10 March 2017

BUDGET NEWSLETTER

This Budget was Mr Hammond's first – and last – Spring Budget. From now on Budgets will take place in Autumn and there will be a financial statement each Spring. Thus, the next Budget is probably a little over eight months away although, as 2016 revealed, much can happen even over such a brief period.

The backdrop to this Budget was very much dictated by the events between March and November last year. In what proved to be his last Spring Budget, George Osborne performed a range of financial gymnastics to hang onto his one remaining borrowing target, the elimination of the budget deficit by 2019/20. Even before the Brexit vote, that goal was looking unlikely to be reached. By July it – and Mr Osborne – had been abandoned. Although Mr Hammond talked early on about a "fiscal reset", he wisely waited until November's Autumn Statement to reveal new numbers. These markedly increased government borrowing over the coming years and replaced Osborne's projected £10.4bn surplus in 2019/20 with a £21.9bn deficit.

That projected increase in borrowing was more a recognition of post-referendum reality than any new policy initiative. Helpfully, it did give the new Chancellor some wriggle room. £12.2bn was added to the 2016/17 borrowing target, making it that much easier to hit and setting a higher baseline for 2017/18 onwards. However, the latest calculations from the Office for Budget Responsibility (OBR) suggest that not only will the Chancellor undershoot the revised 2016/17 target by £13.4bn – more than the November increase - he will also see marginally lower borrowing in the next three years than previously forecast.

One reason for the improved outlook is that the OBR has increased its growth forecast for this year from the 1.4% it saw in November to 2.0%, the same adjustment as the Bank of England made last month in its Quarterly Inflation Report. Economic growth further out is modestly reduced in the OBR's latest projections. 2016 produced economic growth of 1.8%, marginally lower than the Autumn Statement estimate of 2.0%.

Inflation, running at 1.8% on the CPI measure (and 2.6% on the old RPI yardstick), is expected to reach 2.4% this year and 2.3% next year. While working age benefits generally remain frozen, the government finances still suffer because of increased borrowing costs on index-linked gilts. However, the government remains able to borrow 10-year money via the conventional gilts market at a rate of about 1.25% – just as well with over £55bn needing to be borrowed in 2017/18.

So what did emerge from this final Spring Budget? Much of the answer is to be found in the previous year's Autumn Statement but, as ever, there were a few surprises, both good and bad:

- A rise of £500 in the personal allowance to £11,500 for 2017/18.
- A £2,000 rise in the higher rate threshold for 2017/18, to £45,000, clawing back a small part of the under-indexation of earlier years. However, this will not apply fully to Scotland, where the higher rate threshold for non-savings, non-dividend income has been frozen.
- A reduction in the tax-free dividend allowance to £2,000 from 2018/19, just two years after its introduction at a level of £5,000.
- An increase in the Class 4 National Insurance contributions (NICs) rate for the self-employed from 9% to 10% in 2018/19 and a further 1% increase to 11% in the following year
- A £200 increase in the capital gains tax annual exemption to £11,300.

In this Bulletin we look at the impact of the main changes on various groups of taxpayers. The categorisation is inevitably rather arbitrary, so it pays to read all sections. Similarly, several of the tax planning points – such as those listed below in our 12 Quick New Year Tax Tips – are universal.

If you need further information on how you will be affected personally, you are strongly recommended to consult your wealth manager.

Twelve quick new year tax tips:

1. Don't waste your (or your partner's) £11,500 personal allowance.
2. Don't forget the personal savings allowance, reducing tax on interest.
3. Think about how you can use the dividend allowance.
4. Don't ignore National Insurance contributions – they are really a tax at up to 25.8%.
5. Think *marginal* tax rates – the system now creates 60% (and higher) marginal rates.
6. ISAs should normally be your first port of call for investments and then deposits.
7. Even if you're eligible for a LISA, you still might find a pension is a better choice.
8. Check that you understand *all* the tax changes before investing in buy-to-let.
9. Trusts can save inheritance tax, but suffer the highest rates of CGT and income tax.
10. File your tax return on time to avoid penalties and the taxman's attention.
11. Never let the tax tail wag the investment dog.
12. Don't assume HMRC won't find out: automatic information exchange is spreading.

