# Summer Budget 2015
## Sea change?

George Osborne's Summer Budget on 8 July 2015 has certainly caused some waves in the press and with good reason – it is the first Budget for some time that seems likely to drive behavioural change. Sweeping changes look set to alter significantly the landscape both for onshore and offshore planning. It remains to be seen how the rules will be implemented but our thoughts on the standout points are summarised below.

### NON-DOMICILE CHANGES

Individuals who are not domiciled in the UK ("non-doms") are able to claim to pay tax on the remittance basis – broadly, foreign income and gains are not taxed in the UK unless they are brought to the UK. An annual charge is payable by longer term residents in order to access this favourable treatment. Non-doms are also only subject to UK inheritance tax ("IHT") on UK assets unless they are treated as "deemed domiciled" for IHT purposes by virtue of having been resident in the UK for 17 out of the last 20 years. Non-doms who are deemed domiciled pay IHT on their worldwide assets.

#### Restriction to non-dom status

The Summer Budget proposes to restrict the availability for individuals to claim non-dom status. With effect from 6 April 2017:

- individuals who are UK tax resident for more than 15 of the past 20 tax years will be deemed domiciled in the UK for all tax purposes. Deemed domiciled individuals will not be able to access the remittance basis and will be subject to UK IHT on their worldwide assets; and
- new rules are also proposed to prevent individuals who have UK domicile at their birth claiming non-dom status if they leave the UK, change their domicile and subsequently return to the UK.

These changes are likely to give non-doms cause to rethink whether it is sustainable to remain in the UK tax efficiently. It will be interesting to see whether the draft legislation contains any transitional provisions and how these measures will interact with the existing tax code dealing with offshore income/gains and, in particular, offshore trusts.

The announcement does include what might turn out to be a silver lining as it states that non-doms who have set up an offshore trust before they become deemed domiciled will not be taxed on trust income and gains that are retained in the trust. However, how this statement manifests itself in draft legislation is of course yet to be seen. Oddly, certain non-doms might find themselves in a better position so the prospect of a change in approach cannot be ruled out before it makes its way to the statute books.

#### IHT on UK residential property owned by non-doms

In addition, there is a proposal to change the IHT treatment of UK residential property held by non-doms through offshore structures. Currently, UK residential property held by non-doms indirectly (e.g. via offshore companies) is not subject to UK IHT on the non-dom's death. It is relatively common practice for structures to be used to take advantage of this, particularly for investment properties. The government has announced that it wishes to bring all UK residential property within the UK IHT net regardless of whether it is held in such structures.

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In effect, this is extending the previous changes for other tax purposes (the Annual Tax on Enveloped Dwellings and associated capital gains tax charge) to IHT. Careful thought will be needed as to whether such structures already in place will need to be unwound and the tax implications of doing so. The wider impact this will have on the UK property market may also be significant – investment in UK residential property is now likely to come with an additional price tag: either capital gains tax on a sale or IHT on death.

## TAXATION OF DIVIDENDS

The Summer Budget removes the dividend tax credit with effect from April 2016. This is replaced by a £5,000 tax-free dividend allowance and amounts in excess of this are taxable at 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers. The government announcement states that this is aimed at reducing "the incentive to incorporate and remunerate through dividends rather than through wages to reduce tax liabilities" and so appears to be targeted at personal service companies. However, this will have knock on effects for owner-managed businesses and corporate succession planning vehicles and may lead some to consider taking dividends prior to April 2016.

## CHANGES TO THE INHERITANCE TAX NIL RATE BAND

The Summer Budget also brought a helpful change for IHT for UK domiciled individuals. Presently, every individual has a nil rate band of £325,000 which is not subject to IHT. Any unused portion of this nil rate band ("NRB") can be transferred to a surviving spouse and utilised on their death. From April 2017 an additional NRB will be available when a residential property which has been the taxpayer's residence at some point is passed on death to a direct descendant.

The additional NRB will be phased in for deaths after 6 April 2017 – starting at £100,000 from 2017-18 increasing to £175,000 by 2020-21. Where available, from 2020-21 this effectively takes a couple's combined NRB to £1m. There is a tapered restriction to this additional NRB for estates with a net value of more than £2m (£1 for every £2 over the threshold). In effect, this means that the additional NRB will not be available for net estates over £2.35m.

The draft legislation has yet to be released and it is not clear whether in order to access this additional NRB direct descendants must inherit the property outright or whether this can be held on trust for their benefit. Helpfully, the announcement also states that the additional NRB will be available even when a person downsizes or ceases to own a home and assets of an equivalent value (up to the value of the additional NRB) are passed on death to direct descendants although again further detail will be required as to how this might operate in practice.

Given the ceiling for the availability of this additional NRB, this will prompt some thought for families with estates close to the £2m threshold focusing attention on opportunities for lifetime planning which may optimise the position.

## PENSIONS

As indicated in the Conservative Party election manifesto, the Summer Budget further restricts the tax relief for pension contributions for individuals earning more than £150,000 from 6 April 2016. This operates by reducing the individual's maximum annual allowance (£40,000) by £1 for every additional £2 of income over the £150,000 limit so that individuals with an annual income of £210,000 or more will only be entitled to the minimum annual allowance of £10,000.

While disappointing given the recent flexibility afforded to pension drawdowns that individuals are dis-incentivised from putting amounts into their pensions, restrictions to pension tax reliefs did not come entirely as a surprise.

## BUY TO LET – RESTRICTION ON INTEREST DEDUCTION

From 2017-18, the tax deduction for interest paid on mortgages for buy-to-let properties will be restricted to an income tax deduction at the basic rate tax (20%). The government acknowledge that this is a significant change that will have wide ramifications for the rental market and so have proposed that there will be a phased introduction.

## CONTACT US

If you would like to talk to us about any matter affecting you or your family, please telephone or email any of the individuals below or your usual contact in the Personal Wealth & Families team at Stevens & Bolton LLP.

**Stuart Skeffington**
(group head)

+44 (0)1483 406952
stuart.skeffington@stevens-bolton.com

**Nick Acomb**
(tax, trusts, succession advice)

+44 (0)1483 401222
nick.acomb@stevens-bolton.com

**Rosie Todd**
(tax, trusts, succession advice)

+44 (0)1483 406069
rosie.todd@stevens-bolton.com

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Wey House, Farnham Road, Guildford, Surrey GU1 4YD Tel: 01483 302246 Fax: 01483 302254



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