on death.
- The investor may change their country of residence, giving rise to a lower tax rate or possible tax savings during the period of transition between the old and new homes. However, escaping the long arm of HMRC by going overseas has become more difficult with the new statutory residence test that was introduced two years ago.

There is a variety of tax deferral options available but, as ever, advice is needed in making the choice. The wrong selection could increase your overall tax bill.

Estate Planners

Nil Rate Band

The nil rate band reached its current level of £325,000 in April 2009. It has been frozen since then and the 2013 Budget confirmed that the freeze would endure until at least April 2018. Had the nil rate been increased in line with inflation, it would be about £385,000 in the coming tax year. Despite pre-Budget rumours, the Chancellor made no comment about increasing the band.

A frozen nil rate band drags more estates into the IHT net and, if you are already caught, adds to the amount of tax that will be levied. Since April 2009, average UK house prices are up by about 26%, according to Nationwide, and UK share prices have almost doubled (March 2009 marked their low point in the wake of the financial crisis).

IHT Yearly Exemptions

The extended nil rate band freeze makes the yearly IHT exemptions all the more important:

- *The £3,000 annual exemption.* Any unused part of this exemption can be carried forward one tax year, but it must then be used *after* the £3,000 exemption for that year. So, for example, if you made a gift of £1,000 covered by the annual exemption in 2013/14, you can make gifts totalling £5,000 covered by the annual exemption in 2014/15 by 5 April 2015.
- *The £250 small gifts exemption.* You can make as many outright gifts of up to £250 per individual per tax year as you wish free of IHT, provided that the recipient does not also receive any part of your £3,000 annual exemption.
- *The normal expenditure exemption.* Any gift that you make is exempt from IHT if:
    - it forms part of your normal expenditure; and
    - taking one year with another it is made out of income; and
    - it leaves you with sufficient income to maintain your usual standard of living.

> ***Year End Planning:*** If you are making an annual exemption gift by way of a cheque, remember that legally the gift is only made once the cheque is cleared. And April 2 is the final banking day of 2014/15.

Will Review

The intestacy rules for England & Wales changed on 1 October 2014, bringing them more into line with what most people thought they were. However, relying upon intestacy to make the right decision on who gets what from your estate remains at best a risky option. A Will allows you to make your own choices, which should be reviewed regularly. The regular revisit is all the more important given that the Chancellor announced a review of deeds of variation – a common way for beneficiaries to ‘rewrite’ a Will after death.

While on the estate planning theme, have you considered what happens to the death benefits under your pension arrangements? Among the many changes to pensions which take effect from 6 April are a generous set of new rules about death benefits. IHT can now virtually be ignored and, if you die before age 75, there will generally be no other tax to pay on any fund passed to your beneficiaries.

Business Owners

Corporation Tax Rates

The mainstream rate of corporation tax falls to 20% from 1 April 2015, at which point the small profits rate (formerly smaller companies' rate) disappears (as it has been 20% for some time). However, the Labour Party has said that if it forms the next government it will return the mainstream rate to 21% and use the extra tax to finance a reduction in business rates for small firms.

It remains the case that incorporation will often be an attractive tax option for business people because of the possibility of drawing income as dividends, free of NICs, and sheltering profits from an immediate 40% or 45% income tax charge, or even the 50% which could arrive post-election.

Capital Allowances

Capital allowances have been subject to a variety of changes in recent years and the Budget added some more, ostensibly to encourage an increase in business investment.

The Annual Investment Allowance (AIA), which gives 100% initial relief for investment in plant and machinery, was increased from £250,000 to £500,000 in the 2014 Budget and had been due to return to £25,000 at the end of this year. The Chancellor announced that such a dramatic fall will not happen, but said the revised allowance for 2016 – "much more generous" than £25,000 – would not be announced until the Autumn Statement.

Year End Planning The move to a single rate of corporation tax marks an end to the marginal rate band that used to exist between £300,000 and £1.5m of profits. However, tax rate changes are pro-rated if your financial year does not coincide with the relevant April dates. As a result the effects of the marginal rate will linger for another year.

