Autumn Statement December 2015 - what are the key financial planning considerations?

On 3rd December 2014, the Chancellor, George Osborne, stood up and delivered his Autumn Statement. We have looked at the detail of the official publication on the Treasury's website, and had the following observations, which we trust to be of use. Please understand that many of the proposals are not final law, and therefore maybe subject to change but we hope you take this communication in the manner it is intended, as a guide to the areas looking to change over the course of the next twelve months.

Inheritability of Individual Savings Accounts (ISAs)

The Chancellor has confirmed that the annual savings allowance for ISAs will increase to £15,240 from 6th April 2015. This is a modest increase when compared to the significant rise to savings from the 1st July 2014.

At the same time the intention is that where an individual dies from the 4thDecember 2014 onwards, then a spouse or civil partner will be able to inherit an ISA, and retain the tax free status for the purposes of income and capital gains tax. There will be no impact on the recipient's ISA allowances. Of course, any transfers between UK domicile spouses are exempt from inheritance tax, so there is no change to the position in this respect. Nevertheless this is clearly a positive change which allows individuals to increase the assets they own after the death of a spouse which are sheltered from most UK taxes.

Confirmation of pensions freedoms

Whilst we have already relayed much of the detail expected in respect of Pension Freedom the detail of the Treasury Report highlights that:

- On death before 75 any lump sum death benefit within the lifetime allowance (which stands for most people at £1.25 million) will be available free of tax. It has been clarified that dependant annuities and the minimum payment period (currently known as a guarantee) will also be tax free in addition to drawdown plans.
- Where death occurs over the age of 75 any lump sum death benefit will be taxed on the **recipient** as income, when they draw their funds. Recipients can be dependants, or non dependants, and for the year 2015/16 any lump sums will be taxed at a flat rate of 45%, with income tax applying to these benefits from 6th April 2016 onwards.
- There historically was a distinction between benefits that have paid tax free cash or income (currently known as crystallised pension fund), and those that haven't (uncrystallised funds). As long as the lump sum death benefit falls within the lifetime allowance when added to other pensions and life assurance benefits, the only factor influencing the tax treatment will be the deceased age at date of death, and where over the age of 75 the tax position of the recipient.
- Any recipient of the pension lump sum will have the choice to either keep it as a pension

pot, which is should not be tested against the lifetime allowance, or to draw an income from the pot.

We believe that these freedoms allow significant planning opportunities in passing assets down generations. Given the new flexibility with respect of pensions and savings, and the improved lump sum death benefits, we think a pension is uniquely placed to form the core of both income and tax planning in retirement whilst permitting a tax privileged transfer of value in the event of death.

Other pension proposals

The new flat rate pension from the State has been confirmed as being at least £151.25 per week, with the final figure to be confirmed next Autumn. The basic State Pension has also been increased to £115.95 for a single person from April 2015.

The Government seem to be committed to keeping the change in death benefits at age 75, which is an historic legacy.

U-turn on Inheritance Tax (IHT) treatment of trusts

Please note this element of the article was superseded by this

On 6th June 2014 the Government announced a consultation and set of proposals that would reduce the ability of an individual to undertake Trust planning in their lifetime. The proposals are complex, but in short they would mean an individual would only be able to make one set of gifts into trusts in their lifetime, for up to total of the current "settlement nil rate band" of £325,000. Any excess would be taxed in their lifetime.

The implications of this were to significantly erode the benefit of trust planning within life, and remove the need for multiple 'pilot trusts' (settlements with very low values intended to be topped-up in life or death), but the reason for the changes were to remove the ability to set up several trusts on subsequent days that could allow hundreds of thousands, or even millions of pounds to be effectively removed from the inheritance tax regime.

This was the third set of proposals, and whilst the Government have confirmed they are still considering their options with respect of the aggressive tax planning, they have cancelled plans laid down in the 6th June 2014 document.

A significant number of our clients have expressed interest in inheritance tax planning and some may have established trusts. Lump sum death benefits for pensions are likely to be exempted from any changes, but the results of the Chancellor's announcement are such that there are no changes to Trust planning at this stage.

Nevertheless inheritance tax continues to be a significant topic for individuals, and whilst we suspect there will be an increase to the nil rate band over the near future, we will encourage you to get in touch if there this is a topic you wish to discuss in more detail.

Income Tax

The personal allowance will rise to £10,600 from 6th April 2015, for those born after 5th April 1938. For those born earlier the age related allowance will remain at £10,660.

From the 6th April 2015 a spouse or civil partner who has income below the personal allowance can pass up to £1,060 of their personal allowance to their partner, as long as the recipient is a basic rate tax payer.

The change in the personal allowance will mean that those earning between £100,000 and £121,200, should take particular care as they lose their personal allowance at the rate of £1 of allowance for every £2 of income, and effective 60% tax.

Changes to Taxation for those not domiciled in the UK

There are also changes to individuals who are not domiciled, but resident, in the UK. Given this affects the minority of our clients and are complicated based on each individual basis, we do not detail these here.

Stamp Duty

Stamp Duty had always been a curious tax, as like other taxes, it had not been tiered. George Osborne has announced that the tax will be reduced for 98% of those purchasing homes, and will essentially mean those purchasing a property valued under £937,500 will pay less stamp duty than under the old rules. Significantly, the tax will now be tiered meaning the “cliff edges” at £250,000, £500,000 and £1,000,000 will disappear.

For those fortunate to have houses valued in the £2 million plus bracket the purchaser’s stamp duty will significantly increase, in some cases by a couple of hundred thousand. However the majority of individuals should see stamp duty fall. Due to the fact that home owners commonly take on borrowing when moving “up market” the tax saving will be added to bank borrowing, meaning that house prices may rise, not on a one to one basis but actually by a greater proportion. With the proposed Pension Freedoms coming from April 2015, we feel this could be an “interesting” time for the housing market.

Summary

The principal changes are to pension flexibilities, improvements on pension lump sum death benefits and also the inheritability of the individual saving allowances between married couples and civil partners. We will keep additional pages on this blog updated as these changes get passed into law, but encourage you to contact us if there is anything in the above that you would like to discuss.