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INDEPENDENT FINANCIAL PLANNING
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The Budget and your Financial Planning

December 2017

Almost exactly a year ago the Chancellor, Philip Hammond, announced to a surprised House of Commons that he was making his last Autumn Statement. This puzzling news was rapidly explained in the next few sentences, as the Chancellor revealed that he would be moving onto an Autumn Budget cycle in 2017, following a final Spring Budget earlier in the year.

A considerable amount of (political) water has flowed under the bridge since Mr Hammond effectively abolished the Autumn Statement. Thus, Mr Hammond presented his second Budget of 2017 against a different – and in many ways more difficult – backdrop from the first.

So, what did emerge from this first Autumn Budget? With so many constraints and the lessons of March firmly in mind, the Chancellor was predictably cautious but, as usual, there were a few surprises, both good and bad.

In this newsletter we will explain the changes announced in the Autumn Budget along with previously announced changes we think are worth reminding you about.

INCOME TAX

The Personal Allowance

In their manifesto, the Conservatives reaffirmed their goal of a £12,500 personal allowance by 2020/21.

The announcement of a personal allowance of £11,850 for 2018/19 is another step towards this goal, albeit no more than was required by indexation. However, many people do not use the current personal allowance (£11,500 in 2017/18), and in 2018/19 there will be a gap of over £3,400 between the allowance and the starting point for National Insurance contributions (£8,424).

At the other end of the income scale, some taxpayers will have no personal allowance in 2018/19 because their income exceeds £123,700, at which point their allowance is tapered to nil.

The Starting Rate Band

In 2016/17, the starting rate band for savings income was launched at £5,000 and a rate of 0%. No changes to the original band or rate have been made for 2018/19.

The truth is that most people are not able to take advantage of the starting rate band. If your earnings and/or pension income exceed £16,850 in 2018/19, then that probably includes you. However, if you (or your partner) do qualify, you will need to ensure you have the right type of investment income to pay 0% tax.

ACTION

If you or your partner do not use the personal allowance to the full, you could be paying more tax than necessary. There are several ways to make sure you maximise use of your allowances:

- *Choose the right investments: some investments do not allow you to reclaim tax paid while others are designed to give capital gain, not income.*

- *Couples should consider rebalancing investments so that each has enough income to cover their personal allowance.*

- *If one of you pays tax at no more than basic rate and the other is a non-taxpayer, check whether it is worth claiming the transferable married allowance (£1,150 in 2017/18, rising to £1,185 in 2018/19).*

SAVINGS AND INVESTMENTS

Individual Savings Accounts (ISAs)

The annual ISA investment limit for 2018/19 is unchanged and remains at £20,000.

There will also be no change in the limit for the Lifetime ISA (LISA), which was launched earlier this year and has so far attracted much comment but only limited interest.

The limit for the Junior ISA (JISA), which is attracting more university-fee-planning investors, will rise marginally from £4,128 to £4,260, as will the child trust fund (CTF) limit.

ISAs have long been one of the simplest ways to save tax, with nothing to report or claim on your tax return. The arrival of the LISA this year has complicated matters, as the new variant sits somewhere between the traditional ISA and a pension plan. If you are thinking of a LISA instead of either of these, you would be well advised to seek advice before taking any action.

Over time substantial sums can build up in ISAs: if you had maximised your ISA investment since they first became available in April 1999, you would by now have placed over £185,000 largely out of reach of UK taxes.

Venture Capital Trusts (VCTs) and Enterprise Investment Schemes (EISs)

The Budget has announced that there will be a doubling of the amount an individual may invest in an EIS in a tax year to £2 million, provided any amount over £1 million is invested in one or more knowledge-intensive companies.

Interest in VCTs, EISs and SEISs has grown as more aggressive forms of tax planning have come under sustained (and largely successful) HMRC attack and pension opportunities have been further constrained.

The Dividend Allowance

The dividend allowance started life in 2016/17. At the time it was part of a reform of dividend taxation, ultimately designed to raise more revenue. The main target was private company shareholders who use dividends rather than salary to extract profits and thereby avoid National Insurance contributions.

The allowance means that in 2017/18 the first £5,000 of dividends you receive is not subject to any tax in your hands, regardless of your marginal income tax rate.

Once the £5,000 allowance is exceeded, there is a tax charge, at a higher rate than in tax years before 2016/17. Like the personal savings allowance, the dividend allowance is really a nil rate band, so up to £5,000 of dividends do not disappear from your 2017/18 tax calculations, even though they are taxed at 0%.

This year's Spring Budget announced that the allowance would be cut to £2,000 from 2018/19. At worst, this change could mean £975 more tax for a higher rate taxpayer and £1,143 more for an additional rate taxpayer.

ACTION

If you don't anticipate using all your personal allowance or personal savings allowance in 2017/18 think about creating more income by closing deposit accounts before 6 April and crystallising the interest in this tax year. But beware early closure penalties and shutting down accounts with better interest rates than are available now!

For next tax year, think about who should own what in terms of investments and savings. The savings and (reduced) dividend allowances mean it is not simply a question of loading as much as possible on the lower rate taxpayer of a couple. In theory, you will each be able to receive an income of up to £19,850 a year tax free in 2018/19, but only if you have the right mix of earnings, savings income and dividends.

CAPITAL GAINS TAX

Capital gains are currently taxed as the top slice of income, but the rates are lower than those that apply to income not covered by allowances. Gains are generally taxable at 10% to the extent they fall in the basic rate band (£33,500 in 2017/18 and £34,500 in 2018/19) and 20% if they fall into the higher or additional rate bands. An additional 8% applies to gains on residential property and carried interest. For 2018/19, the capital gains tax annual exemption will rise by £400 to £11,700.