Pension Changes

Several important pension changes for employers and employees take effect in the year starting on 6 April 2015.

- Auto-enrolment into pension arrangements began to be phased in two and a half years ago. During the first part of that period it has mostly been the larger employers that have

had to put auto-enrolment in place. However, in 2014 the employer size shrunk (to under 150 in the April-June quarter) and more problems began to emerge. The Pensions Regulator handed out over 1,100 compliance notices and 166 fixed penalty notices in the last three months of 2014. From 1 April 2015, employers with 50-53 employees will reach their staging date for auto-enrolment.
- In a break from the practice of previous years, the earnings threshold for auto-enrolment will *not* rise in line with the personal allowance in 2015/16 and will therefore remain at £10,000.
- The new pension income flexibility rules for money purchase schemes come into being, although that by no means implies all pension providers will be offering full flexibility.
- Changes to women's state pension age (SPA) will continue to work through the system. By 6 April 2016 women's SPA will be around 63, on its way to 65 in November 2018. Two years later both men and women will share an SPA of 66.
- 2015/16 will be the last year of the current state pension system, with a basic state pension and the state second pension (S2P). From 6 April 2016 the new single-tier state pension regime will come into being. Defined benefit scheme contracting out will end, leading to an increase in employer's National Insurance contributions if they still have active members of such a scheme.

In the Budget the Chancellor announced two more changes, effective from April 2016, both of which had been leaked earlier in the week:

- Holders of existing pension annuities (other than those held by occupational scheme trustees) will be able to sell them, subject to the agreement of their annuity provider and any joint annuitant. The proceeds could then be left in the pension environment or drawn as thought fit. Full income tax would apply to any such withdrawals.
- The lifetime allowance is to be cut again to £1m, with new transitional protection introduced. At current annuity rates, £1m would buy a 65 year old in good health only about £33,000 of inflation-proofed income. One small consolation is that from April 2018 the allowance will be index-linked, in line with the CPI.

Employer's National Insurance Contributions

2015/16 will see the start of a new incentive to employ under-21s. Class 1 employer's NICs will only be payable on under-21's earnings above £815 a week. Employees' contributions are not affected.

Dividends or Salary...

Regular changes to National Insurance contributions and tax rates have altered the mathematics of the choice between dividends and salary, with the introduction of the NICs Employment Allowance of £2,000 in 2014/15 the most recent revision to have had an impact. For shareholder/directors able to choose between the two, and not caught by the IR35 personal company rules, a dividend remains the more efficient choice, as the example below shows. However, a pension (within the annual allowance provisions) could avoid all immediate tax and NIC costs.

Make Mine a Dividend

A director/shareholder has £25,000 of gross profits in his company which he wishes to draw, either as bonus or dividend. Assuming the company pays corporation tax at the rate of 20% and the director already has annual income in excess of £42,385, the choice can be summarised thus:

	Bonus £		Dividend £	
	40% tax	**45% tax**	**40% tax**	**45% tax**
Marginal gross profit	25,000	25,000	25,000	25,000
Corporation tax @ 20%	N/A	N/A	(5,000)	(5,000)
Dividend	N/A	N/A	20,000	20,000
Employer's National Insurance Contributions £21,968 @ 13.8%	(3,032)	(3,032)	N/A	N/A
Gross bonus	21,968	21,968	N/A	N/A
Director's NICs £21,968@ 2%	(439)	(439)	N/A	N/A
Income tax *	(8,787)	(9,886)	(5,000)	(6,111)
Net benefit to director	**12,742**	**11,643**	**15,000**	**13, 889**

*****_After allowing for 10% tax credit on dividends_

….or nothing at all?

For some business owners, the ultimate way to limit their tax bill is to choose to leave profits in the company rather than draw either a dividend or salary. With the top rate of income tax currently at 45%, there is an obvious argument for allowing profits to stay within the company, where the maximum tax rate (for the year beginning 1 April 2015) is 20%.

