Wise Words
the latest financial news from Aaron Tawny

Budget 2016 - What this means for you - a good budget for savers

Pensions - no news is good news!

It's business as usual for Pension saving as the Chancellor confirmed there will be no imminent changes to Pension Tax relief.

Other Pension news

- ***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. For payments after age 75, will be taxed as income rather than at a flat rate of 45%.
- ***2 Year Charity rule:*** The need to pay an uncrystallised lump sum death benefit within 2 years when it is paid to a charity is also removed.

Pensions and Inheritance Tax (IHT)

As announced in the Autumn Statement 2015, the Government will legislate to ensure a charge to IHT does not arise when a Pension scheme member designates funds for Drawdown but does not draw all of their funds before death. This will be backdated to apply to deaths on or after 6 April 2011.

Salary Exchange

The Government is considering what range of benefits salary exchange can be used for. It is intended that Pension saving, childcare and health-related benefits such as Cycle to Work should continue to benefit from income tax and National Insurance relief when provided through salary exchange.

For more information
call us on 01536 512724

Lifetime ISA (LISA)- a new savings option

How it works on the way in

The new LISA will only be available for 18- 40 year olds 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. 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 in 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 be a 5% tax charge applied on the amount withdrawn. The maximum that can be paid into a Lifetime ISA will therefore be £128,000 with a maximum bonus of £32,000.

Good news for investors as CGT falls in 2016/17 - but not for landlords...

Investors who own mutual funds 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 savings are in the right place to produce a tax efficient income when they need it.

To help First Time Buyers, funds may be withdrawn tax-free to cover the cost of a deposit on their first home.

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 businesses, the Corporation Tax rate will be further cut to 17% from 2020. The current rate is 20%.

Help to Save

The scheme will be open to individuals in receipt of Universal Credit with minimum weekly household earnings equivalent to 16 hours at the National Living Wage, or those in receipt of Working Tax Credit. It will work by providing a 50% Government bonus on up to £50 of monthly savings. The bonus will be paid after two years with an option to save for a further two years, meaning individuals can save up to £2,400 and benefit from Government bonuses worth up to £1,200. Individuals will be able to use the funds in any way they wish.

Should you set up a Limited Company for Buy to Let properties?

If your considering investing in Buy to Let properties through a Limited Company, it is important to understand the advantages, disadvantages and responsibilities associated with company ownership and we would certainly suggest that advice is taken from a financial and legal point of view, before proceeding.

There is not a straight forward answer to this question. For each case, the response could differ depending on personal circumstances, future intentions, and the availability of mortgage finance to Limited Companies for the purchase of Buy to Let properties. You should also be mindful that a Limited Company is required to file the accounts and financial status of the entire property portfolio with Companies House on an annual basis.

Advantages of using a Limited Company

Higher tax relief - From 2017 to 2020 the amount of Buy to Let tax relief individual landlords can claim back will be progressively cut from a maximum of 45% to 20% for top rate taxpayers. However, this change does not affect Limited Companies. Therefore, if you are a top rate tax payer, the tax payable via a Limited Company will be lower than tax on individual income.

No tax on dividends £5,000 for individuals - from April 2016, the Dividend Tax Credit will be replaced by a new tax-free Dividend Allowance of £5,000. This means you can potentially receive tax-free dividend income from investment properties.

No income tax when reinvesting profits to secure further properties - You could grow a Buy to Let portfolio more quickly within a Limited Company as there will be no income tax on the retained profit, thus allowing more cash to re-invest. Although Corporation Tax is payable on trading profits (20%; 2015/16; reducing to 17% by 2020), this is lower than the higher income tax rate (40% for £31,786 to £150,000; 2015/16).

Personal funds can be drawn back out of the company - any advances you make to your Limited Company (e.g. the mortgage deposit), can be drawn back out of the company by way of a Directors Loan.

Disadvantages of using a Limited Company

No Capital Gains Tax (CGT) allowance when the company sells a property - whereas individuals selling a property would have £11,100 CGT allowance (2015/16)

Additional cost of running a Limited Company - such costs include the preparation of accounts, company tax and Corporation Tax calculations for HMRC, filing at Companies House, legal fees, and annual auditing, if applicable. An Accountant may also charge higher fees when preparing accounts for Limited Companies.

Higher mortgage rates - Most lenders charge higher interest rates and fees for Limited Companies compared to Individual Buy to Let mortgages.

Reduced choice of lenders and mortgages - Many lenders do not offer mortgages to Limited Companies, and often if they do, the product range is much smaller.

Should you transfer from Individual name to Limited Company?