INVESTORS AND SAVERS

The personal allowance

Last year's Finance Act set the 2017/18 personal allowance at £11,500 throughout the UK. In Autumn, the Chancellor reaffirmed the government's goal of a £12,500 personal allowance by 2020/21. However, many people do not even use the current personal allowance (£11,000 in 2016/17), and in 2017/18 there will be a gap of over £3,300 between the allowance and the starting point for National Insurance contributions (£8,164). At the other end of the income scale, some taxpayers will have no personal allowance in 2017/18 because their income exceeds £123,000, at which point their allowance is tapered to nil.

If you or your partner do not use the personal allowance, 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 the personal allowance.
- Make sure that in retirement you (and your partner) each have enough pension income. On their own, neither state provision is enough, be it the new state pension (up to £159.55 a week in 2017/18) or the old state pension of £122.30 a week (for those who reached State Pension Age before 6 April 2016).
- 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 (£1,100 in 2016/17, rising to £1,150 in 2017/18).

The personal savings allowance

The personal savings allowance (PSA) first took effect in 2016/17. Broadly speaking, if you are a:

Basic rate taxpayer - the first £1,000 of savings income you earn is untaxed;

Higher rate taxpayer - the first £500 of savings income you earn is untaxed;

Additional rate taxpayer - you do not receive any personal savings allowance.

'Savings income' in this instance is primarily interest, but also includes gains made on offshore investment bonds. Although called an allowance, in reality the PSA is a nil rate tax band, so it is not quite as generous as it seems. The PSA's arrival meant that from 6 April 2016 banks and building societies have no longer deducted tax from interest and nor has National Savings & Investments from those products it currently pays net interest on. From 6 April, UK-based fixed interest collective funds, such as unit trusts, will also start to pay interest without deduction of tax.

If you and your spouse/civil partner receive substantial interest income, it is worth checking that you both maximise the benefit of the PSA. However, at current miserably low interest rates, you might also want to consider whether you could earn a higher income by choosing non-deposit investments.

The dividend allowance

The dividend allowance was a surprise announcement in 2015's Summer Budget and also started life in 2016/17. It was part of a reform of dividend taxation, ultimately designed to raise more revenue, although in pure numbers it created more winners than losers. The main target was private company shareholders who use dividends rather than salary to extract profits and thereby avoid National Insurance contributions. That target was reiterated by the Chancellor when he announced a cut to £2,000 for the dividend allowance from 2018/19. However, lowering the allowance by 60% means that many more ordinary investors will now be caught: at current UK equity market average yields, a portfolio worth £60,000 will generate over £2,000 of dividends.

The allowance means that in 2017/18 the first £5,000 of dividends you receive are not subject to any tax in your hands, regardless of your marginal income tax rate. Once the dividend 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 the dividends covered by the allowance do not disappear from your tax calculations, even though they are taxed at 0%.

The starting rate band

In 2016/17, the starting rate band for savings income was £5,000 and the rate 0%. No changes to the band have been made for 2017/18. 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 £16,500 in 2017/18, 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.

> ### Year end planning:
>
> If you don't anticipate using all your personal allowance or personal savings allowance in 2016/17 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 the coming tax year, think about who should own what in terms of investments and savings. The savings and dividend allowances mean it is no longer 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 £22,500 a year tax free in 2017/18, but only if you have the right mix of earnings, savings income and dividends.

Capital Gains Tax (CGT)

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 £33,500 wide basic rate band (2017/18) 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 2017/18, the capital gains tax annual exemption will increase to £11,300.

The tax rates and annual exemption (per person, not per couple) 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. Initially, the advent of the dividend allowance meant that this is no longer automatically the case, but the future cut in that allowance will partially restore the principle.