This strategy has post-election tax risks in terms of eligibility for CGT entrepreneurs' relief, income tax rates and inheritance tax business property relief. Money left in the company is also money exposed to creditors, so professional advice should be sought before turning a business into a money box.

Employees

Company Cars

The company car benefit scales undergo another overhaul in 2015/16, but that has not stopped Mr Osborne setting out and, in part, legislating for changes running through to 2019/20. The Budget revealed further increases for 2019/20, with the minimum scale charge rising to 16%, more than three times the corresponding 2015/16 figure. In the shorter term, the picture for the next two tax years is:

Tax Year	Changes
2015/16	• The exemption for zero emission cars (generally electric cars) will disappear and they will suffer a 5% scale charge. • At the low emission end, the 5% scale benefit band will shrink to cover cars with CO_2 emissions of no more than 50g/km. • A new 9% charge will be introduced for the 51g/km-75g/km band. • The rate for the 76g/km-94g/km band will rise by 2% to 13%. • Above that 94g/km threshold the rate will be 14% plus 1% for each additional 5g/km. The effect is that for all cars with emissions above 75g/km, the scale benefit charge will rise by 2%. • The *maximum* charge will rise to 37% and will apply for petrol-engine cars with emissions of 210g/km and above (195 g/km and above for diesels)
2016/17	• The 3% diesel supplement will be scrapped, which will *reduce* the scale charge for all diesels, despite other increases. • 2% will again be added to all scale charges (including the 0g/km-50g/km band). • The maximum charge will stay at 37% and will apply for petrol-engine and diesel engine cars with emissions of 200g/km and above.

Once again the changes will increase the tax on low emission cars significantly because the same 2% addition applies whether the existing (2014/15) charge is 11% or 35%. For example, the scale benefit charge on a Volkswagen Up! Blue Motion with 95g/km emissions would rise from 12% in 2014/15 to 16% in 2016/17, an increase of a third.

If you are changing your car next year, think ahead of what it will cost you in tax terms – or maybe even take cash instead, if you have the option.

Year End Planning: If you currently enjoy 'free fuel' but your private mileage is modest, you could be better off paying your own way in 2015/16, even if your employer does not compensate you for the lost benefit.

Pensions

The pensions landscape has altered dramatically in recent years and will continue to change:

- If you are not a member of a pension scheme offered by your employer, then at some point within the next three years you are likely to find yourself automatically enrolled in a pension arrangement, with contributions deducted from your pay and added to by your employer. The larger your employer, the sooner this will happen. You will be able to opt out, but generally this will only make sense if you have elected with HMRC for some form of transitional protection.
- The new single-tier state pension starts in April 2016, replacing both the basic state pension and the second state pension (S2P). As a result, contracting out of S2P will disappear completely. The reform will create more losers than winners in the long term and will mean that if you are currently contracted out via a final salary pension scheme, your (and your employer's) National Insurance contributions will rise. Unless you work in the public sector, the benefits of your employer's pension may be adjusted to take account of the increase in those employer's contributions.

- State pension ages (SPAs) are on the rise, with another increase – to 67 between April 2026 and March 2028 – recently legislated for in the Pensions Act 2014. The Act also made provisions for five yearly reviews of SPA. A rise to 68 is now pencilled in for the mid-2030s. By 2050 – so if you are 35 or under now – you could be facing an SPA of 69.
- The new flexible retirement provisions take effect from 6 April 2015. These could radically change the way in which you draw your benefits at retirement – in theory you may be able to withdraw your entire pension fund as a lump sum (and pay income tax on 75% of it). Whatever your existing pension arrangements, it makes sense to review them in the light of these changes, which could alter your entire approach to retirement planning. The planned reduction in the lifetime allowance to £1m in 2016/17 is a further reason to review.

Year End Planning: The carry forward rules allow unused annual allowance to be carried forward for a maximum of three years. Thus 5 April is your last opportunity to rescue unused relief from 2011/12. With the election in mind, you might also want to consider using the carry forward rules again shortly after 5 April 2015. There is a definite possibility that higher/additional rate tax relief on pension contributions will be cut, regardless of the colour(s) of the next government. The annual allowance could also be reduced.

