



BUDGET 2018

SUMMARY IMPACT

IN ANOTHER QUIET BUDGET FOR THE FINANCIAL SERVICES INDUSTRY THERE ARE A HANDFUL OF MINOR CHANGES TO DISCUSS. THE DETAILS AND OPPORTUNITIES FOR FINANCIAL PLANNING ADVICE ARE OUTLINED BELOW.



PENSIONS

Pension tax relief

- Despite ongoing speculation, there are no planned changes to pensions tax relief. This means tax relief on contributions up to £40,000 each year remains available, salary sacrifice can be utilised and the Tapered Annual Allowance, Money Purchase Annual Allowance and the Lifetime Allowance all remain in place.

Annual Allowance

- No changes were announced to the £40,000 standard Annual Allowance.

Money Purchase Annual Allowance

- The Money Purchase Annual Allowance (MPAA) remains at £4,000 for 2019/2020.

Tapered Annual Allowance

- The Tapered Annual Allowance remains in place and applies to those with both 'adjusted income' of more than £150,000 and 'threshold income' of more than £110,000. It reduces the Annual Allowance by £1 for every £2 of adjusted income above £150,000 subject to a maximum reduction of £30,000. The minimum reduced allowance is, therefore, £10,000.

Lifetime Allowance

- The Lifetime Allowance increases in line with Consumer Price Index (CPI) inflation to £1,055,000 for 2019/2020.
- As a reminder, it's still possible to apply for Fixed Protection 2016 and Individual Protection 2016, via an online application process. Those applying for Fixed Protection 2016 needed to have ceased contributions/benefit accrual by 5 April 2016. Those applying for Individual Protection 2016 needed a fund value of more than £1 million as at 5 April 2016 and are subject to an effective deadline of April 2020 as schemes will no longer be required to provide the necessary valuations after this date.

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IMPACT

- Those affected by the Tapered Annual Allowance should consider how much carry forward they have to ensure they maximise their available tax relief. If they can pay enough to reduce their 'threshold income' to £110,000 or below, they will reclaim the full £40,000 for the current tax year.
- Another increase to the Lifetime Allowance after many years of cuts is good news. The increase of £25,000 will reduce the potential tax bill by a further £13,750.
- Members of defined contribution schemes should consider the potential loss of Lifetime Allowance indexation when funds are moved to drawdown and then become subject to the second Lifetime Allowance test.
- Individual Protection 2016 members with a personalised Lifetime Allowance of between £1,000,000 and £1,055,000 will see their protection fall away.



TAX EFFICIENT INVESTMENTS

ISAs

- The main ISA subscription limit remains at £20,000 and the limit for Junior ISAs and Child Trust Funds will increase to £4,368 from 2019/2020.

Personal Savings Allowance

- The personal savings allowance remains at £1,000 for basic rate taxpayers, £500 for higher rate taxpayers and £0 for additional rate taxpayers from 2019/2020. Taxpayer status for this purpose is determined by adjusted net income.



DIVIDENDS

- The 0% £2,000 a year dividend allowance remains for 2019/2020.
- For 2019/2020 the rates of tax on dividend income above the allowance remain:
 - 7.5% for basic rate taxpayers.
 - 32.5% for higher rate taxpayers.
 - 38.1% for additional rate taxpayers.

IMPACT

- Shareholding directors with the ability to determine their own remuneration strategies need to consider the dividend allowance. A strategy comprising mainly of dividends is likely to be less effective than when the allowance was £5,000 but in many cases could still be more effective than one focused on salary. Their adviser and accountant will be able to help them find their optimum mix of salary/dividend/employer pension contribution.



INCOME TAX

Personal allowance and higher rate threshold

- One year earlier than the manifesto promise, the income tax personal allowance will increase to £12,500 in 2019/2020 and remain at this level for 2020/2021. Similarly, the basic rate income tax band will increase to £37,500 for 2019/2020 and 2020/2021.