> ### Year end planning:
> If you do not use your £11,100 annual exemption by Wednesday 5 April, you will lose it and a possible tax saving of over £3,100. If you have gains of over the exempt amount to realise, it is worth deferring the excess until after 5 April to gain another annual exemption and defer the CGT bill until 31 January 2019.

Individual Savings Accounts (ISAs)

The annual ISA investment limit for 2017/18 will be £20,000, a significant increase from the £15,240 for 2016/17. The limit for the Junior ISA (JISA), which is attracting more university-fee-planning investors, will rise marginally from £4,080 to £4,128. 6 April will see the launch of the Lifetime ISA (LISA), which will only be available for investors aged between 18 and 39. The maximum investment, which counts towards the £20,000 limit, will be £4,000, to which will be added a 25% government top up. However, there are penalties if funds are withdrawn before age 60, other than to fund a first home purchase or in the event of terminal illness.

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 has complicated matters, as the new variant sits somewhere between the traditional ISA and a pension plan. In practice, there may be few LISAs available at 6 April 2017 and if you are tempted by the new offering, 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 £165,000 largely out of reach of UK taxes.

> ### Year end planning:
> The personal savings allowance and reducing dividend allowance mean that your ISAs should be reviewed. If you have not already done so, it makes sense to undertake a review before making any year end top up.

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

VCTs and EISs have been subject to a range of rule changes in recent years, with some of the most significant being introduced in late 2015. These changed the nature of some schemes; for example, VCTs can no longer make fresh investment in management buy-outs (MBOs). They have also made investment by existing schemes a more protracted process.

Interest in VCTs and EISs has grown as more aggressive forms of tax planning, such as film leasing schemes, have come under sustained HMRC attack and pension opportunities have been further constrained. Unfortunately, the increased interest has met with some slowdown in supply as VCT and EIS providers have taken time to restructure their products and deal with cash raised in previous years. One consequence has been that some recent issues have been oversubscribed in a matter of days.

> **Year end planning:**
> The best VCT offers can sell out quickly – even before you read about them in the weekend press. Supply is now very limited. Make sure you let us know if you want to make any VCT investment before 6 April.

Pay later, not now?

For higher and additional rate taxpayers, there can be a case for considering the options for tax deferral, once the decision on which sector to invest in has been made. The potential advantages and disadvantages of tax deferral include:

- What would be going to the Treasury instead remains invested, enhancing potential returns.
- There is the possibility that tax rates will be lower when the investment is realised. The opposite risk that the 50% top tax rate will reappear under a new government is now realistically only an issue for 2020/21 and beyond.
- Some tax liability might disappear completely. For example, under current rules there is generally no capital gains tax on death.
- The investor may change their country of residence, giving rise to a lower tax rate or possible tax savings during the period of transition between the old and new homes.

There is a variety of tax deferral options available but, as ever, advice is needed in making the 'customer' a client of HMRC.

ESTATE PLANNERS

Nil rate band

The nil rate band reached its current level of £325,000 in April 2009. It has been frozen since then and the freeze will continue until at least April 2021. Had the nil rate band been increased in line with CPI inflation, it would be about £385,000 in the coming tax year.

A frozen nil rate band drags more estates into the IHT net and, if you are already caught, adds to the amount of tax that will be levied. Since April 2009, average UK house prices are up by about 38%, according to Nationwide, and UK share prices have risen by about 80% (March 2009 marked their low point in the wake of the financial crisis).

Residence nil rate band

This first appeared in the Conservative's election manifesto, but when details were announced in the Summer 2015 Budget what seemed a simple extra £175,000 of nil rate band for property owners turned out to be anything but straightforward. From 6 April 2017, the Residence Nil Rate Band (RNRB) begins to take effect, with an initial figure of £100,000. It will help 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 go on increasing according to the OBR projections.

