



# UK Budget Bulletin

8 July 2015

## Introduction

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The Chancellor's Budget Statement this afternoon contained a number of matters of real and immediate importance. It did however also contain details regarding measures which are either deferred or still under consideration and repeated some other measures which have previously been announced.

It will be observed that Mr Osborne has gone overboard on non doms and on IHT.

Some brief notes follow on matters which may be of interest. Further and Better Particulars will be available from the Finance Bill next week and will be contained in the July Tax Bulletin later this month.

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## Budget Highlights : 8 July 2015

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**Income Tax Rates: 2016/17**

Up to £32,000	20%
Over £32,000	40%
Over £150,000	45%

**Personal Allowance: 2016/17** £11,000 (following year £11,200)

**Dividend Taxation:** The tax credit is being abolished from April 2016 and there will be a new dividend tax allowance of £5,000. The new rate of tax on dividend income will be 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers. This seems to be unnecessarily complicated and it will take a while before the implications can be worked through. However, it is clear that the tax on dividends (other than very modest amounts) will be significantly increased.

**Corporation Tax:** The profits of companies will continue to be chargeable at a flat rate of 20% until 1 April 2017 when it will go down to 19%.

**Inheritance Tax:** The proposal which has been floated for a few months whereby there will be an extra £175,000 inheritance tax exemption for the family home is to come into force in April 2017. (The reason this can be described as a £1 million exemption is because if you add it to the £325,000 nil rate band and add it to the nil rate band of the spouse and the extra £175,000 exemption for the spouse, this all adds up to £1 million. Talk about spin.)

Furthermore, it is not coming in straight away; it starts at £100,000 in 2017/18 and does not reach £175,000 until 2020/21.

However, if the individual's net estate is more than £2 million, this extra £175,000 will be tapered away to zero on an estate of £2.35m.

It is not entirely clear what will be covered by this additional exemption. It is merely said that it will apply to a residential property which has been the deceased's residence at some point and is included in their estate. No doubt a clearer definition will be provided soon.

**Inheritance Tax : Trusts:**

There has been a great deal of discussion regarding the calculation of the 10 year charge on trusts and in particular where the settlor has established more than one trust. It will no longer be necessary to include non relevant property in the calculation of the effective rate for the 10 year charge and the exit charges.

Where property is added to 2 or more relevant property settlements on the same day, they will be aggregated with other trusts which are not already related settlements in calculating the effective rate.

Section 144 IHTA 1984 is to be amended so that a distribution or appointment within 3 months of the date of death in favour of the deceased's spouse will be effective.

**Non Doms:**

Serious changes are proposed to the taxation of individuals who are not domiciled in the UK. HMRC say that they will publish a detailed consultation document after the Summer recess - however, it is clear how it is going to work. From April 2017 individuals who have been resident in the UK for more than 15 out of the last 20 years will be treated as deemed domiciled for all tax purposes. This will apply irrespective of the date of arrival in the UK; there will be no special grandfathering rules for those already in the UK.

Those non doms who establish an offshore trust before they become deemed domiciled here under the 15 year rule will not be taxed on trust income and gains in the trust and the existing excluded property rules for inheritance tax will continue. However, they will be charged to income tax (or capital gains tax) on any benefit received from the trust on a worldwide basis.

Children of a non dom will not be affected by any of these changes. They will not become deemed domiciled here just because their parent is deemed domiciled. Their domicile will be determined separately by reference to their own circumstances.

There is a significant change for individuals who had a UK domicile of origin but have acquired a domicile of choice in another country. HMRC do not intend to interfere with this analysis (just as well perhaps as it is a matter of international law and would be rather difficult). However, they do propose that for tax purposes, a person with a UK domicile of origin who resumes UK residence will not be treated as a non dom for UK tax purposes irrespective of their domicile status under the general law. This new rules is intended to apply to all non doms from April 2017, including those who return to the UK before that date.

From April 2017 the new £90,000 non dom charge payable by those who have been resident in the UK for 17 out of 20 years will be redundant because they will be taxable on an arising basis after they have been here for 15 years. The existing £30,000 and £60,000 charges are to remain unchanged.

There will be many people who are going to swim into difficulties as a result of these changes but at least they have nearly 2 years to rearrange their affairs.

**More Non Doms:**

A second announcement relates to UK residential property owned indirectly by a non dom individual. Again, a consultation document will be issued after the Summer recess. At the present time, if a UK property is held by a foreign company, owned by the non dom, the shares in the company are excluded property and outside the scope of UK inheritance tax despite the fact that the value is all contained in the UK property.

The advantages of holding a UK residence in a foreign company have been seriously curtailed in recent years by the 15% charge to SDLT and the (ever increasing) Annual Tax on Enveloped Properties. However, the inheritance tax advantage still exists.

From April 2017, it is intended that all residential property held directly or indirectly by foreign domiciled persons will be within the scope of inheritance tax for example if it is held by an offshore company or partnership.

(Holding a property through a trust has not generally been a popular course of action because of the difficulties faced by the reservation of benefits rule and the 10 year charge.)

These new rules apply only to UK residential property - whether it is occupied, let and of whatever value.

It seems that the way this will work is that shares in offshore entities will not be excluded property to the extent that they derive their value directly or indirectly from UK residential property. This looks problematic because companies may have a lot of other assets as well which are not within the charge. HMRC are still thinking about that.

HMRC confirm that the same reliefs will apply as if the property were held directly by the owner of the company. This means that the spouse exemption would apply if the shares are left to a spouse - but it would not apply if the shares are held by trustees unless there is a qualifying Interest in possession.

**Direct Tax Recovery:**

HMRC is going ahead with its proposals to allow them to claim tax directly from a taxpayers bank account despite widespread opposition - generally from anybody with a pulse. HMRC note that they do not have power to access people's bank accounts and help themselves to their money without a Court Order. They will soon. The legislation will be introduced in the Summer Finance Bill 2015 and is expected to come into force from the date of Royal Assent.

**Goodwill:**

It is proposed that for accounting periods beginning on or after 8 July 2015, where a company acquires goodwill, a corporation tax deduction will no longer be allowed.

Further changes are proposed regarding the loan relationships rules. For accounting periods beginning on or after 1 January 2016 taxable amounts will be excluded if they arise from arrangements to restructure the debts of the company in financial distress with a view to ensuring its continued solvency- subject of course to extensive anti avoidance provisions.

**Interest Relief:**

HMRC have announced that from 6 April 2017 interest relief will start to be deductible from rental income only at the basic rate. This will be phased in over a four year period.

Interestingly, this seems to apply only to individual landlords; corporate landlords are not affected by the changes.

Full details will be provided in the July Tax Bulletin later in the month.

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**8 July 2015**

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