

# PLANNING AFTER THE JULY 2015 BUDGET



Two months and a day after the general election, George Osborne presented his seventh Budget which was the first purely Conservative Budget since November 1996.

Traditionally the first Budget after an election is the one in which Chancellors administer their most controversial fiscal medicine as, by definition, it is furthest away from the next visit to the polling station. In this regard, Mr Osborne did not disappoint – this was a radical Budget, with hints of more to come. His main proposals, which are relevant to the financial services industry and financial advisers, were as follows:-

- A new round of restrictions on tax relief for contributions to registered pension plans.
- An overhaul of the tax treatment of dividends which will increase tax bills on dividends for the very wealthy, but reduce or eliminate them for many other investors, from next tax year.
- The introduction of a new transferable main residence IHT nil rate band, starting at £100,000 in 2017/18 and rising to £175,000 by 2020/21.
- Confirmation that the new personal savings allowance that was announced in the March 2015 Budget will be introduced from April 2016.
- Tougher rules on non-UK domiciled individuals, including an end to non-domiciled status for all tax purposes once the period of UK residence exceeds 15 out of the last 20 tax years.

In this Newsletter we look at the impact of the changes that will affect most of your clients and the planning opportunities that arise out of these changes.

Please contact us if you need help with any of the planning solutions.

## **PENSIONS - ACT WHILE YOU STILL CAN**

The July Budget confirmed some important changes that will be taking place as regards pensions tax relief. In particular:-

From 6 April 2016, the annual allowance for high-income individuals will gradually reduce from £40,000 (for those with adjusted annual income in excess of £150,000) to £10,000 (for those with adjusted income of £210,000 plus).

- From 6 April 2016, the lifetime allowance will reduce from £1.25 million to £1 million.

## **1. Cut back in annual allowance**

People who have adjusted income of more than £150,000 will find, from 6 April 2016, that their permitted level of contribution or accrual in a registered pension scheme will reduce by £1 for every £2 of excess income. Somebody with income of £210,000 or more will find that they can only make a contribution of £10,000.

For these purposes the test will therefore be to see if an individual's adjusted income exceeds £150,000. Adjusted income is their net income and includes the value of any employer or employee pension contribution made by or on behalf of the individual.

It will therefore be apparent that a person may be subject to these provisions if, for example, he has income of £130,000 and if pension provision of more than £20,000 is made for him direct or via an employer contribution in a particular tax year.

This could cause some concern for people who have income that hovers around £110,000 who make substantial pension provision – possibly by paying a contributions to make use of the unused relief for previous years.

In order to provide some certainty as to the people who may be affected by these provisions, the Government have announced that a threshold income of £110,000 will be introduced. People whose income falls below the threshold income will not be subject to the new tapering provisions.

However, in this respect, in order to prevent people using tax avoidance arrangements to sidestep the new provisions, when calculating threshold income, it will be necessary to take account of any income paid under flexible pay arrangements or any pension payments that occur as part of a salary sacrifice after 8 July 2015. In this respect, the legislation talks in terms of “arrangements…… which are made on or after 9 July 2015” and so it would seem that for a payment under salary sacrifice to be caught under these provisions, the salary sacrifice arrangement itself will need to have been set up on or after 7 July 2015. Payments made under arrangements set up before 8 July 2015 would not appear to be caught. However, some salary sacrifice arrangements renew annually so may be caught at the next anniversary.

For those affected, the loss of pension relief combined with additional tax at 45% can result in a very high marginal rate of income tax.

Subject to not exceeding the lifetime allowance (see (2) below) it therefore makes sense for individuals who will be affected by these changes to maximise their pension tax relief in this tax year before the restrictions come into effect. This will include

- paying the maximum contribution for this tax year which is normally £40,000 - but special rules apply for tax year 2015/16 as we shall see and
- paying a contribution in respect of any carried forward relief for tax years 2014/15, 2013/14 and 2012/13.