IHT yearly exemptions

The extended nil rate band freeze makes the yearly IHT exemptions all the more important:

The £3,000 annual exemption - Any unused part of this exemption can be carried forward one tax year, but it must then be used after the £3,000 exemption for that year. So, for example, if you made a gift of £1,000 covered by the annual exemption in 2015/16, you can make gifts totalling £5,000 covered by the annual exemption in 2016/17 by 5 April 2017.

The £250 small gifts exemption - You can make as many outright gifts of up to £250 per individual per tax year as you wish free of IHT, provided that the recipient does not also receive any part of your £3,000 annual exemption.

The normal expenditure exemption - Any gift that you make is exempt from IHT if:

- it forms part of your normal expenditure; and
- taking one year with another it is made out of income; and
- it leaves you with sufficient income to maintain your usual standard of living.

Will review

The arrival of the RNRB means that you should review your Will. One of the stranger consequences of another nil rate band – albeit one only available at death – is 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.

> ### Year end planning:
> If you are making an annual exemption gift by way of a cheque, remember that legally the gift is only made once the cheque is cleared. Wednesday April 5 is the final banking day of 2016/17, so a cheque given the previous weekend (1/2 April) may not clear in time.

BUSINESS OWNERS

Corporation tax rate

The rate of corporation tax will fall to 19% for the financial year starting on 1 April 2017. A further reduction to 17% from April 2020 was legislated for in last year's Finance Act. Although the previous Chancellor talked about cutting rates to below 15% in the wake of the Brexit vote, this idea has not been resurrected by Mr Hammond.

The falling rate of corporation tax is one of the reasons why Mr Osborne introduced the reform of dividend taxation which took effect last April and why Mr Hammond cut the dividend allowance in his Budget. Lower corporation tax rates strengthen the case for incorporation as an attractive tax option for business people. Operating via a company creates the opportunity to draw income as dividends, free of NICs, and shelter profits at the low corporation tax rate – below basic rate from next month – rather than personal income tax rates of up to 45%. The higher rates of tax on dividends above the dividend allowance were designed to claw back some of the lost NICs revenue and discourage incorporation. The lowered dividend allowance from 2018/19 will mean more is clawed back.

Capital allowances

Capital allowances have been subject to a variety of changes in recent years, ostensibly to encourage an increase in business investment.

The Annual Investment Allowance (AIA), which gives 100% initial relief for investment in plant and machinery, was reduced to £200,000 from 1 January 2016. The buoyancy of the economy since the Brexit vote has meant that expectations that the AIA will be increased have largely disappeared.

> ### Year end planning:
> The 1% reduction in the corporation tax rate means that as far as is practical you should incur expenses in the current financial year and push profits into the following financial year.

Pension changes

Mercifully, there are fewer pension changes this April than there have been in previous years. Much of what is happening is just a continuation of previous reforms:

- Auto-enrolment into pension arrangements began to be phased in four and a half years ago. During the first part of that period it was mostly the larger employers that had to put auto-enrolment in place. However, as the employer size shrunk (now to under 30 employees) more problems have emerged. The Pensions Regulator handed out over 6,000 compliance notices and close to 3,000 fixed penalty notices in the last three months of 2016. 870 employers were serviced with escalating penalty notices, which can be £10,000 per day.
- As happened last year, the earnings threshold for auto-enrolment will not rise in line with the personal allowance for the new tax year and will thus remain at £10,000.
- Changes to women's state pension age (SPA) continue to work through the system. Women's SPA is currently around 63¾, on its way to 65 in November 2018. Two years later both men and women will share an SPA of 66.
- The money purchase annual allowance is reduced from £10,000 to £4,000 from 6 April 2017, a move that could affect you if you have started to draw your pension under the 2015 flexibility rules, but you or your employer are still making pension contributions.

