Financial Advice.net
MONEY NEWS

February 2020

At last the 'autumn' Budget…

In many respects 2019 was an unusual year. One of the oddities was that the entire year passed without a Budget. Back in March 2019 the then Chancellor, Philip Hammond, provided a brief Spring Statement, but there has been no Budget since 29 October 2018.

The Autumn 2019 Budget was meant to happen on 6 November, but the General Election intervened. In the subsequent campaign, the Conservatives said that during their first 100 days in power they would deliver "…a post Brexit Budget in February which will cut taxes for hardworking families".

As Parliament resumed work after the holiday season, the Treasury announced that the next Budget – no season mentioned – would be on 11 March 2020. On our calendar that looks rather like a Spring Budget, but whether Mr Hammond's successor will now revert to this former tradition is not clear.

What we know is going to be in the 2020 Budget

The Treasury's press release gives few clues. It makes up for this with plenty of political rhetoric, saying the Budget will "set out ambitious plans to unleash Britain's potential…[and]… start a new chapter for the economy, seizing the opportunities that come from getting Brexit done".

In practice we have a good insight into some of the Budget's contents because draft clauses for the Finance Bill that will follow it were published in July 2019. These include legislation, due to operate from 6 April 2020, to:

- Extend to the private sector the off-payroll rules (IR35) which currently apply to the public sector (and which are now subject to an implementation review ending in mid-February);
- Revise company car tax scales (generally increasing tax bills); and
- Tighten the rules on capital gains tax for main residences, e.g. reforming lettings relief so that it applies only when the homeowner shares their property with the tenant.

It has already been confirmed that the starting point for paying National Insurance contributions (NICs) will rise from the current £8,632 a year to £9,500. This is the promised "tax cut" in the Conservatives' manifesto, which is worth up to £104 a year for

employees and £78 for the self-employed. Employ*ers* will not however benefit as the starting point for employ*ers* is simply being increased in line with inflation.

One other measure we can expect, again based on a manifesto announcement, is a Finance Bill clause to reverse the cut in corporation tax from 19% to 17% which is currently legislated to take effect from 1 April 2020.

What we *don't* know is going to be in the 2020 Budget

Second guessing what *might* be – or might not be – in the Budget is always a dangerous game. This is particularly true for the first Budget of a new Parliament, with the next Election not due until the end of 2024. If the Chancellor wants to make some unpopular changes, March will be the time he does it, giving the electorate the longest possible time to forget about his actions. A few possibilities include:

Income Tax. The Conservative manifesto promised not to increase income tax *rates*, at least as far as those in control of Westminster are concerned. To some extent that ties the Chancellor's hands, but it still leaves scope for manipulating tax bands, allowances and reliefs.

This is already evident to some degree. In the 2018 Budget, the previous Chancellor raised the personal allowance and higher rate threshold by more than expected, but then legislated for both to remain unchanged in 2020/21 – something the new Chancellor, Sajid Javid, may allow to happen by default. Boris Johnson's talk of increasing the higher rate threshold from £50,000 to £80,000 during *his* Election campaign had already disappeared into aspirational territory by the time the *General* Election arrived. That NICs reduction may be the only tax cut in March.

Pension tax reliefs. In the jargon of tax boffins, pension tax reliefs are 'low hanging fruit', i.e. a seemingly easy way to increase tax revenue. Tax and NICs relief will cost the Exchequer nearly £40bn in 2019/20, so there is plenty of fruit. Mr Javid has little choice but to address the issue of pensions tax in his Budget because of problems with senior NHS staff and annual allowance tax charges. A temporary 'fix' was introduced for NHS England (and Wales) last November, but this expires in April.

With its majority of 80, March could be the time when the Government does something radical on pensions, accepting that to tidy up the current mess means creating winners and losers. For example, the Chancellor could abolish the annual allowance, but at the same time introduce a flat rate of tax relief on contributions. High earners would suffer, but many low and middle earners would gain and, depending upon the rate of relief chosen, the Treasury could add to its coffers.