We will now look at these opportunities in more detail:

### **Contributions for 2015/16**

The annual allowance for 2015/16 was, before the Budget, set at £40,000. However, for individuals who wanted to pay more into a pension plan than is allowed by their available annual allowance (and carried forward allowance – if available) another form of planning may have worked. The annual allowance applies per pension input period – the accounting periods that apply to pensions. This means that the member could therefore have considered starting two schemes and arranging for one pension input period to end on 5 April 2015 and the other to start on 6 April 2015 and end, say, on 1 May 2015. Contributions of £80,000 could then have been paid over a short period, albeit in two different tax years.

In order to implement the new contribution restrictions on high-income individuals, the legislation needs to take account of the circumstances of all pension savers. As explained above, some (and this will be a minority) will have already paid £40,000 into a pension input period that started in 2015/16 and has now finished but with a new input period already started. Yet the new tax relief rules will be restricted to contributions made in a tax year, hence pension input periods are now aligned to the tax year. But to achieve this, special rules need to apply for 2015/16. The Budget therefore provides that the pension contribution ‘clock’ for 2015/16 was effectively stopped on July 8 and restarted with new rules. In effect, in tax year 2015/16, there will be two pension input periods – one that ceases on 8 July 2015 and one that runs from 9 July 2015 to 5 April 2016. A total annual allowance of £80,000 will apply for this tax year, but with strict rules on how the allowance is apportioned across the PIPs.

As a result, if someone had a pension plan with a pension input period that started on 6 April 2015 and had contributed, say, £10,000 between 6 April 2015 and Budget day on July 8 2015, they would still be entitled to contribute a further £40,000 before 6 April 2016 and attract tax relief at up to 45pc. In these circumstances, their total contributions for this tax year would be £50,000.

Indeed because of the way the new rules will operate, in some extreme cases, those pension savers who have already invested £40,000 between 6 April 2015 and 8 July 2015, would have been handed a one-off “bonus” allowing them to invest an extra £40,000 in tax year 2015/16.

This is despite the plans to reduce the overall pension benefits for very high earners.

Perversely, the one-off bonus is in fact an unintended consequence of changes the Government is making to the way it will restrict pension tax relief in the future.

The extra allowance is an opportunity for some high earners to claim extra 45% tax relief on pension contributions now, even though the Government plans to cut the maximum amount that people who earn £150,000 or more can save in their pensions from 6 April 2016.

### **Carry-forward relief**

The payment of contributions in respect of carry forward relief is an important consideration for higher/additional rate taxpayers. Whilst an individual can only pay contributions within their annual allowance, which was £40,000 in 2014/15, provided the individual has been a member of a plan for the previous 3 years and the full allowance not used in those years, a contribution can be paid in the current year for the previous years. This is known as “carry forward” and when calculating carry forward the annual allowance that applied in that particular year is used eg. £40,000 for tax year 2014/15 and £50,000 for each of the years 2013/14 and 2012/13. Also don't forget that:-

the individual must fully extinguish the current year's allowance before accessing carry forward from a previous tax year, and

where the individual is making the contribution, rather than the employer, the individual must have relevant earnings at least equal to the grossed-up contribution that is being paid.

### **Example – Janet**

Janet has relevant UK earnings of £160,000 in 2015/16. She has a pension plan whose input period spans the tax year. She has not yet made any pension contributions in this tax year. In light of the impending reduction in her annual allowance, she wants to maximise her pension contributions in this year. In the last three years she has made a (grossed-up) contribution of £35,000 in each year. She therefore has unused relief of £5,000 for 2014/15 and £15,000 for 2013/14 and 2012/13.

So, for example, if Janet makes a contribution of £60,000 in 2015/16 this will:-

use her £40,000 annual allowance carry-forward for the pension input period in 2015/16 that starts on 8 July 2015.

use the £15,000 unused relief from 2012/13 and £5,000 of the unused relief from 2013/14.

this will leave Janet the ability to make further contributions in 2016/17 to mop up the balance of the unused allowance from 2013/14 and 2014/15.

## **2. Reduction in the lifetime allowance**

The Budget confirms that the lifetime allowance will reduce from £1.25 million to £1 million from 6 April 2016.