It should be recognised that transferring existing properties from an individual name into a Limited Company structure may be more complex than purchasing new properties within. You would be liable to pay Capital Gains Tax and Stamp Duty Land Tax (SDLT) on the transfer, which tends to make this less desirable. On the other hand, this decision may depend on your future intentions since many landlords who want to expand their portfolio do so via a Limited Company structure, and may be willing to carry these one off costs to do so.

Pension funding - Employer contributions

Employer Pension funding is a topic that causes much confusion and generates many queries.

There are no specific HMRC limits on the maximum level of pension contributions an employer can make and tax-relievable contributions aren't limited to 100% of the Employees relevant UK earnings, as they are for personal contributions.

In reality though, Employer contributions may be limited by one or more of the following:

- The company's Articles of Association.
- The Pension scheme rules.
- The rules on tax relief on Employer Pension contributions which, although usually granted under the wholly and exclusively provisions, isn't automatic. Liaison with the company's Accountant is recommended.
- The annual allowance - whether or not an Employer contribution is granted tax relief, still counts towards the Employees annual allowance. If the annual allowance is exceeded and any excess can't be absorbed by using carry forward, the Employee will be subject to an annual allowance charge (any excess contribution is added to the Employees income in the tax year of payment and taxed at whatever income tax rate the excess amount falls into. In some circumstances, the charge can be paid by the Pension scheme, by way of a deduction from the Pension fund or benefit level).

When making a Pension contribution, the Employer would put the gross amount through the company's accounts as a business expense to be deducted from profits before they are assessed for Corporation Tax. The amount of tax relief available on the contributions depends on the size of the company's profits and hence the rate of Corporation Tax payable. Tax relief on particularly large contributions may have to be spread over 2 to 4 trading years.

As with any business expense, the granting of tax relief on an Employer Pension contribution is at the discretion of the company's local Inspector of Taxes (detailed guidance is available at http://www.hmrc.gov.uk/manuals/bimmanual/BIM46000.htm). Basically, as with any business expense, to be an allowable deduction against profits, Pension contributions must be made wholly and exclusively for the purposes of the business which basically means at a reasonable level for the Employee/director concerned. The HMRC guidance makes it clear that pension contributions will normally pass the wholly and exclusively test and qualify for tax relief. But where there's a clear non-trade purpose, tax relief may be restricted or disallowed.

Pension contributions will always be allowed as a deductible expense, if:

- The contribution is contractual and uniform for all Employees, for example, a matching 5% contribution to a Stakeholder Pension; or
- A Defined Benefit Pension scheme is winding up and an Employer contribution is made to meet its statutory funding obligations; or
- The contribution has been funded under a valid salary or bonus sacrifice arrangement (on the assumption that the remuneration sacrificed was an allowable deduction).

Pension contributions made for controlling Directors, or more likely connected parties such as their relatives or close friends, are those most likely to be challenged as being made for a non-trade purpose. In these circumstances, the first step taken by the Inspector of Taxes will be to look at the individual's overall remuneration package (salary, bonus, benefits and pension contributions, but not dividend income) and consider whether it's excessive for the value of the work they do.

If the Pension element of an individual's overall remuneration package initially appears excessive, the Inspector of Taxes will investigate the reasons for the level of Pension provision. If, after investigating the circumstances, the Inspector of Taxes still thinks that a company Pension contribution wasn't made wholly and exclusively for business purposes they'll refer it to HMRC's technical team and, if they agree, the amount of tax relief may be limited. There's no option for the excess over the relievable amount to be returned to the Employer. The whole contribution must remain in the Pension scheme.

It's possible for an Employer to make Pension contributions for former Employees, irrespective of when they ceased to be an Employee. As with current Employees, tax relief is at the discretion of the local Inspector of Taxes and they'll be treated as a deductible business expense, unless there's a clear non-trade purpose for the contributions.

Help to Buy ISA who is eligible?

To qualify for a Help to Buy: ISA you must:

- Be 16 or over
- Have a valid National Insurance number
- Be a UK resident
- Be a First Time Buyer and not own a property anywhere in the world
- Not have another active Cash ISA in the same tax year: If you have opened a Cash ISA this tax year, you can open a Help to Buy ISA, but will have to take additional steps.

To qualify for the Government bonus, the property you are buying must:

- Be in the UK
- Cost up to £250,000, or up to £450,000 if you are buying in London
- Not be a second home or a Buy-to-Let property
- Not be rented out after you have purchased it
- Be purchased with a mortgage

You can use the Help to Buy ISA with other Government schemes, including the Help to Buy Mortgage Guarantee Scheme, Help to Buy Equity Loan Scheme and shared ownership.

How does it work?

If you are saving to buy your first home, save money into a Help to Buy ISA and the Government will boost your savings by 25%. So, for every £200 you save, receive a Government bonus of £50. The maximum Government bonus you can receive is £3,000.

