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United Kingdom – 2015 Summer Budget Presented

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On 8 July 2015, the Chancellor of the Exchequer delivered[1] the U.K.'s 2015 Summer Budget Statement[2]. The Budget Statement included an increase in personal allowance, an increase in upper limit for the basic rate tax band, and an additional inheritance tax nil-rate band will be introduced to cover the situation where a main residence is passed on death to "direct descendants."

In the U.K. it is traditional for a new government to present a budget shortly after taking office, even if there are no changes in that government. (For coverage of the March 2015 U.K. Budget, see GMS *Flash Alert* 2015-040 (19 March 2015).

Why This Matters

There were a number of measures announced and additional measures contained within the supporting documents to the Budget Statement that affect both employees and employers of internationally mobile employees.

International assignment cost projections and budgeting for assignments to the U.K. and for assignees outside the U.K. still subject to U.K. taxation should reflect the changes in the Budget. Where appropriate, payroll administrators should be planning for adjustments to withholdings.

The most significant of the changes announced will start to take effect from April 2016 and although some changes will not come online until April 2017, employers only have a set amount of time to ensure they appreciate the scope of the changes and to make the necessary adjustments to budgets. This will include revising hypothetical tax calculations for both inbound and outbound tax equalized assignees. Communications with impacted assignees will also be important at this stage.

Tax Thresholds

Income Tax

At the March 2015 Budget, an increase in the personal allowance (U.K. exempt amount) from GBP 10,000 to GBP 10,600 was announced and this took effect from 6 April 2015. The personal allowance was expected to rise again to GBP 10,800 in April 2016 and to GBP 11,000 in April 2017. Further increases to these amounts were announced on 8 July 2015 and the personal allowance will now increase to GBP 11,000 from 6 April 2016. The personal allowance will continue to be tapered for individuals earning over GBP 100,000 (being reduced to nil for earnings over GBP 122,000 for 2016/17).

The upper limit for the basic rate tax band (that is the income level at which taxpayers start to pay tax at 40%) was set to increase to GBP 31,900 in April 2016 (making the higher rate threshold GBP 42,700 when including the tax free personal allowance).

After the 8 July Budget Statement, the threshold will increase to GBP 43,000 from 6 April 2016. It is expected to rise further to GBP 50,000 over the life of this Parliament.

National Insurance Contributions (NIC)

The upper earnings threshold for U.K. social security contributions is being increased in line with the threshold at which the higher rate of tax is paid. The employment allowance (a credit given against the employer NIC liability) will increase from GBP 2,000 to GBP 3,000 from April 2016.

Also from April 2016, companies where the director is the sole employee will no longer benefit from the employment allowance.

Inheritance Tax

Currently assets within an estate worth up to a value of GBP 325,000 can be passed on death to descendants using the nil-rate band of inheritance tax. From April 2017, an additional inheritance tax nil-rate band will be introduced to cover the situation where a main residence is passed on death to "direct descendants." The value of this new nil-rate band will be GBP 100,000 in 2017/18, rising by GBP 25,000 each year until 2020/21, when the value will be GBP 175,000. This additional amount will be transferable and can be passed on to a surviving spouse (or civil partner). This will effectively create a GBP 500,000 inheritance tax threshold per individual for estates in 2020/21. The additional relief available will be withdrawn by GBP 1 for every GBP 2 by which the net value of the estate exceeds GBP 2 million.

Non-Domicile Status

Non-U.K. domiciled taxpayers may claim the "remittance basis" of taxation when filing U.K. tax returns and this ensures that in certain situations non-U.K. source income and gains are not subjected to U.K. tax. There is a rising series of charges payable by longer-term U.K. residents if they wish to file using the remittance basis of taxation.

The government confirmed on 8 July 2015, that it does not intend to abolish the "non-dom" status. However, two significant changes were announced although the government intends after Parliament's summer recess to consult more widely on the best way to implement these changes.

Long-Term U.K. Residents

From 6 April 2017, any non-U.K. domiciled individuals resident in the U.K. for 15 of the past 20 years will be taxed as if he or she were a U.K. domiciled taxpayer. This is effectively a "deemed domicile" for income and capital gains tax. The deemed domicile for inheritance tax which applies for non-U.K. domiciled taxpayers who have been resident for 17 out of the last 20 years will be brought into line with the new 15-out-of-20-year rule.