### **Lifetime Allowance**

Individuals who are likely to be affected by the reduction in the lifetime allowance from 2016/17 will need to consider what action they should take. This will include people who have not yet drawn benefits from their pension pots where those pots are likely to have a value of between £1 million and £1.25 million on retirement. This could, of course, extend to people who have pension funds some way short of £1 million but who have some years to retirement over which reasonable investment growth could be expected.

Appropriate planning will include

- People who are likely to have pension with a value of between £1 million and £1.25 million they can consider making an election to protect that value. The options here are for an election for Fixed or Individual Protection. This should include individuals aged under 75 in receipt of drawdown benefits, if they feel a future benefit crystallisation test at age 75 may result in them exceeding the reduced £1 million lifetime allowance.
- An election for Fixed Protection protects a lifetime allowance of £1.25 million. If an election for Fixed Protection is made, personal contributions must cease and accrual to defined benefit schemes will be severely restricted after 6 April 2016. Any individuals looking to make such an election will therefore need to ensure that contributions/benefit accrual occurring before then are appropriately maximised. HMRC are planning to introduce more flexibility over the time that such an election can be made although additional pension accrual/conditions will need to cease on 5 April 2016.
- On the other hand, for a person who has a pension plan with a current value of between £1 million and £1.25 million, an election for Individual Protection may be appropriate. This protects the certified sum but further contributions can be made – which would be useful, for example, if fund values reduce.
- People considering how best to minimise the value of benefits being tested against the lifetime allowance could consider other strategies. For instance, someone aged 55 or over looking to crystallise benefits in the next few years could consider drawing some or all of their benefits in 2015/16 when these will be set against the current £1.25 million lifetime allowance. In such circumstances, if an individual crystallised benefits with a value of £500,000 in 2015/16 this would only use up 40% of his lifetime allowance whereas if he left this until 2016/17 it would use up 50% of his allowance.

- People considering how best to take benefits should consider their options. For example, if a member had money purchase benefits, using his fund to purchase a scheme pension rather than a lifetime annuity may reduce the percentage of the lifetime allowance he has used up. A member of a DB scheme should consider the difference in the lifetime allowance assessed where he draws his benefits solely as a pension or as a tax free cash sum with a reduced pension.

#### **COMMENT**

Clearly a massive amount of change is taking place over the next 6 months and it is absolutely vital that your clients take appropriate specialist action to deal with those changes and make sure that they maximise all the opportunities. Call us for more information.

## **DIVIDEND TAXATION - ALL CHANGE**

### **General**

Big changes are taking place in the taxation of dividends with effect from 6 April 2016, as follows:-

- The non-reclaimable 10% dividend tax credit is to be scrapped;
- A new dividend allowance will be introduced in 2016/17 of £5,000 for all individual taxpayers; and
- New tax rates will apply to dividend income in excess of the new allowance of 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

Full details of the proposed changes will be included in the Finance Bill 2016 which is likely to be published in December.

The net result of the introduction of the £5,000 allowance is that 85% of taxpayers will be better off, or according to the Chancellor at least not worse off. For those with dividend income above the new allowance of £5,000, a comparison of their tax position on the excess dividend income in this tax year and the next tax year is shown opposite:

	Basic Rate		Higher Rate		Additional Rate	
	2015/16 £	2016/17 £	2015/16 £	2016/17 £	2015/16 £	2016/17 £
<b>Dividend</b>	90.00	90.00	90.00	90.00	90.00	90.00
<b>Tax credit</b>	<u>10.00</u>	-	<u>10.00</u>	-	<u>10.00</u>	-
<b>Taxable</b>	<u>100.00</u>	<u>90.00</u>	<u>100.00</u>	<u>90.00</u>	<u>100.00</u>	<u>90.00</u>
<b>Tax liability</b>	10.00	6.75	32.50	29.25	37.50	34.29
<b>Tax credit</b>	<u>10.00</u>	-	<u>10.00</u>	-	<u>10.00</u>	-
<b>Tax to pay</b>	<u>-</u>	<u>6.75</u>	<u>22.50</u>	<u>29.25</u>	<u>27.50</u>	<u>34.29</u>

Remember, the figures above only apply to people who have dividend income above the £5,000 allowance.