Salary Sacrifice

National Insurance contributions (NICs) can cost up to 25.8% of gross pay – up to13.8% for the employer and 12% for the employee. The corollary is that avoiding NICs can save up to 25.8% of pay. A widely applied example of turning NICs to an advantage is in the use of salary sacrifice to pay pension contributions. Instead of the employee making personal contributions out of their net pay, the employee accepts a lower salary and the employer makes a pension contribution. If the employer passes on all of the NICs savings, the pension contribution could be up to almost 34% higher, as the example shows:

	Personal Contribution		**Salary Sacrifice Employer Contribution (sacrificed amount + NIC saving)**	
Tax Rate	**20%**	**40%**	**20%**	**40%**
	£	**£**	**£**	**£**
Gross Salary	1,000	1,000	Nil	Nil
Employer Pension Contribution	Nil	Nil	1,138	1,138
Employer NI Contribution (13.8%)	138	138	Nil	Nil
Total Employer Outlay	1,138	1,138	1,138	1,138
Employee Salary	1,000	1,000	Nil	Nil
Less Income Tax	(200)	(400)		
Less NI Contributions (12%/2%)	(120)	(20)		
Net Pay = Net Pension Contribution	680	580		
Tax Relief	170	387		
Total Pension Contribution	**850**	**967**	**1,138**	**1,138**

Year End Planning From 6 April 2014 the standard lifetime allowance, which effectively sets the maximum tax-efficient value of all your pension benefits, fell from £1.5m to £1.25m. It will fall yet again to £1m in 2016/17. However, there is still the possibility of claiming transitional protection if your pension benefits were worth over £1.25m at the date of the last change. At present a claim must be made before 6 April 2017, but the election could change that deadline.

Retiree/At Retirement

The Pension Landscape in 2015

There have been many changes to pensions in the past few years, with another significant set of reforms about to take effect. These include:

- Two reductions in the standard lifetime allowance have brought it down from £1.8m in 2011/12 to £1.25m today, with a third reduction now due in 2016/17 to £1m. The lifetime allowance effectively sets a tax-efficient ceiling for the value of pension benefits and is hardly generous given current annuity rates.
- Further increases to State Pension Age (SPA), both legislated for and planned. For women, SPA is now about 62½.
- New rules, which give much greater flexibility in drawing benefits from money purchase schemes, will start on 6 April 2015. These will be accompanied by more generous tax treatment of death benefits, adding to the opportunities pensions now offer for estate planning.
- A new single-tier state pension is to be introduced from April 2016. While it will not affect you if you reach SPA before then, you may have the opportunity to top up your pre-April 2016 state pension by making new Class 3A National Insurance contributions from 12 October 2015 until 5 April 2017.

Interest Rates: Half a dozen years of half a per cent

When the Bank of England base rate was cut to 0.5% on 5 March 2009, nobody was expecting it to remain unchanged for the following six years. Even now, the latest (February) Bank of England Inflation Report says that the money markets are not anticipating a rate rise until "mid 2016" with a base rate "a little over 1% in three years' time." The recent oil-induced drop in price inflation has given the Bank the opportunity – and justification – to hold off from an interest rate increase. Indeed, the Bank's Governor has now made clear that if economic conditions deteriorate the Bank is prepared to "cut Bank Rate further towards zero." Negative interest rates – the equivalent of *paying* to lend money – are now common in the Eurozone and several other countries.

The UK banks seem to have long since given up competing for deposits in this low interest rate environment. The best instant access rates for new accounts are now around 1.4%, leaving National Savings & Investments Income Bonds surprisingly competitive at 1.25%

(1.26% AER). The same picture emerges for cash ISAs, where again National Savings & Investments offers a very competitive 1.5% instant access interest rate.

