

GENERAL ELECTION 2015 – WHAT TO EXPECT IN THE NEXT FIVE YEARS

The Conservatives surprise outright majority at the General Election, means changes are on the horizon for almost every aspect of our personal finances, not watered down or tempered by a coalition partner, as anticipated. Here are some headlines:

INCOME TAX

The good news is that the Conservatives have promised they will not effect any increase in income tax, national insurance or VAT within this parliament (a fixed five year term).

The tax-free personal allowance, which is currently £10,600, is due to rise to £12,500, by 2020.

The higher rate threshold (at which 40% tax applies) will increase from £42,385 to £50,000. The Conservatives have not, however, set a deadline for implementing this.

Previously announced changes, such as the “abolition” of tax returns and the introduction of a new £1,000 savings interest allowance, are expected to come into effect next year.

INHERITANCE TAX

One of the Conservatives biggest pledges was to push the total tax-free allowance from £650,000 per married couple (£325,000 each) to £1m, by granting an extra allowance applying only to people’s main homes.

So for example, a couple with £500,000 shares and a £500,000 home would pay no inheritance tax. But a couple with £1m in shares would be taxed on the value of the shares above £650,000. We wait to see when this might be applied.

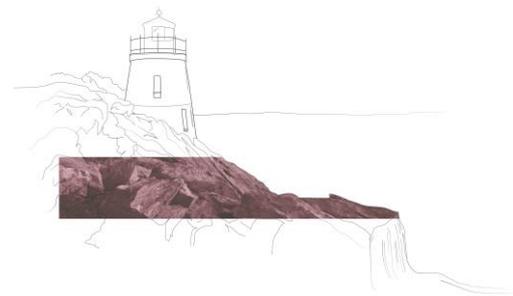
PENSIONS

The “triple lock” which applies to state pensions will remain, along with other benefits including the free bus pass, TV licenses for the over-75s and winter fuel payments. Further, deep welfare cuts can now be expected in an effort to coy the deficit and fund other pledges.

The Conservatives have also laid out some less attractive policies for higher and middle earners with generous pension

arrangements.

Those earning over £150,000 will be told they are “too rich for pensions”, with the introduction of a new policy which will reduce the amount they can put into pensions from £40,000 per annum to £10,000.



The maximum amount savers can put into their pension pots over their lifetime, known as the lifetime allowance, will as previously announced, be cut from £1.25m to £1m in April 2016.

It is now, however, unclear as to whether pensioners will be able to sell their annuities, as promised by the Coalition government. This was a policy championed by former pensions minister Steve Webb, a Liberal Democrat MP who has lost his seat. The consultation on the annuity market has yet to take place.

HOUSING

The Conservaties pledged to extend their Help to Buy mortgage scheme to cover another 120,000 homes, allowing over 200,000 people to buy, helping buyers with a 5% deposit to secure a mortgage.

In the Budget 2015, a new Help to Buy ISA to boost first-time buyers’ deposits was announced. The ISA is due to launch in Autumn 2015 and will reward savers who put aside up to £12,000 with an additional £3,000 towards their first home.

HOUSEHOLD BILLS

Rail fares and fuel duty will be frozen for the next five years, however, there will be no cap on energy bills. Instead the government will seek to influence self-regulation on energy suppliers.

Currently rail fares rise each January at 1% above RPI, using inflation figures from the previous July. The Conservatives will now cap 'regulated fares' in line with the RPI. A 'flex' rule means train companies can increase individual fares by as much as 5.5%, as long as the overall average increase stays at 1% above the RPI. This freedom will also be scrapped by the Conservatives.

BUT, UNCERTAINTY REMAINS OVER...

The FTSE surged in the few days following the election, with the biggest winners being shares in those companies which had been thought of as likely losers under a Labour regime. Energy stocks and banks were among the top risers, along with wealth manager St James' Place and fund broker Hargreaves Lansdown.

Housebuilders, especially those with developments in and around London, rose in relief at having escaped Labour's proposed mansion tax.

Markets are, however, likely to be troubled by the success of the Scottish National Party and the prospects of a second Scottish referendum. The promised EU referendum in 2017 is another uncertainty weighing on matters.