Capital gains tax. Both Labour and the Liberals proposed taxing capital gains at the same rates as income in their manifestos. Ironically, it was a Conservative Chancellor (Nigel, now Lord, Lawson) who last introduced such an approach to capital gains tax

(CGT), in 1988. It would be far from unprecedented for a new Government to introduce the policy proposals of its defeated opponents and such a move could raise a substantial amount of tax while affecting very few people – fewer than 300,000 people paid the tax in 2017/18 thanks to the generous annual exemption.

Also, on the CGT front, some announcement on entrepreneurs' relief is quite likely. The Conservative manifesto promised that the party would "review and reform" the relief, which is widely viewed as costly and not having met its original objectives.

Inheritance tax. Last year the Office of Tax Simplification (OTS) issued two papers on measures to simplify inheritance tax (IHT). The first dealt largely with administrative matters, while the second looked at the structure of the tax. Both papers had been expected to result in announcements in the Autumn Budget, with some measures possibly taking immediate effect to prevent pre-emptive action. The focus is now on changes being revealed in March, again with some potentially coming into force on Budget day. Among the changes that might emerge are an increase in some annual exemptions, alongside the abolition of others and the introduction of new rules governing the interaction of IHT and CGT reliefs for business assets.

Any measures are likely to be balanced between tax decreases and increases – for financial and political reasons the Treasury will not want to reduce the £5bn+ IHT it raises each year from a relatively small number of taxpayers.

Action

Very simple: read the following ...

… and a year-end planning deadline

Now that we have a Budget date, we also have an effective deadline for tax-year-end planning. As outlined above, there could be a range of measures announced on 11 March (normally operative from the beginning of Budget day) which could impact on such planning. The Government has loosened the purse strings on capital investment, but in terms of day-to-day spending it has little room for manoeuvre. The Treasury may thus be tempted to make some subtle tax changes to boost its coffers.

Your year-end checklist should include:

- *Pensions*

  More than in most years, 2020 is the year to ensure you make your pension contributions before the Chancellor delivers his speech. As explained earlier, the risk of a major pension tax reform, potentially reducing higher rate tax relief, is greater now than for some while.

  One important point to check is whether you have any unused annual allowance from 2016/17, when the maximum annual allowance (before tapering) was £40,000. You have until the end of 2019/20 to use up this past allowance, or it is lost forever. However, it can only be utilised once your full annual allowance for the current tax year is exhausted. So, for example, if you are not affected by the taper rules and you have £10,000 annual allowance unused from 2016/17, to mop it up completely would require a total contribution of £50,000 in 2019/20 - £40,000 for the current tax year and £10,000 carried back three years.

  Unused relief can also be used from later years, but once you have paid the current year ‘entrance fee’, the excess contribution is offset in chronological order, starting with 2016/17. Under current rules unused relief can be carried forward for three tax years (hence the 2016/17 deadline), but that principle – and the rate of tax relief – could change.

- *Capital gains tax*

  2019 was a good year for nearly all investors in share or bond-based funds. Even the Brexit-buffeted UK stock market, something of laggard in global terms, grew by over 14%. If your portfolio does not show some decent capital gains for the year, it is probably in need of a serious review.

  As a general rule, it makes sense to realise gains up to the CGT annual exempt amount each tax year. The exemption, covering £12,000 of gains in 2019/20, cannot be carried forward: use it by 3 April (the tax year ends on Sunday 5 April), or you lose it. Systematically using the exemption can help avoid building up large gains over the years which attract tax. Currently, the maximum tax rate on gains is 20% for higher

and additional rate taxpayers (28% for gains involving residential property and carried interest).

If you want to crystallise gains to use your exemption, but would prefer to retain the same investments, you cannot simply sell them one day and buy them back the next. Anti-avoidance rules prevent this from being effective, but there are alternatives that achieve a similar result, such as reinvesting in an ISA or self-invested personal pension.