Open: The Help to Buy ISA will be available from a range of Banks and Building Societies. The accounts are available to each First Time Buyer, not each household. This means that if you are planning to buy with your partner, for example, you could receive a Government bonus of up to £6,000, towards your first home.

Save: Put away up to £200 a month into your Help to Buy ISA. To kick start your account, in your first month, you can deposit a lump sum of up to £1,200.

The minimum Government bonus is £400, meaning that you need to have saved at least £1,600 into your Help to Buy ISA before you can claim your bonus. The maximum Gvernment bonus you can receive is £3,000 – to receive that, you need to have saved £12,000.

Receive bonus: When you are in the process of buying your first home, your solicitor or conveyancer will apply for your Government bonus. Please check whether your solicitor or conveyancer is participating in the Help to Buy ISA scheme, as they will need to register with the scheme before they can apply for your bonus.

Find out if you're eligible for a Help to Buy: ISA Visit Own your home for information on more government schemes. - See more at: http://www.helptobuy.gov.uk/help-to-buy-isa/who-is-eligible

The key to greater flexibility

Convertible Term Assurance

No one knows how their circumstances will change in the future, and Convertible Term Assurance can be an excellent way to build flexibility into cover from the start.

We often find clients have protection needs that continue beyond the original term of their life cover – for example, the mortgage they are covering now could mean they will have an IHT liability in the years to come. However, any health issues that arise as clients get older could mean that they will find it harder or more expensive to take out new life cover once their existing cover expires.

With Convertible Term cover clients will have the peace of mind knowing they have the option to convert their life cover to a Whole-of-Life plan at any time during the term, without the need for additional underwriting.

If the existing plan is a joint life plan, they will need to decide whether the new plan will pay out when the first or second person dies or is diagnosed with a terminal illness. At the time the option is used, the oldest person must be:

- 69 or younger to be eligible for a joint life, first death policy
- 83 or younger to be eligible for a joint life, second death policy

There is no requirement for additional underwriting at the time of conversion. Please be aware premiums would increase to pay for the cost of the new plan as they will be based on Whole-of-Life rates and current age at the time of conversion.

We often find clients have protection needs that continue beyond the original term of their life cover.

The new single-tier flat rate State Pension - "Don't panic, don't panic..."

State Pensions are changing for those individuals who reach State Pension age (SPA) on or after 6 April 2016 (women born on or after 6 April 1953 and men born on or after 6 April 1951); pensioners and individuals who reach SPA before that date are unaffected. In place of a number of different elements making up the State Pension there will in future be just a single-tier flat rate State Pension. This change is necessary because the existing system is complex – even hardened pension professionals struggle with it – and it's sometimes unfair.

A simpler system will be fairer and will make pension planning easier as people can understand it.

Where can you get further information?

There is an on-line calculator to help you assess the cost and extra pension you would receive:
www.gov.uk/new-state-pension/overview

DWP fact sheets are also a useful source:
www.gov.uk/government/uploads/system/uploads/attachment_data/file/181229/single-tier-pension.pdf

Automatic enrolment helps six million into Workplace Pensions

More than six million workers have now begun saving into a Workplace Pension as a result of Automatic Enrolment.

Along with the country's largest Employers, thousands of small Employers and micro Employers from scaffolding firms to children's nurseries, hauliers to farmers, charities to car dealerships and people who employ a personal care assistant are now starting to pay into Workplace Pensions for their staff.

The first workers were automatically enrolled into Pension schemes in 2012 starting with the largest Employers.

Automatic Enrolment is automatic for staff – they don't have to do anything. But it's not automatic for Employers: they need to take steps to make sure certain workers are enrolled.

Even if an Employer has staff but none of them are eligible for Automatic Enrolment, they still have other duties, which include writing to all staff individually and completing their declaration of compliance.

Our experience at Aaron Tawny has shown with planning and good communication to all concerned, Auto Enrolment isn't the headache most clients initially thought it would be.

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Changes to Auto Enrolment minimum contribution increase dates

In order to meet the Government's minimum contribution standards, the Employee and Employer will need to increase the minimum amounts being paid into the Employees personal account over the next few years as follows:

Date	Employer minimum contribution	Jobholder contribution	Tax relief on Jobholder contribution	Total minimum contribution
Staging to March 2018	1%	0.8%	0.2%	2%
April 2018 to March 2019	2%	2.4%	0.6%	5%
April 2019 onwards	3%	4%	1%	8%

Inheritance Tax: main residence nil-rate band and the existing nil-rate band

Main residence nil-rate band relief will reduce the burden of IHT for most families by making it easier to pass on the family home to direct descendants without a tax charge.

