



## Autumn budget 2018

On Monday 29 October, Philip Hammond delivered his third budget as chancellor. Although it wasn't a stand-out budget speech for pensions and personal finance, there are a few elements advisers and their clients need to be aware of.

This factsheet gives a summary of the main headlines.

### If you only read one thing...

- The personal allowance increases to £12,500 and the higher rate tax threshold (for England, Wales and Northern Ireland) will increase to £50,000 from 2019-20 tax year.
- The lifetime allowance will increase to £1.055m in the 2019-20 tax year.
- The rules for entrepreneurs' relief will be tightened with immediate effect as shareholders must be entitled to at least 5% of distributable profits and net assets to benefit from the relief. From April 2019, they must meet the qualifying conditions for at least 24 months.
- The 'IR35' tax framework changes from April 2020 for contractors to large and medium-sized private sector companies. These companies will have to check contractors adhere to the framework.
- The junior Isa limit increases to £4,368 from 6 April 2019.

### Income tax changes

In its 2017 election manifesto, the Conservative party pledged to increase the personal allowance to £12,500 and the higher rate tax threshold to £50,000 from tax year 2020-21. As part of his budget speech, Hammond announced these increases would be brought forward a year to 2019-20. However, the small print of the budget papers showed the income tax thresholds will remain frozen for 2020-21 tax year, and then increased in future tax years by CPI (consumer price index).

The change means a basic rate taxpayer will pay £132 a year less tax in tax year 2019-20.

As capital gains, to the extent that a taxpayer has unused income tax basic rate band, are taxable at 10% rather than 20%, some taxpayers may wish to delay triggering capital gains until the new tax year if this may be more beneficial.

Although the increase in the personal allowance applies across the UK, the increased higher rate tax threshold only applies in England, Wales and Northern Ireland. People resident in Scotland will have to wait until 12 December when the Scottish budget is held to find out what their tax thresholds will be for 2019-20 tax year.

### Changes for pensions

Despite the rumours of allowance cuts and reform to pensions tax relief, there are no big changes for pensions.

The Treasury confirmed the pensions lifetime allowance will increase to £1.055m from 6 April 2019. This may be a small increase, but if the lifetime allowance excess is taken as a lump sum there will be a saving in lifetime allowance charge of £13,750. If taken as an income a saving in lifetime allowance charge of £6,250 will apply (although the amount designated to provide income will be subject to income tax if this is taken as income).

### Self-employed

The Department for Work and Pensions (DWP) will publish a paper this winter setting out the government's approach to increasing pension saving among the self-employed. As the number of self-employed continues to increase – including many adviser business models – this could be an important part of the jigsaw in encouraging this sector to save for the future.



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### Pensions dashboard

The government gave its strongest hint yet that the pensions dashboard will include state pensions, as well as private pensions. This is positive as state pensions make up a significant part of people's later life income, so missing them out gives a false impression of someone's overall income.

The government also gave an additional financial commitment of £5 million to help develop the dashboard. The DWP's feasibility study on the dashboard is expected later this year.

### Pensions cold calling

The government has long promised legislation to help stem the number of people being scammed out of their pension funds. Earlier in the year it consulted on regulations to help stop pensions cold calling. These regulations will come into effect very soon.

However, these regulations could affect small financial advice firms which use the services of lead generation firms to gain new clients. These firms will have to stop using the services of these firms and instead rely on other marketing options to gain business.

### Pension fund investment in patient capital

The government wants to encourage pooled pension investment in patient capital and believes defined contribution pension schemes have a vital role to play in long-term financing for UK growth and innovation. The FCA will publish a discussion paper by the end of the year to explore how this could be achieved.

As part of this, the DWP will consult in 2019 on the function of the pensions charge cap to make sure it does not restrict the use of performance fees within default pension schemes, while maintaining member protections.

### Entrepreneurs' relief

The budget announced some tightening of the rules for entrepreneurs' relief, which reduces the amount of capital gains tax paid on the disposal of businesses or shares in a personal company.

With immediate effect, shareholders disposing of shares in their personal trading company must be entitled to at least 5% of the distributable profits and net assets of that company to benefit from the 10% entrepreneurs' relief rate of capital gains tax. The minimum period for which the various conditions must be met will also increase from 12 to 24 months for disposals on or after 6 April 2019.

Entrepreneurs' relief has, in the past, been lost where an individual's interest in their company was diluted below 5% as the result of new shares being issued. From April 2019, new rules will allow gains accruing up to the date of the new share issue to be taxed at the 10% entrepreneurs' relief rate.

### Capital gains on private residences

From April 2020, the principal private residence (PPR) relief will be tightened so the lettings relief element will only be available where the owner was in shared occupancy with the tenant. The 'final period' that can be exempted regardless of whether or not the property was occupied as a main residence or let will also be reduced from 18 to nine months. The due dates for reporting and payment of capital gains tax in relation to UK residences are also being significantly accelerated to 30 days after sale.

This represents a further squeeze on residential landlords, who are already suffering restricted income tax relief on their costs, higher stamp duty taxes on new purchases and higher rates of capital gains tax compared to other types of assets. In light of these new rules, advisers can help their clients who are landlords consider their property portfolios more carefully in the context of their overall investment and tax-planning strategy.

### 'Off-payroll' working

The 'IR35' rules were introduced over 15 years ago with the aim of ensuring contractors providing their personal services via an intermediary (most commonly a limited company that they control) pay broadly the same income tax and national insurance as a direct employee performing the same role. To combat perceived non-compliance, the government has confirmed its intention to reform the rules for the private sector with effect from April 2020.

Responsibility for operating the off-payroll working rules will shift to the engaging private sector company, which must operate income tax and employees' NICs on payments made. This reform will only apply to large and medium-sized businesses, bringing such organisations in line with public sector bodies and agencies, which have operated similar rules since April 2017.

Advisers will need to work with any clients providing personal services through their own companies to examine the impact of these changes. In particular, pension contributions remain an attractive option to mitigate a potentially higher tax burden.

### Social care funding and green paper

Philip Hammond announced in his budget speech that he would provide a further £650 million of social care funding for 2019-20. He also confirmed the government would shortly publish its green paper on the future of social care. This paper will hopefully set out proposals for making the social care system sustainable in the future, and how people can balance funding long-term care with other financial responsibilities, including funding for retirement income.



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### Taxation of trusts

The government repeated a promise made last year to publish a consultation on the taxation of trusts to make it simpler, fairer and more transparent.

### Other key figures for 2019-20

Starting rate for savings	£5,000
Isa subscription	£20,000
Junior Isa	£4,368
Capital gains tax annual exempt amount	£12,000 for individuals £6,000 for trusts
IHT nil rate band	£325,000
IHT residence nil rate band	£150,000
Basic state pension	£129.20 a week
New state pension	£8,767.20 a year
Pension annual allowance	£40,000 a year (tapered for higher earners)
Money purchase annual allowance	£4,000 a year

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