So how do these new measures impact on an investor? Well, this depends on the status of the individual involved. Individuals in this context will be either an individual, a trustee or an owner/director of a private company.

#### (a) Individual investors

When announcing these changes, the Chancellor said “85% of those who receive dividends will see no change or be better off. Over a million people will see their tax cut.” Are the changes really that good?

This depends on the rate of tax that the investor is likely to pay on the dividend income.

From the viewpoint of an investor whose marginal rate of tax exceeds the basic rate, the £5,000 dividend allowance is very generous:

- For a **higher rate** taxpayer, the allowance represents a saving of up to £1,250 (previously £5,000 @ 25% on the net dividend). To end up with a bigger overall tax bill on their dividends, the 40% taxpayer would need to receive total net dividends (ie not grossed up) of over £21,667.
- For an **additional rate** taxpayer, the corresponding figures are £1,528 and £25,250.

The investors worst affected – although there will be few – are basic rate taxpayers with dividend income above £5,000. At present they pay no tax until they hit the higher rate threshold whereas from 2016/17 they will pay 7.5% tax on dividend income that exceeds the £5,000 allowance.

One important point to note on this, which has not been well publicised, is the fact that it is the total dividend income of an investor that is taken into account in determining an investor’s income for the purpose of the high income child benefit tax charge, standard personal allowances and adjusted income for pension tax relief and even to determine whether an individual is a higher rate taxpayer.

#### Example - Joe

Joe has earnings of £38,000 after the deduction of his personal allowance in 2016/17. He also has dividend income of £10,000. The higher rate tax threshold in 2016/17 is £43,000.

How are Joe’s dividends taxed?

Logically.

£10,000 less £5,000 (allowance) equals £5,000 so Joe’s total taxable income falls within basic rate tax and there is tax of 7.5% (basic rate) on £5,000.

**This is the wrong approach.**

Illogically.

Joe’s total taxable income is £48,000. The £5,000 allowance comes off the dividend income at the bottom end (£38,000 to £43,000) leaving the £5,000 from £43,000 to £48,000 to higher rate tax of 32.5%.

**This is the right approach.**

In his speech Mr Osborne also said “Those who ... have large shareholdings worth typically over £140,000 will pay more tax”. That figure was a crude stab based on the fact that the FTSE All-Share Index yields about 3.5% (£140,000 @ 3.5% = £4,900). In practice, for most investors the value threshold will be higher because most collective investments will have charges deducted from income before dividends are paid, so the actual yield will be lower than the market figure; and the UK is a relatively high yielding market.

**Planning Point:** *The new dividend allowance will mean that, regardless of their tax rates, a married couple will be able to receive up to £10,000 of dividend income with no tax liability, provided that they share their dividends equally.*

### (b) Trustees

With no solid information available on how the new rules will apply to trusts, it is necessary to work on reasonable assumptions. In this respect these are that there will be no £5,000 dividend allowance for trusts, the 10% dividend tax credit will disappear and the dividend rate for trusts will, as now, match the additional rate, ie it will be 38.1% from 2016/17.

As far as interest in possession trusts are concerned, income is taxable on the income beneficiary and retains its source character as dividend/savings income etc. Therefore the comments for individual investors in (a) above basically apply.

For other typically discretionary trusts (excluding those for vulnerable beneficiaries) that can be liable to the additional rate of tax, (assuming that the £1,000 standard rate band has been exhausted by other trust income) the trustees’ net of tax income from dividends will be reduced as illustrated below:

	2015/16	2016/17
	£	£
<b>Dividend</b>	90.00	90.00
<b>Tax credit</b>	10.00	-
<b>Taxable</b>	100.00	90.00
<b>Tax liability</b>	-37.50	-34.29
<b>Net income to trust</b>	<u>62.50</u>	<u>55.71</u>

That is much as might be expected, given the effective tax rate on the net dividend paid is higher (38.1% against 30.56%) and there is no £5,000 allowance. More interesting is the situation when trustees distribute their dividend income rather than accumulate it.