Who is likely to be affected

Individuals with direct descendants who have an estate (including a main residence) with total assets above the Inheritance Tax (IHT) threshold (or nil-rate band) of £325,000 and personal representatives of deceased persons.

General description of the measure

This measure introduces an additional nil-rate band when a residence is passed on death, to a direct descendant.

This will be:

- £100,000 in 2017 to 2018
- £125,000 in 2018 to 2019
- £150,000 in 2019 to 2020
- £175,000 in 2020 to 2021

It will then increase in line with Consumer Prices Index (CPI) from 2021 to 2022 onwards. Any unused nil-rate band will be able to be transferred to a surviving spouse or civil partner.

The additional nil-rate band will also be available when a person downsizes or ceases to own a home on or after 8 July 2015 and assets of an equivalent value, up to the value of the additional nil-rate band, are passed on death to direct descendants.

There will be a tapered withdrawal of the additional nil-rate band for estates with a net value of more than £2 million. This will be at a withdrawal rate of £1 for every £2 over this threshold.

The existing nil-rate band will remain at £325,000 from 2018 to 2019 until the end of 2020 to 2021.

Operative date

The measure will take effect for relevant transfers on death on or after 6 April 2017. It will apply to reduce the tax payable by an estate on death; it will not apply to reduce the tax payable on lifetime transfers that are chargeable as a result of death.

A direct descendant will be a child (including a step-child, adopted child or foster child) of the deceased and their lineal descendants.

The main residence nil-rate band will be transferable where the second spouse or civil partner of a couple dies on or after 6 April 2017 irrespective of when the first of the couple died.

The qualifying residential interest will be limited to one residential property but personal representatives will be able to nominate which residential property should qualify if there is more than one in the estate. A property which was never a residence of the deceased, such as a Buy-to-Let property, will not qualify.

A direct descendant will be a child (including a step-child, adopted child or foster child) of the deceased and their lineal descendants. A claim will have to be made on the death of a person's surviving spouse or civil partner to transfer any unused proportion of the additional nil-rate band unused by the person on their death, in the same way that the existing nil-rate band can be transferred.

For more information call us on 01536 512724

Higher rates of Stamp Duty Land Tax for second properties

The higher rates of Stamp Duty Land Tax (SDLT) apply from 1st April to second (or additional) residential property purchases.

For your information we have summarised some of the key points below:

Band of purchase price	Current rates of SDLT on residential property purchases	New rates of SDLT on purchase of second and subsequent residential properties
0* - £125k	0%	3%
£125k - £250k	2%	5%
£250k - £925k	5%	8%
£925k - £1.5m	10%	13%
£1.5m+	12%	15%

* Transactions under £40,000 are not subject to the higher rates.

- Whether the higher SDLT rates apply is determined by how many properties an individual owns at the end of the day involving the property purchase transaction - if more than one, then the higher rate of SDLT will apply to the purchase transaction (unless the purchase is replacing a main residence which has been sold)
- If someone owns two main residences due to a new property having been bought before the old main residence has been sold, then although the higher rate will apply to the new purchase, there will be an 18-month window (matching the CGT main residence window) during which the sale of the old residence will mean that the excess SDLT on the new residence can be reclaimed
- The SDLT regime will not allow an individual to nominate a main residence (unlike the CGT system) – instead a persons main residence will be determined by the facts
- Married couples and civil partners will be treated as one unit (as applies for CGT) unless they are separated under a court order or formal Deed of Separation executed under seal
- Joint purchases will be caught if any of the joint purchasers fails the 'only one property' test, eg. home-owning parent buying a property with their non-home-owning child (if they are joint owners of the new property, eg. wouldn't apply if the parent was a guarantor and the property was only in the child's name)
- Although SDLT only applies to property purchases in England, Wales and Northern Ireland, properties owned elsewhere (eg. abroad) will be taken into account when determining whether the individual already owns a residential property
- Interest in possession trusts that hold property will have the income beneficiaries treated as beneficial owners of the property for SDLT purposes
- For discretionary trusts the higher rates of SDLT will apply
- To avoid abuse, the first purchase of a property by a company or collective investment vehicle will be subject to the higher rates
- Non-residential purchases, including mixed use property (eg. shop with flat above) are unaffected by the new SDLT regime
- In Scotland, a 3% surcharge will also be added to Land and Buildings Transaction Tax – the Scottish replacement for SDLT.

Keeping it Lite

We hope you find this a useful and informative read. With our constant strive for excellence in customer service we always appreciate to hear your feedback, whether good or bad.

If you would like to receive the newsletter via email, please email us at: enquiries@atawny.co.uk

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Aaron Tawny

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