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- The allowance and basic rate band will increase in line with CPI from 2021/2022.
- Consequently, those entitled to the full standard personal allowance will pay 40% tax on income above £50,000. (These provisions apply to England, Wales and Northern Ireland.)
- The Scottish Government now uses its devolved powers to set its own rates of income tax and tax bands, and will provide information for the 2019/20 tax year when it publishes its Draft Budget on 12 December.

IMPACT

- Another substantial increase to the personal allowance and basic rate income tax band will benefit 30.6 million taxpayers. The personal allowance increase of £650 provides a monetary benefit of up to £130; the higher rate threshold increase of £3,650 gives a maximum saving of £730; but the increase to the upper earnings limit increases the band of earnings that suffers 12% rather than 2% national insurance increasing the tax bill by up to £365. The maximum potential saving as a result of these changes in 2019/2020 and 2020/2021 will be £495.
- This change extends the benefit for some higher earners of using pension contributions to reduce adjusted net income above £100,000. For an individual with taxable income of £125,000 in 2019/2020, a pension contribution of £25,000 will cost just £10,000, attracting tax relief of 60%.



CAPITAL GAINS TAX

Capital gains tax rates

- There are no major changes to capital gains tax. The 10% and 20% rates for individuals and the 20% rate for trustees and personal representatives remain, as does the link to the amount of an individual's unused basic rate income tax band.
- The capital gains tax annual exempt amount is increasing from £11,700 in 2018/2019 to £12,000 in 2019/2020.
- The capital gains tax annual exemption for most trusts becomes a maximum of £6,000 for 2019/2020. Disabled person's trusts are entitled to the full exemption.

Private residence relief

- From 2020/2021, the final period exemption of 18 months (was previously 36 months) is to be reduced further to 9 months.



INHERITANCE TAX (IHT)

- The IHT nil-rate band is currently frozen at £325,000 until 5 April 2021.
- The IHT rates remain:
 - 20% for chargeable lifetime transfers in excess of the available nil-rate band.
 - 40% for transfers on death in excess of the available nil-rate band.
 - 36% for transfers chargeable on death in excess of the available nil-rate band, where 10% or more of the net estate is left to charity.

IMPACT

- Those with larger estates will still need advice on steps they can take to mitigate IHT.



CORPORATION TAX

- As previously announced, the corporation tax rate remains at 19% for 2019/2020. It's then planned to reduce to 17% from 2020.

IMPACT

- Companies may consider making employer pension contributions before the lower rate of corporation tax reduces the effective rate of tax relief available.



NATIONAL INSURANCE

Rates, thresholds and allowances

- There are no changes to national insurance rates. The upper earnings limit will increase to £50,000 in line with the higher rate income tax threshold.

Salary sacrifice

- Most of the tax and National Insurance Contributions (NICs) advantages of salary sacrifice schemes were removed from April 2017 and the protections for arrangements for cars, accommodation and school fees continue to be available until April 2021. These changes don't apply to arrangements relating to pensions (including advice), childcare, Cycle to Work and ultra-low emission cars, which continue to be tax efficient if set up correctly.

National Insurance

- As previously announced, the abolition to class 2 national insurance contributions will not happen in this Parliament. The reform to the national insurance treatment of termination payments will take effect from 2020.

IMPACT

- Salary sacrifice arrangements, where an employee opts to give up salary in exchange for a higher employer pension contribution, still offer NICs savings for both employees and employers. Special consideration on their use is needed for those high earners potentially affected by the Tapered Annual Allowance rules.



CHILD BENEFIT

- Child benefit continues to be reduced by 1% for every £100 of adjusted net income over £50,000, so the tax charge on those with adjusted net income of £60,000 or more is equal to the amount of child benefit paid.

IMPACT

- Those with adjusted net income over £50,000 and receiving child benefit will continue to incur a tax charge. It's possible to reduce adjusted net income by making a member pension contribution or a gift aid donation.

Every care has been taken to ensure that this information is correct and in accordance with our understanding of the law and HM Revenue & Customs practice, which may change. However, independent confirmation should be obtained before acting or refraining from acting in reliance upon the information given. This information is based on announcements made in the October 2018 Budget which may change before becoming law.



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