This has generally been bad news because the tax calculation does not allow the trustees to benefit from the 10% dividend tax credit when making a distribution to beneficiaries. The trustees have to withhold 45% tax on their grossed-up distribution, but can only offset that against the extra tax they have paid on the dividend, producing an effective double taxation. Does the scrapping of tax credits make any difference? Interestingly, as the following figures demonstrate, it does not.

	2015/16	2016/17
	£	£
<b>Dividend</b>	900.00	900.00
<b>Tax credit</b>	100.00	-
<b>Taxable income</b>	1,000.00	900.00
<b>Trustee liability</b>	375.00	
	-100.00	
	275.00	342.90
<b>Net income to trust</b>	625.00	557.10
<b>Tax due on distribution @ 45%</b>	405.00	405.00
<b>Tax paid</b>	(275.00)	(342.90)
<b>Balance of tax to pay</b>	130.00	62.10
<b>Distribution to beneficiary</b>	495.00	495.00

So the result is exactly the same – all taxpaying beneficiaries lose out because the net dividend paid to the trust effectively becomes transformed into gross non-dividend income (ie trust income) in the beneficiary’s hands so this income cannot be covered by the £5,000 tax free allowance.

The above figures assume that the trust has other income that absorbs the trustee standard rate tax band and also assumes that the trust is not a settlor-interested trust for tax purposes. As we stated at outset, the above represents our expectations of dividend taxation of trusts. We will know the full picture when the Finance Bill is published.

### (c) Business owners

The example below, for a higher rate taxpayer, who has his/her full dividend allowance available, illustrates that where a shareholder/director in a private limited company is considering remuneration strategies, dividends will still be more attractive than bonuses. Indeed, if the dividend is below £21,667 this will be even more attractive than in 2015/16.

	2015/16		2016/17	
	Bonus £	Dividend £	Bonus £	Dividend £
Marginal gross profit				
Corporation tax @ 20%	25,000	25,000	25,000	25,000
Dividend	N/A	(5,000)	N/A	(5,000)
Employer's NICs £21,968 @ 13.8%	N/A	20,000	N/A	20,000
Gross bonus	(3,032)	N/A	(3,032)	N/A
Director's NICs £21,968 @ 2%	21,968	N/A	21,968	N/A
Income tax	(439)	N/A	(439)	N/A
<b>Net benefit to director</b>	<u>(8,787)</u>	<u>(5,000)</u>	<u>(8,787)</u>	<u>(4,875)</u>
	<b><u>12,742</u></b>	<b><u>15,000</u></b>	<b><u>12,742</u></b>	<b><u>15,125</u></b>

Much of course depends on the level of dividend payment. Dividends of more than £21,667 will gradually put the director/shareholder in a worse position in 2016/17 than in 2015/16.

So the tax benefits of paying remuneration from a private company by way of dividends is being squeezed and this may well be the main reason for the Chancellor's proposed tax changes. These people should therefore put even more thought into the payment of remuneration by way of contributions to pensions which will involve no tax cost for the director/shareholder.

### INHERITANCE TAX

A number of important changes have been proposed that affect inheritance tax.

#### 1. Residence Nil Rate Band

A new dedicated "residence nil rate band" (RNRB), in addition to the existing £325,000 nil rate band, will be introduced from April 2017 specifically to protect the family home from inheritance tax. Salient features of the new nil rate band are as follows:-

- it will be phased in gradually between 6 April 2017 and 6 April 2020 on the following basis:

£100,000 for the tax year 2017/18  
£125,000 for the tax year 2018/19  
£150,000 for the tax year 2019/20 and  
£175,000 for the tax year 2020/21

In subsequent tax years, the RNRB will increase in line with the CPI.