- *Inheritance tax*

While the Budget response to the OTS's papers is awaited, you should consider using the current three main yearly IHT exemptions:

1. *The Annual Exemption.* Each tax year you can give away £3,000 free of IHT. If you do not use all of the exemption in one year, you can carry forward the unused element, but only to the following tax year, when it can only be used *after* that year's exemption has been exhausted.

2. *The Small Gifts Exemption.* You can give up to £250 outright per tax year free of IHT to as many people as you wish, so long as they do not receive any part of the £3,000 exemption.

3. *The Normal Expenditure Exemption.* The normal expenditure exemption is potentially the most valuable of the yearly IHT exemptions and the one most likely to be reformed. *Currently*, any gift is exempt from IHT provided that:

   a. you make it regularly;
   b. it is made out of income (including ISA income); and
   c. it does not reduce your standard of living.

One way to combine the use of your CGT annual exemption with IHT planning could be to make an outright lifetime gift of investments. Such gifts would count as a disposal for CGT purposes and a potentially exempt transfer for IHT. The recipients of the gifts would start with a base cost for the investment equal to the gift's value and there would be no IHT to pay at any time, provided you survived for the following seven years (possibly reduced to five under OTS proposals).

- *ISAs*

There are five important tax benefits which are common across the different types of ISA:

- Interest earned on cash or fixed interest securities is free of UK income tax.
- Dividends are free of UK income tax.
- Capital gains are free of UK CGT.

- There is nothing to report on your tax return.
- On death, the income tax and CGT benefits of your ISAs can effectively be transferred to a surviving spouse or civil partner.

The overall maximum that can be invested in all ISAs in 2019/20 is generally £20,000 (£4,368 for Junior ISAs). There are no carry forward provisions, so like the CGT annual exemption it is a case of use it or lose it.

Action

The sooner you start planning ahead of that 11 March Budget date, the better. That is particularly important if you want to maximise your pension contributions, as obtaining the relevant data can take time.

Now you have a Budget deadline, the clock has started ticking: call us* today *to arrange for your tax-year-end review.

National Living Wage V New State Pension

In between Christmas and the New Year, the Government announced the rates for the National Living Wage (NLW) and National Minimum Wage (NMW). The new rates, effective from 1 April 2020, incorporate increases well above the current levels of price and weekly earnings inflation (1.5% and 3.2% respectively at the time of writing).

Rate	£ per hour	Increase (%)
NLW Age 25 and above	8.72	6.2
NMW Age 21-24	8.20	6.5
NMW Age 18-20	6.45	4.9
NMW Age 16-17	4.55	4.6
Apprentice Rate	4.15	6.4

State pension increases

The increases that will apply to state pensions from April 2020 were announced on 30 January:

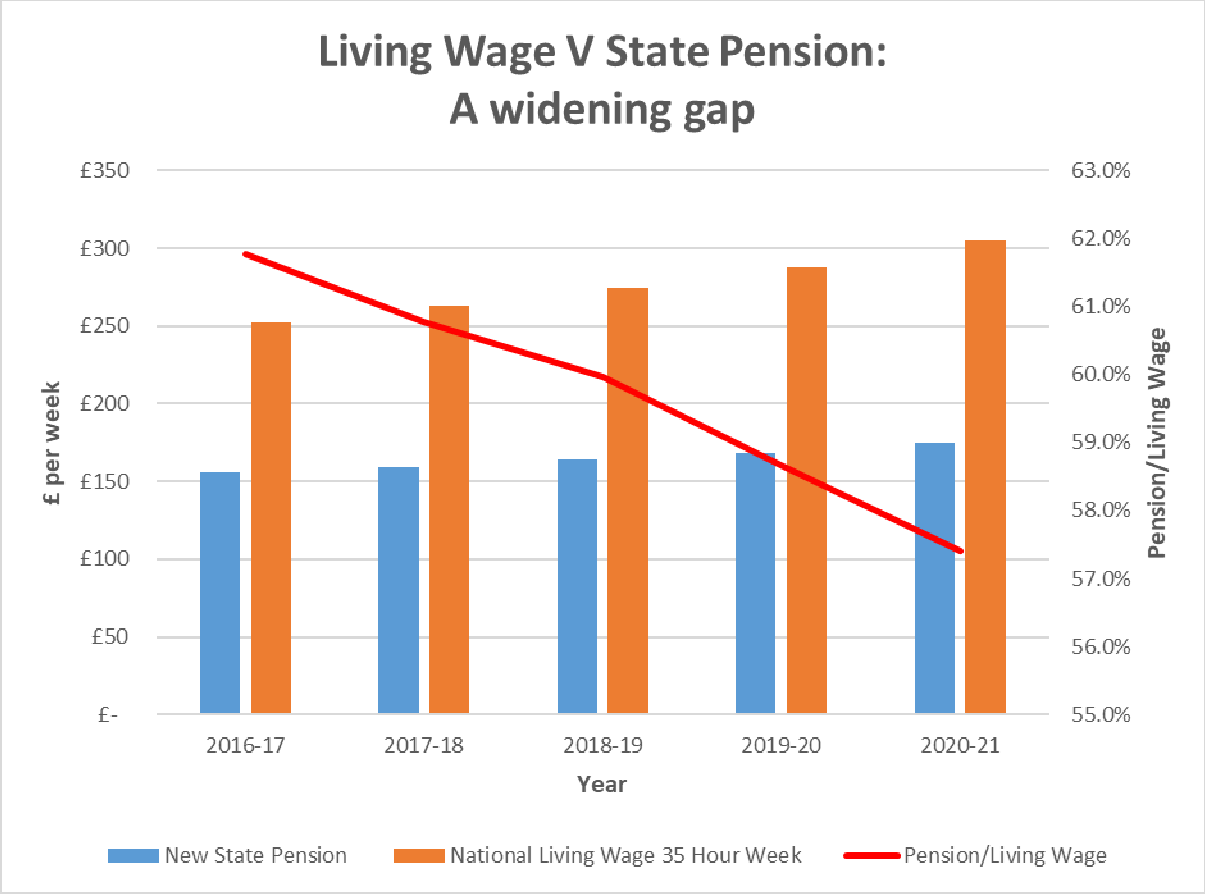
- The new state pension (single tier) and the basic state pension will rise by 3.9%, in line with average earnings growth to July 2019; and
- Other state pensions will increase by 1.7%, the rate of price inflation to September 2019.

This means that new state pension rate will be £175.20 a week from April, a £6.60 a week increase.

Compare and contrast

Coincidentally, the National Living Wage and the new state pension both came into existence in April 2016. Both represent a Government attempt at pitching a minimum income level for its citizens. It is easy enough to compare the two, simply by assuming that the NLW rate applies for a 35-hour week. In 2020/21 that means a minimum weekly pay of £305.20.

If we look at what has happened to the two since 2016, an interesting picture emerges:



Both have outpaced price and earnings inflation over the period:

- The new state pension has benefited from the so-called 'Triple Lock", which gives annual increases that are the greatest of earnings inflation, price inflation and 2.5%. In their manifesto, the Conservatives pledged to retain the Triple Lock.
- The NLW has benefited from the goal set by the Government in 2016 to raise it to 60% of average earnings by 2020. Its new NLW target is two thirds of average earnings by 2024, implying further increases above the general rate of earnings inflation.

What is interesting is that since 2016, the new state pension has been falling as a proportion of the weekly earnings of the NLW earner. In 2016 the new state pension was 61.8% of NLW; by April 2020 it will be 57.4%. By 2024, it could be under 52%.

The lesson

As a proportion of the NLW, the new state pension is falling – and will almost certainly continue to do so until at least 2024.

Action

If you could not live on £175 a week in retirement, then you need more than the new state pension will provide.

With an ageing population, state pensions are an increasing financial burden on the Government. As its differing approach to the living wage and state pensions suggest, the Government will, as far as possible, keep pushing responsibility for retirement provision back to the individual. Start the new decade by examining what proportion of your earnings you can look forward to as an income in retirement.