If low interest rates are a concern to you:

- Make sure you are taking maximum advantage of ISAs, which pay interest tax free.
- Regularly check the interest rate on all your deposit accounts. Even though Bank of England base rate has been set in stone, deposits rates have not. It is especially important to watch accounts with bonus rates – once the bonus goes they can look very unattractive. Do not simply wait for the next statement: if you are only earning 0.1%, you need to know now.
- If you are 65 or over, think about investing in the NS&I Pensioner Bonds, paying a fixed 2.8% for one year and 4% for three years. These will be available until 15 May. While the rates are market-topping, the Bonds only pay out at the end of their term and if you are a non-taxpayer – remember that starting rate band and the 2016/17 personal savings allowance – you will have to reclaim tax as NS&I are outside the gross payment system.
- Be wary of tying your money up in a fixed term deposit for five or more years simply to achieve a 3% interest rate. A lot can happen in five years, but another half decade of 0.5% base rates looks very unlikely.
- Consider investing in corporate bond or equity income funds. You will lose capital security, but your initial income could be usefully higher.

Year End Planning: If you have not yet arranged an ISA or invested up to the 2014/15 maximum, think about doing so by 5 April. If you are unsure where to invest or worried about the impact of the election, you can always leave your money on deposit, even in a stocks and shares ISA. Just don't expect it to earn much interest. After 5 April, think about making your 2015/16 contribution early: you never know what the first post-election Budget might bring.

Drawing your pension

If you are due to start drawing an income from your pension plan, make sure that you take *advice* about your options. The government is promoting Pension Wise to help you through the new rules that are being introduced, but this service will only offer guidance, not personal advice: you will still be left to make your own decisions. The Pensions Wise guidance will certainly not attempt to integrate pension choices with your other financial planning, eg. estate planning.

If you think how long you might live with the cost of a wrong choice, it is clear that getting independent advice is the route to take.

Cashing in your pension annuity

The Budget confirmed that if you have an existing pension annuity, then from 2016/17 you will be able to sell it, subject to certain provisos. The proposal effectively extends the new pension flexibility to many existing annuity holders. However, turning an annuity into cash is unlikely to be simple – you may need to provide medical evidence – and may not be a wise move. As with the at-retirement choice, independent advice will be vital before taking any action.

Year End Planning: The changes to death benefit rules on pensions from 6 April 2015 should prompt a review of your existing expression of wish regarding benefits. In theory your pension plan could now provide income for future generations, as your beneficiaries will be able to pass the remaining fund to their children and so on down the line.

Parents

Child benefit

The High Income Child Benefit Charge – the child benefit tax – came in a little over two years ago, with the first year's extra tax bill arriving in January 2014. If you or your partner has income of £60,000 or more in the current tax year, there will be a tax charge equal to your total child benefit unless you have taken a decision to stop benefit payment.

Between £50,000 and £60,000 of income, the tax charge is 1% of benefit for each £100 of income above £50,000. The result can be high marginal rates of tax in the £50,000-£60,000 income band. If you have three children eligible for child benefit, the marginal rate is 65%.

Year End Planning: As the child benefit tax charge is based on taxable income, you could reduce the impact of the tax by making a pension contribution.

Tax-free childcare payment

A new payment for working parents was announced just before the 2013 Budget, and will begin to be phased in from autumn 2015. In the first year the scheme will be available to children up to the age of 12. The payment will be 20% of childcare costs up to £2,000 per child, per year. In the Budget the Chancellor announced that for disabled children the maximum will be £4,000.

Over time the new system will replace the existing childcare vouchers system. For couples it will only be available if both partners are working and each earning a minimum of just over £50 a week. An individual upper income limit of £150,000 will apply – three times the level at which Child Benefit starts to be removed.

Junior ISAs

Junior ISAs (JISAs) were launched in November 2011with an annual investment limit of £3,600, which has since been increased to £4,000 for 2014/15 and will rise again to £4,080 in 2015/16. JISAs can be invested in cash deposits and/or stocks and shares in any proportion and can usually be arranged for any child aged under 18 who was born before 1 September 2002 or after 2 January 2011. A child cannot have both a JISA and a Child Trust Fund account (which also has a £4,000 investment limit for 2014/15). Last year draft regulations were issued to allow Child Trust Fund accounts to be transferred into JISAs and these *should* come into force from April 2015.