The extra allowance will be known as the "residential enhancement"

- the RNRB can be offset against the value of property that at some point has been occupied as the family home. The RNRB will be available when an owner dies on or after 6 April 2017 and the family home is transferred on death to the direct descendants of the deceased
- the transfer on death can be by will, under intestacy or by some other means eg. transfers into trust in limited circumstances

- the percentage of any unused RNRB can be transferred to a surviving spouse or civil partner
- special rules will be introduced to protect those who downsize. How this will work in practice will be subject to consultation in the Autumn.
- where the value of the deceased's estate exceeds £2 million then, broadly, the RNRB will be reduced by £1 for every £2 excess value. This means, for example, that by 2020/21 there will be no RNRB available on first death if the net value of the estate exceeds £2.35 million (£2.7 million on the death of a surviving spouse when a full transferable RNRB is available to the surviving spouse).
- where the first death occurred before 6 April 2017 a RNRB may be available on the second death irrespective of whether the first to die left an interest in a family home direct to descendants. For the purposes of the first death, the RNRB will be deemed to be £100,000. The RNRB cannot be used by a person who dies before 6 April 2017. If such an event occurs, a full transferable RNRB will be available.

It should be noted that the standard nil rate band is currently frozen at £325,000 until April 2018. The Government has announced that it will now remain frozen at £325,000 until 5 April 2021.

## 2. Inheritance tax and Non-Domiciled persons

The government will introduce new tax legislation to ensure that, from April 2017, inheritance tax is payable on all UK residential property owned by non-domiciliaries, regardless of their residence status for tax purposes, including property held indirectly through an offshore structure.

From April 2017 the point at which a non-domiciled individual is deemed to be UK domiciled will be reduced from 17 out of the last 20 tax years to 15 out of the last 20 tax years. Furthermore, this test will then apply for inheritance tax, capital gains tax and income tax purposes.

## 3. Inheritance tax treatment of trusts

In the December 2014 Autumn Statement, the government announced that it was not going to proceed with the introduction of a single settlement nil rate band as part of its reforms to the IHT treatment of discretionary trusts. Instead, the government confirmed that it would introduce new "same-day addition" rules to target IHT avoidance based on multiple trusts. This will apply in cases where a settlor adds property, on the same day, to one or more existing trusts. Typically this would apply where property passed to such trusts via the settlor's Will on their death.

In the Summer Budget, it was confirmed that draft legislation on this would be included in the Summer Finance Bill 2015 and that it will apply to trusts created on or after 10 December 2014 (unless those trusts receive added property from a Will executed before 10 December 2014 where the deceased dies before 6 April 2017) and will apply to chargeable events that arise after the Finance Bill receives Royal Assent.

This legislation will not apply to property transferred to trusts when they are created. Therefore, if the trusts are created on different days, "Rysaffe" planning will still apply so that each trust is entitled to a full IHT nil rate band (subject to a deduction for chargeable transfers made by the settlor in the previous 7 years).

## INCOME TAX

### The Personal Allowance

In the March Budget the 2015/16 personal allowance was set at £10,600. In the Summer Budget, it was announced that it will rise to £11,000 in 2016/17 and £11,200 in 2017/18. However, the Conservative manifesto promised "during the next Parliament" to increase the allowance to £12,500. As this Parliament will not end until May 2020, the £12,500 figure has been widely seen as a 2020/21 target. Thus the pace of increase would need to accelerate sharply if the goal is to be achieved.

Even now, many people do not use the current personal allowance fully, and there remains a gap of at least £2,500 between it and the starting point for employee National Insurance contributions (£8,060 in 2015/16). At the other end of the income scale, there is a small group of taxpayers who have no personal allowance in 2015/16 because their income exceeds the £121,200 threshold at which point their allowance is tapered away to nil.

**Planning Point:** *If an individual or their partner does not use the personal allowance, they could be paying more tax than necessary. There are several ways to make sure they maximise use of their allowances:*

- *Choose the right investments: some investments do not allow the reclaim of 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 the individual (and their partner) each have enough pension income. The basic state pension (£115.95 a week in 2015/16) alone is not enough to use their personal allowance.*

## The Starting Rate Band

For 2015/16, the starting rate band for savings income was widened from £2,880 to £5,000 and the rate reduced from 10% to 0%. However, most taxpayers cannot access the starting rate band because they have earnings and/or pension income that exceeds £15,600 in this tax year. However, if an individual (or their partner) do qualify, they will need to ensure that they have the right type of investment income to pay 0% tax.