This means that the new remittance basis charge applying from 6 April 2015, to individuals who had been resident in the U.K. for 17 out of the last 20 years will no longer be required from 6 April 2017, since those individuals will no longer be able to claim the remittance basis of taxation.

"Returning" U.K. Domiciles

Currently, it is possible for individuals who are born in the U.K. to parents who are U.K. domiciled to leave the U.K. permanently and acquire a domicile of choice overseas. From 6 April 2017, where this happens but the individual later returns to the U.K. and becomes U.K. resident, he will not be able to claim that he is non-U.K. domiciled whilst he is U.K resident. That individual will therefore be taxed on his worldwide income and gains.

Minimum Claim Period for Remittance Basis Charge

In GMS *Flash Alert* 2015-10 (24 January 2015) we reported that the U.K. government was consulting on whether to introduce a minimum claim period for the remittance basis charge. We can confirm that, following the consultation, no minimum claim period will be introduced and individuals will be able to continue to choose whether to pay the charge an annual basis.

KPMG Note

The issue of taxation of non-U.K. domiciled taxpayers was widely debated during the recent election campaigns and it is no surprise that changes were announced on 8 July 2015. We will be publishing a separate newsletter on these changes and further updates will be published once the consultation document and draft legislation have been published.

Restriction of Relief on Rental Income

There were two measures announced on 8 July 2015, which will impact the amount of rental income that will be subject to U.K. tax.

Currently landlords can deduct the mortgage interest paid when arriving at the net rental income which is subject to U.K. tax. Going forward, relief will be restricted to the basic rate of tax with the restriction being brought in over a four-year period starting in April 2017.

In addition, where a property is let furnished it is possible for landlords to claim an allowance of 10 percent of rent received to account for "wear and tear" to their furniture, even if no actual expenses are incurred to repair or replace these items. From April 2016, the allowance will be replaced and landlords will only be able to claim for actual expenditure incurred in relation to their furniture.

Pensions

Lifetime Allowance for Pension Contributions

As previously announced, the government will reduce the lifetime allowance for pension contributions from GBP 1.25 million to GBP 1 million from 6 April 2016. Transitional protection for pension rights already exceeding GBP 1 million will be introduced alongside this reduction so that the change is not retrospective.

Reduced Annual Allowance for High Earners

As well as the overall reduction to the annual allowance, a restriction on tax relief for pension contributions for taxpayers earning over GBP 150,000 will be introduced from April 2016. The GBP 150,000 limit includes the value of pension contributions and will be achieved through the tapering of the annual allowance to a minimum of GBP 10,000.

Wider Pensions Reform?

The government issued a consultation document[3] which discusses the possibility of wider reform of the pension system. This seeks opinions on how the pension system could be changed – ideas ranging from taxing pension contributions when made but not taxing pension income when received on retirement to making changes to the current annual and lifetime allowances.

Responses to the consultation are requested by 30 September 2015.

KPMG Note

If any changes are made, it is unclear how (for example) the transition from the current system of granting relief for pension contributions but taxing the pension income to taxing the contributions but exempting the pension income will be achieved.

Any changes will potentially affect U.K. employees who leave the U.K. to work overseas and who remain contributing to their home country pension schemes. They are also likely to affect any non-U.K. nationals working in the U.K. but contributing to overseas pension plans where relief from U.K. tax can be claimed. The interaction with double tax treaties will also need to be considered.

If you wish to make representations as part of this consultation, please let your usual KPMG contact know.

Further updates will be published as the consultation process progresses and more information is known.

Tax Simplification

It was announced on 8 July 2015 that the Office of Tax Simplification (OTS) will be set up on a permanent statutory basis and that its role will be expanded. Amongst other things, the OTS will continue to look at how income tax and NIC can be more closely aligned and they will also consider efficient taxation of small companies.

Following recommendations by the OTS, consultation documents will also be issued on the simplification of the tax and NIC treatment of termination payments and of the tax treatment of travel and subsistence.

Footnotes:

1 See: *Summer Budget 2015* (July 2015).

2 See: *Overview of Tax Legislation and Rates* (18 March 2015).

3 See: *Strengthening the Incentive to Save: a Consultation on Pensions Tax Relief* (8 July 2015).

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