



BUDGET 2016

PENSIONS

It's business as usual for pension saving after the Chancellor confirmed there will be no imminent changes to pension tax relief. Whilst the introduction of the new LISA saving vehicle from April 2017 adds another complementary option to the saving landscape.

Other pension news:

-  **Salary sacrifice is here to stay:** In more good news for employers and employees, the Government has confirmed that salary sacrifice will continue to be a tax and NI efficient option to fund a pension (as well as other mainstream employee benefits, such as childcare or health-related provision). Its use for other employee benefits may, however, be cut back.
-  **Workplace pension advice allowance going up:** To encourage employers to boost employee access to professional advice on their pensions, the tax and NI free allowance for employer-arranged advice will increase from £150 to £500 per employee from April 2017.
-  **Pension dashboard coming soon:** To help pension planning, a new digital pension dashboard, giving a single view of an individual's total pension savings, will be launched by 2019.
-  **Under 23 drawdown anomaly fixed:** The current rule that requires minor dependants' drawdown to stop at age 23 will be scrapped, giving these dependants the same flexibility as other minor beneficiaries to continue drawdown after 23.
-  **A fairer deal for the seriously ill:** Pension tax rules will be relaxed so that serious ill-health lump sums can be paid even where funds have already been accessed under the scheme. And, for payments after age 75, they'll be taxed as income rather than at a flat rate of 45%.

LISA: A NEW TYPE OF SAVING PRODUCT

The Chancellor unveiled plans to introduce a new Lifetime ISA (LISA) from April 2017. But this is a complimentary savings scheme for younger savers, not a replacement for traditional pension saving. Higher rate tax payers will continue to enjoy tax relief at 40% on pension savings of up to £40,000 a year, keeping pensions as their number one long term savings plan. Indeed, the under 40s will be able to use both and add up to £45,000 pa to their retirement funds.

The Government aims to encourage long term saving with the inclusion of a 'buy four get one free' bonus, but with the ability for first time buyers to use savings to get a foothold on the property ladder.

How it works on the way in

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

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

How it works on the way out

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

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

As with other ISA schemes, the LISA will form part of the estate for IHT.

CAPITAL GAINS TAX – GOOD NEWS!

Investors who own mutual fund or shares can benefit from a CGT cut from 6 April 2016.

The new rates are:

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

Trustees and legal personal representatives also win, as their tax rate on trust and estate gains falls to 20%. However, landlords or second property owners will continue to pay 18% or 28% on any gains when they come to sell.

INCOME TAX

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

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

Together with the new dividend and savings allowances available from April 2016, advice will be key to ensuring that you have your savings in the right place to produce a tax efficient income when you need it.

Class 2 National Insurance

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

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

Corporation Tax

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

HERE'S A REMINDER OF WHAT WE ALREADY KNEW WAS COMING IN 2016/17:



LTA cut to £1M

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



AA cut for higher earners

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



£5k Dividend Allowance

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



Personal Savings Allowance

Also from April 2016 the first £1k of interest will be tax free (£500 for higher rate taxpayers).

Interest will also be paid gross so that non-taxpayers no longer have to reclaim tax deducted at source. Additional rate tax payers will not benefit from this new allowance.

RECAP OF KEY TAX ALLOWANCES FOR 2016/17

Income Tax Allowances	
Personal allowance	£11,000
Dividend allowance	£5,000
Savings rate band	£5,000
Personal savings allowance	£1,000 (£500 for HRT)

Inheritance Tax	
Nil rate band	£325,000
Capital Gains Tax	
Annual exemption	£11,100
ISA	
ISA	£15,240
Junior ISA	£4,080

Income tax bands and rates			
		Income	Dividends
Basic rate band	£11,000 - £43,000	20%	7.5%
Higherrate band	£43,000 - £150,000	40%	32.5%
Additionalrate band	£150,000 +	45%	38.1%

WANT TO FIND OUT MORE?

Why not contact us for an initial consultation at our expense. There is no cost to you and you are not obligated to proceed further. You really have nothing to lose!

Contact us on 01908 523740 or email wealth@wealthandtax.co.uk.

The value of an investment and the income from it could go down as well as up. You may not get back what you invest.

This communication is for general information only and is not intended to be individual advice. It represents our understanding of law and HM Revenue & Customs practice as at (18th March 2016). You are recommended to seek competent professional advice before taking any action.

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