If all of a person's income falls within the personal allowance plus starting rate band, in 2015/16 they will usually be able to register to receive interest with no tax deducted at source, just as they could in earlier years as a non-taxpayer. From 2016/17 onwards the need to register will fall away because it is intended that banks and building societies will pay interest without deduction of tax.

## The Personal Savings Allowance

The Chancellor has confirmed in his speech that the personal savings allowance will go ahead as planned.

For people who pay tax at no more than the basic rate, the personal savings allowance will mean they can receive savings income (primarily interest and gains on offshore life policies) of up to £1,000 free of tax in 2016/17 – a maximum tax saving of £200. If they pay higher rate tax then the allowance is £500, but the overall tax saving is the same £200 maximum. Unfortunately, additional rate taxpayers will receive no allowance.

At a time of low interest rates, the advent of this new allowance will mean that from next April many people will have no tax to pay on the relatively minimal income they earn from bank and building society deposits. As mentioned above, it is intended that bank and building society interest will be paid gross from next tax year.

**Planning Point:** *The combination of personal allowance, personal savings allowance and starting rate band will mean that in 2016/17 it will be possible to have an income of up to £17,000 before paying any tax. But it has to be the right type of income, so planning is a must.*

## 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 within the basic rate band and 28% if they fall into the higher or additional rate bands. For 2015/16, the capital gains tax annual exemption has risen by £100, with next year's increase inflation-linked to the CPI, so probably another £100 (due mainly to rounding).

For now, the tax rates and annual exemption (per person, not per couple) mean that if a person can arrange for their investment returns to be delivered in the form of capital gains rather than income, they will often pay less tax. Indeed, the annual capital gains exemption often means that there is no tax to pay. However, the new dividend allowance will alter the balance between dividends and capital gains from next tax year.

**Planning Point:** *There is generally nothing to put on a tax return if the investor realises gross gains of no more than the annual exemption and the total proceeds of their sales are no more than four times the annual exemption (ie £44,400 in 2015/16).*

### Individual Savings Accounts (ISAs)

The annual ISA investment limit for 2015/16 is £15,240 (all of which may now be placed in a cash ISA). The limit for the Junior ISA (JISA) is £4,080. More importantly the legislation allowing transfers from Child Trust Fund accounts into JISAs is now in force, as is that allowing spouses and civil partners to inherit a deceased spouse's/civil partner's ISA. On 1 July 2015, the ISA investment eligibility rules were relaxed to allow a wider range of securities, including investment trusts which operate in the peer-to-peer loan market.

ISAs remain one of the simplest ways to save tax, with nothing to report or claim on a tax return. The inflation-linked annual limit may be modest, but over time substantial sums can build up: if a person had maximised their ISA investment since they first became available in April 1999, they would by now have placed over £150,000 largely out of reach of UK taxes.

**Planning Point:** *From 2016/17, the new personal savings allowance may make cash ISAs redundant for many savers, as they will be able to receive interest tax-free from ordinary deposits. For clients who are one of the many that fall into that category, they may want to think about switching their cash ISA to a stocks and shares ISA if their dividend income exceeds the new dividend allowance. Remember, the rules now allow an investor to switch in either direction whenever they wish.*

### Automatic Enrolment

A capacity crunch looms. The number of employers staging increases dramatically in the first quarter of 2016 and concerns are being expressed that there are not enough advice givers that will be available to business owners. The fear is that employers will be forced to go it alone, make mistakes and incur fines.

Our online service can be found at [www.myauto-enrolment.co.uk](http://www.myauto-enrolment.co.uk) makes so much sense. It's a mirror of our chartered face to face advice at a fraction of the cost and is great value. It's designed to lead employers through their auto enrolment process, at their own pace. Everything that is needed is in the one place including pension cost calculators, worker assessment tool, letter templates for communications and advice.