Help to buy ISAs

These should become available from autumn 2015 and will be for first-time buyers only, with a minimum age of 16. If you want to help your children onto the housing ladder, providing them with the cash to fund a help to buy ISA could be worth considering. Once an account is open, there will be no time limit on when the government bonus can be used: the main bonus condition is that the ISA monies are used to purchase a first home.

University funding

The £9,000 a year maximum tuition fee for new students in England and Wales is for now a fact of student life. The maximum would drop to £6,000 if the Labour Party gains power, accompanied by reductions in the pension annual allowance and the lifetime allowance. The latest figures from UCAS, the universities admissions service, show that applications for higher education courses starting in October 2015 were 2% higher than last year, suggesting that the £9,000 fee is no great deterrent.

If you have children likely to go to university, it makes sense to consider your funding options. For example, JISAs are a potentially valuable tool to build up a fund by age 18. For those who prefer a greater degree of control over the student's access to the investment at age 18 (while retaining tax efficiency) collective investments held subject to an appropriate trust can look attractive, as could an offshore investment bond.

Despite these tax-efficient "pre-funding" opportunities, under the current rules some pundits consider that it makes sense to take the student fee loans while at university rather than pay fees from capital. That is because repayment only begins once earnings reach £21,000 and any debt is written off after 30 years from the April after graduation. The Office for Budget Responsibility projects that when the first 30 year period ends in 2048/49 the government will have to write off £20bn of debt.

University debt will add to the difficulties young people face in getting onto the now rapidly rising property ladder. Another reason, maybe, why parents and grandparents might like to consider tax-effective "pre-funding".

MAIN INCOME TAX ALLOWANCES AND RELIEFS

	2014/15	2015/16
	£	£
Personal allowance – standard	10,000	10,600
- Born between 6 April 1938 and 5 April 1948	10,500	N/A
- Born before 6 April 1938	10,660	10,660
Personal allowance reduced if total income exceeds ∞	100,000	100,000
Transferable tax allowance (marriage allowance)§	N/A	1,060
Married couple's allowance* – minimum amount	3,140	3,220
– maximum amount	8,165	8,355
Maintenance to former spouse *	3,140	3,220
Age-related allowances reduced if total income exceeds ¶	27,000	27,700
Employment termination lump sum limit	30,000	30,000

∞ For 2014/15 and 2015/16 the reduction is £1 for every £2 additional income over £100,000. As a result there is no personal allowance if total income exceeds £121,200 (£120,000 for 2014/15).

§ Available to spouses and civil partners born after 5 April 1935, provided neither party pays tax at above basic rate.

* Relief at 10%. Available only if at least one of the couple was born before 6 April 1935.

¶ For 2014/15 and 2015/16 the reduction is £1 for every £2 additional income over the total income threshold. Standard allowance(s) **only** are available if total income exceeds:-

	2014/15	2015/16
	£	£
Taxpayer born between 6 April 1938 and 5 April 1948 [personal allowance]	28,000	N/A
Taxpayer born before 6 April 1938[personal allowance]	28,320	27,820
Taxpayer born before 6 April 1935 [married couple's allowance]	38,370	38,090

INCOME TAX RATES

	2014/15	2015/16
	£	£
Starting rate	10%	0%
Starting rate on savings income	1 – 2,880	1-5,000
Basic rate	20%	20%
Maximum tax at basic rate†	6,373	6,357
Higher rate - 40%	31,866-150,000	31,786-150,000
Tax on first £150,000†	53,627	53,643
Additional rate on income over £150,000	45%	45%
Discretionary and accumulation trusts (except dividends) °	45%	45%
Discretionary and accumulation trusts (dividends) °	37.5%	37.5%
Ordinary rate on dividends	10%	10%
Higher rate on dividends	32.5%	32.5%
Additional rate on dividends	37.5%	37.5%
High income child benefit charge	1% of benefit per £100 income between £50,000 and £60,000	

† Assumes starting rate band not available. £5,357 on first £31,785 (£6,085 on first £31,865 in 2014/15) and £52,643 (£53,339 in 2014/15) on first £150,000 if full starting rate band is available.

