



FEATURE ARTICLE

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Post Election 2015 – Promises, Promises.

Following the surprise 2015 election result with the Conservatives gaining a majority in the House of Commons what can we expect from this new Conservative Government in terms of financial planning in the future?

Well the best guide that we have is the Conservative Manifesto and in that document the following “promises” have been made:

- ❖ **Increase the tax-free Personal Allowance to £12,500 and the 40p Income Tax threshold to £50,000 by 2019/20.**

Fiscal drag has meant that more and more “middle class” individuals have been drawn into the 40p bracket and increasing the tax free personal allowance is popular with those on lower incomes.

I think it is important however to remember that increasing the tax free personal allowance does not mean that lower earners do not pay any tax on their income as National Insurance contributions commence at a lower level.

- ❖ **Commit to no increases in VAT (or extension of its scope), plus no increases in National Insurance contributions or Income Tax.**

During the election campaign Cameron said that the Tories pledged to introduce a new law within the first 100 days of a Conservative government to prevent any rises in income tax, VAT or national insurance in the next parliament.

- ❖ **Increase the IHT threshold to £1m for principal private residence.**



During the election campaign Cameron said that the Conservatives will take the family home out of tax for all but the richest by increasing the effective Inheritance Tax threshold for married couples and civil partners to £1 million, with a new transferable main residence allowance of £175,000 per person.

At present, inheritance tax is payable at 40% on the value of an estate in excess of the tax-free allowance of £325,000 per person. Married couples and civil partners can pass the allowance on to each other. The Conservatives said that if they won the general election, then from April 2017 parents would each be offered a further £175,000 zero rate "family home allowance" band to enable them to pass property on to children and grand-children tax-free after their death.

This "family home allowance" could be added to the existing £325,000 inheritance tax threshold, bringing the total transferable tax-free allowance from both parents who are a married couple or civil partnership to £1m.

The Conservatives said that the full amount would be transferable even if one spouse had died before the policy came into effect, and so would benefit existing widows and widowers.

For properties worth more than £2m, the new allowance would be gradually reduced so that those with homes worth more than £2.35m would not benefit at all.

As it stands I can see a number of issues with the policy as it was originally outlined. There is, for example, the fact that it would encourage investment in owner-occupied housing rather than other more productive investments and discourage downsizing late in life when that might otherwise be appropriate? It will be interesting to see the exact nature of the legislation that will be introduced in this area.

❖ **A crack down on tax evasion and aggressive tax avoidance and ensure those who can afford to pay the most do.**

This was an area that politicians across the political spectrum focused on in their campaigns and I note that the focus from the Conservatives is not simply on tax evasion but also so called "aggressive tax avoidance".

Having said that there are important developments in the pipeline such as the automatic exchange of information from overseas tax authorities which starts in 2017. The Conservatives aim before the election was to raise an extra £5bn a year by the end of the Parliament and it will be interesting in 5 years to see if this target has been reached?



❖ **Corporation tax to be the lowest in the G7.**

The Coalition Government cut corporation tax from 28 to 20 per cent over the course of the last Parliament. In this Parliament, the Conservatives said that they want to maintain the most competitive business tax regime in the G20, and opposed Labour's plans to increase Corporation Tax.

❖ **Annual pension contribution allowance to be tapered for those on more than £150k a year.**

To pay for the changes to IHT the Tories said they would change the pension contribution allowances for those earning more than £150k.

At present those with taxable incomes over £150,000 a year – there are estimated to be 300,000 such individuals – pay income tax at 45%. Any pension contribution they make up to an annual allowance of £40,000 a year attracts income tax relief at that rate.

The Conservatives proposed to reduce the annual allowance to £10,000 once income reaches £210,000. In other words 50p of allowance will be lost for every additional £1 of income in a range between £150,000 and £210,000. Which is simply a further complication in terms of pension planning?

Conclusion:

We are likely to see an "emergency" Conservative Budget from Osborne and his new team in the coming weeks and it will be very interesting to see if these various promises are kept and full details published. More importantly perhaps it will be interesting to see how the Conservatives plan on dealing with the budget deficit and where, in addition to spending cuts the tax take might perhaps be increased? Will, for example, the pension commencement lump sum remain in its current form?

All in all I feel it is more important than ever to obtain professional financial advice on the use of, for example, tax efficient ISAs and pensions plus IHT planning opportunities.

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