The tax rates and annual exemption mean that if you can arrange for your investment returns to be delivered in the form of capital gains rather than income, you will often pay no tax on your profits. While investment decisions should never be made on tax considerations alone, traditionally favouring capital gains over income when setting your investment goals has been a sensible approach. However, up to the (reducing) level of the dividend allowance, this is no longer automatically the case.

ACTION

If you do not use your £11,300 annual exemption by Thursday 5 April 2018, you will lose it and a possible tax saving of just over £3,100. If you have gains of over the exempt amount to realise, it could be worth deferring the excess until after 5 April to gain another annual exemption and defer the CGT bill until 31 January 2020.

INHERITANCE TAX

Residence Nil Rate Band

The Residence Nil Rate Band (RNRB) came into effect on 6 April 2017 with an initial figure of £100,000. For 2018/19 the RNRB will rise to £125,000, en route to reaching £175,000 in 2020/21, after which increases will be inflation-linked. It does help to ease the burden of IHT for many estates, but it is by no means a panacea. The government's IHT tax take is still expected to carry on increasing according to the OBR projections.

ACTION

The arrival of the RNRB should have meant that you reviewed your Will. One of the stranger consequences of another nil rate band – albeit one only available at death – has been that it may require you to make gifts away from a surviving spouse or civil partner on first death, if you want to minimise your joint IHT bill.

PENSIONS

The pensions landscape has altered dramatically in recent years and the latest change – to the money purchase annual allowance – has only just made its way on to the statute book:

- Automatic enrolment for employees in a workplace pension arrangement has finished its roll out, meaning all employers must by now have complied with the rules. The next stage of the process will be an increase in the contribution rates from next April. For employees, the rate will triple to 3% of "band earnings" (£6,032 - £46,350 in 2018/19), whereas for employer contributions rates will double to 2%. In April 2019 there is another increase due, taking the employee rate to 5% and the employer rate to 3%. Most experts agree that the 8% total rate is still too low to achieve an adequate retirement income.

- The new state pension started in April 2016, replacing both the basic state pension and the second state pension (S2P). In the long term the reform will create more losers than winners as the earnings-related element has been removed.

- The Budget confirmed the rates for the full single tier state pension have been confirmed for 2018/19 as £164.35 a week in 2018/19 (a £4.80 increase) and the basic state pension will increase under the triple lock guarantee by 3% to £125.97.

- State pension ages (SPAs) continue to rise, with an increase to 67 due between April 2026 and March 2028. Another rise to 68 is now scheduled between April 2037 and March 2039, although the necessary legislation will not appear for some years. By 2050 – so if you are 36 or under now – you could be facing an SPA of 69.

- As mentioned above, legislation has just been passed by parliament to amend the money purchase annual allowance. With retrospective effect to 6 April 2017, it will be a cut from £10,000 to £4,000. This could affect you if you are drawing your pension benefits flexibly, but you and/or your employer are continuing to make pension contributions.

Salary Sacrifice

National Insurance contributions (NICs) can cost up to 25.8% of gross pay – up to13.8% for the employer and 12% for the employee. The upshot is that avoiding NICs can save up to 25.8% of pay.

A widely applied example of turning NICs to an advantage is in the use of salary sacrifice to pay pension contributions. Instead of the employee making personal contributions out of their net pay, the employee accepts a lower salary and the employer makes a pension contribution. If the employer passes on all of the NICs savings, the pension contribution could be up to almost 34% higher.

ACTION

If you are due to start drawing an income from your pension plan, make sure that you take advice about your options. When the new rules were first introduced the government launched Pension Wise to help people through the complexities, but this service only offers guidance, not personal advice: you will still have to make the final decisions. The Pension Wise guidance does not attempt to integrate pension choices with your other financial planning, eg estate planning.

If you think about how long you might live with the cost of a wrong choice, it is clear that getting independent advice is the route to take.

COMPANY CARS

The company car benefit scales undergo another uplift in 2018/19, marking another turn of the screw on this still popular fringe benefit. As the table below shows, this is not the end of the story:

Tax Year	Changes
2018/19	• 4% will be added to the lowest scale charges (0g/km-50g/km band), making the minimum charge 13%. This looks targeted on drivers of electric and hybrid vehicles. • 3% will be added to the 51g/km-75g/km band, taking it up to 16%. • 2% will be added to all other scale charges. • The additional charge for a diesel car will rise from 3% to 4% unless it meets the RDE2 emission standards (which it almost certainly will not). • The maximum charge will stay at 37% and will apply for petrol engine cars with emissions of 180g/km and above and diesel engine cars with emissions of 165g/km and above.
2019/20	• A further 3% will be added to *all* scale charges, making the minimum charge 16% (for the 0g/km-50g/km band). • The maximum charge will stay at 37% and will apply for petrol engine cars with emissions of 165g/km and above and diesel engine cars with emissions of 150g/km and above.

Once again, the changes will increase the tax on low-emission cars significantly because the same 3% addition applies to all but the lowest emission vehicles, whether the existing (2017/18) charge is 13% or 37% (where there is no change).

For example, the scale benefit charge on a Mercedes S500 Hybrid with just 65g/km emissions will rise from 13% in 2017/18 to 16% in 2018/19, increasing the tax payable by nearly a quarter. At the other end of the Stuttgart S500 range, the scale benefit charge on the faster and more polluting S500 AMG S65 with 279g/km emissions will be unchanged at the maximum 37%.

ACTION

If you are changing your car next year, think ahead of what it will cost you in tax terms – or maybe even consider taking cash instead, if you have the option.

If you currently enjoy 'free fuel' but your private mileage is modest, you could be better off paying your own way, even if your employer does not compensate you for the lost benefit. Fuel scale charges now go up each year in line with the RPI, even if fuel prices fall.

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