° Up to the first £1,000 of gross income is generally taxed at the standard rate, ie. 20% or 10% as appropriate.

CAR BENEFITS

The charge is based on a percentage of the car's "price". "Price" for this purpose is the list price at the time the car was first registered plus the price of extras.

For cars first registered after 31 December 1997 the charge, based on the car's "price", is graduated according to the level of the car's approved CO_2 emissions.

For petrol cars with an approved CO_2 emission figure.

CO_2 g/km[1]	**% of price subject to tax[2]**		**CO_2 g/km**	**% of price subject to tax[2]**		**CO_2 g/km**	**% of price subject to tax[2]**	
	14-15	**15-16**		**14-15**	**15-16**		**14-15**	**15-16**
50 or less	5[3]	5	125–9	18	20	170–4	27	29
51–75	5	9	130–4	19	21	175–9	28	30
76–94	11	13	135–9	20	22	180–4	29	31
95–99	12	14	140–4	21	23	185–9	30	32
100–4	13	15	145–9	22	24	190–4	31	33
105–9	14	16	150–4	23	25	195–9	32	34
110–4	15	17	155–9	24	26	200–4	33	35
115–9	16	18	160–4	25	27	205–9	34	36
120–4	17	19	165–9	26	28	210 and over	35	37

Notes

1. The exact CO_2 emissions figure should be rounded down to the nearest 5 g/km for levels of 95g/km or more.
2. For all diesels add 3%, subject to maximum charge of 35% in 2014/15 and 37% in 2015/16.
3. There is no charge for any car which cannot produce CO_2 in 2014/15 *only*.

CAR FUEL BENEFITS

For cars with an approved CO_2 emission figure, the benefit is based on a flat amount of £22,100 (£21,700 for 2014/15). To calculate the amount of the benefit the percentage figure in the above car benefits table (that is from 5% to 37%) is multiplied by £22,100. The percentage figures allow for a diesel fuel surcharge. For example, in 2015/16 a petrol car emitting 142 g/km would give rise to a fuel benefit of 23% of £22,100 = £5,083.

INHERITANCE TAX

	Cumulative chargeable transfers [gross]		tax rate on death %	tax rate in lifetime* %
	2014/15 £	**2015/16 £**		
Nil rate band†	325,000	325,000	0	0
Excess	No limit	No limit	40$^{\infty}$	20

* Chargeable lifetime transfers only.
† On the death of a surviving spouse on or after 9 October 2007, their personal representatives may claim up to 100% of any unused proportion of the nil rate band of the first spouse to die (regardless of their date of death).
$^{\infty}$ 36% where at least 10% of net estate before deducting the charitable legacy is left to charity.

CAPITAL GAINS TAX

Main exemptions and reliefs

	2014/15 £	2015/16 £
Annual exemption	11,000*	11,100*
Principal private residence exemption	No limit	No limit
Chattels exemption	£6,000	£6,000
Entrepreneurs' relief	Lifetime cumulative limit £10,000,000. Gains taxed at 10%	Lifetime cumulative limit £10,000,000. Gains taxed at 10%

* Reduced by at least 50% for most trusts.

Rates of tax

Individuals: 18% on gains within basic rate band, 28% for gains in higher and additional rate bands

Trustees and personal representatives: 28%

STAMP DUTY LAND TAX, LAND AND BUILDINGS TRANSACTION TAX AND STAMP DUTY

UK excluding Scotland: SDLT

Residential (on *slice* of value)	Rate	Commercial (on *total* value)	Rate
£125,000 or less	Nil	£150,000 or less	Nil
£125,001 to £250,000	2%	£150,001 to £250,000	1%
£250,001 to £925,000*	5%	£250,001 to £500,000	3%
£925,001 to £1,500,000*	10%	Over £500,000	4%
Over £1,500,000*	12%		
** 15% for purchases of over £500,000 by certain non-natural persons*			

Scotland: LBTT

Residential (on *slice* of value)	Rate	Commercial (on *slice* of value)	Rate
£145,000 or less	Nil	£150,000 or less	Nil
£145,001 to £250,000	2%	£150,001 to £350,000	3%
£250,001 to £325,000	5%	Over £350, 000	4.5%
£325,001 to £750,000*	10%		
Over £750,000*	12%		
** 15% for purchases of over £500,000 by certain non-natural persons*			

UK Stamp Duty (including SDRT)

Stocks and marketable securities:	0.5%
No stamp duty charge unless the duty exceeds £5	

CORPORATION TAX

	Year Ending 31 March	
	2015	**2016**
Main rate	21%	20%
Small profits rate *	20%	N/A
Small profits limit *	£300,000	N/A
Upper marginal level	£1,500,000	N/A
Effective marginal rate	21.25%	N/A

* Formerly the small companies' rate/limit

TAX-PRIVILEGED INVESTMENTS (MAXIMUM INVESTMENT)

	2014/15 £	2015/16 £
ISA		
Overall per tax year:	15,000	15,240
Maximum in cash for 16 and 17 year olds	15,000	15,240
Junior ISA	4,000	4,080
ENTERPRISE INVESTMENT SCHEME (30% income tax relief)	1,000,000*	1,000,000*
Maximum carry back to previous tax year for income tax relief	1,000,000	1,000,000
SEED ENTERPRISE INVESTEMENT SCHEME (50% income tax relief)	100,000¶	100,000¶
VENTURE CAPITAL TRUST (30% income tax relief)	200,000	200,000

* No limit for CGT reinvestment relief.
¶ 50% CGT reinvestment exemption in 2014/15 and 2015/16

PENSIONS

	2014/15	2015/16
Lifetime allowance*	£1,250,000	£1,250,000
Lifetime allowance charge: Excess drawn as cash Excess drawn as income	 55% of excess 25% of excess	
Annual allowance	£40,000	£40,000
Money purchase annual allowance	N/A	£10,000
Annual allowance charge	20%-45% of excess	
Max. relievable personal contribution	100% relevant UK earnings *or* £3,600 gross if greater	

* May be increased under 2006, 2012 or 2014 transitional protection provisions

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee Not Contracted Out of State Second Pension (S2P)				
	2014/15		2015/16	
	Employee	Employer	Employee	Employer
Main NIC rate	12%	13.8%	12%	13.8%
No NICs on first: Under 21 21 & over	 £153 pw £153 pw	 £153 pw £153 pw	 £155 pw £155 pw	 £815 pw £156 pw
Main NIC charged up to	£805 pw	No limit	£815 pw	No limit
Additional NIC rate on earnings over	2% £805 pw	N/A	2% £815 pw	N/A
Certain married women	5.85%	13.8%	5.85%	13.8%

Contracted Out Rebates	2014/15		2015/16	
Rebate on	£111.01 – £770 pw		£112.01 – £770 pw	
Salary-related scheme only	1.4.%	3.4%	1.4%	3.4%

Limits and Thresholds	2014/15		2015/16	
	Weekly £	Yearly £	Weekly £	Yearly £
Lower earnings limit	111	5,772	112	5,824
Primary earnings threshold	153	7,956	155	8,060
Secondary earnings threshold	153	7,956	156	8,112
Upper secondary threshold – U21s	N/A	N/A	815	42,385
Upper accrual point	770	40,040	770	40,040
Upper earnings limit	805	41,865	815	42,385

Self-employed and non-employed	2014/15	2015/16
Class 2		
Flat rate Small earnings exception	£2.75 pw £5,885 pa	£2.80 pw £5,965 pa
Class 4 (*Unless over state pension age on 6 April)*		
On profits	£7,956 – £41,865 pa: 9% Over £41,865 pa: 2%	£8,060 – £42,385 pa: 9% Over £42,385 pa: 2%
Class 3 (Voluntary)		
Flat rate	£13.90 pw	£14.10 pw

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