Self-employed National Insurance contributions

If you operate your business as a partnership or sole trader, the increases to the main Class 4 NIC rates in 2018/19 and 2019/20 will erode some of the tax advantage you currently enjoy over salaried employees. However, you will still pay less in combined tax and NICs than a salaried employee because:

- There is no self-employed counterpart of employer's NIC, currently at a rate of 13.8% on all earnings above £157 a week; and
- From 2018/19 the self-employed will no longer pay Class 2 contributions (£2.85 a week in 2017/18); and
- Even in 2019/20 the new 11% Class 4 rate will be less than the 12% Class 1 employees' rate; and
- The 2% Class 4 rate will continue to apply above the upper profits threshold at which higher rate tax normally becomes payable

SELF-EMPLOYED v EMPLOYEE IN 2019/20		
	EMPLOYED £	SELF-EMPLOYED £
	Basic rate	Basic rate
Marginal gross profit	10,000	10,000
Employer's National Insurance Contributions £8,787 @ 13.8%^	(1,213)	N/A
Gross earnings	8,787	10,000
Employee's NICs £8,787@ 12%	(1,054)	N/A
Self-employed Class 4 NIC @ 11%	N/A	(1,100)
Income tax @ 20%	(1,757)	(2,000)
Net benefit to individual	**5,976**	**6,900**
^ The Employment Allowance is assumed to be used or unavailable.		

Employer's National Insurance contributions

2017/18 will mark the introduction of measures designed to curtail cafeteria remuneration packages, which have allowed employees to sacrifice salary for less highly taxable (and NICable) benefits. From 6 April 2017, most new arrangements will be subject to employer's 13.8% NICs (and taxed on the employee) based on the amount of salary given up rather than the notional value of the fringe benefit (if any). There are transitional provisions for pre-6 April arrangements and some limited exemptions, most notably for salary sacrifice schemes linked to pension contributions.

2017/18 will also see the sensible unification of the Class 1 National Insurance thresholds for employers and employees at £157 a week.

> ### Year end planning:
> The new rules for salary sacrifice arrangements mean that both employers and employees have a vested interest in ensuring any new arrangements are in force by 5 April 2017. This is particularly important for car schemes, as gaining transitional relief will mean today's rules will continue for four years.
>
> One other point on the car front is that registration before 1 April 2017 may also cut costs because of the revised road fund license charges for cars registered from that date.

Dividends or salary...

Regular changes to National Insurance contributions and tax rates have altered the mathematics of the choice between dividends and salary, with the introduction of the 19% corporation tax rate for the financial year 2017 being the most recent revision to have an impact. For shareholder/directors able to choose between the two, and not caught by the IR35 personal company rules, a dividend remains the more efficient choice even if no dividend allowance is left, as the example below shows. However, a pension contribution (within the annual allowance provisions) could avoid all immediate tax and NIC costs.

MAKE MINE A DIVIDEND

A director/shareholder has £25,000 of gross profits in his company which he wishes to draw, either as bonus or dividend. Assuming the company pays corporation tax at the rate of 19% and the director already has annual income in excess of £45,000, of which dividends already account for more than the dividend allowance. The choice can be summarised thus:

	BONUS £		DIVIDEND £	
	Higher rate	Additional rate	Higher rate	Additional rate
Marginal gross profit	25,000	25,000	25,000	25,000
Corporation tax @ 19%	N/A	N/A	(4,750)	(4,750)
Dividend	N/A	N/A	20,250	20,250
Employer's National Insurance Contributions £21,968 @ 13.8%^	(3,032)	(3,032)	N/A	N/A
Gross bonus	21,968	21,968	N/A	N/A
Director's NICs £21,968@ 2%	(439)	(439)	N/A	N/A
Income tax *	(8,787)	(9,886)	(6,581)	(7,715)
Net benefit to director	**12,742**	**11,643**	**13,669**	**12,535**

^ The Employment Allowance is assumed to be used or unavailable.
*Tax on dividends at 32.5% for higher rate taxpayer and 38.1% for additional rate taxpayer.

...Or nothing at all?

For some business owners, the ultimate way to limit their tax bill is to choose to leave profits in the company rather than draw them either as dividend or salary. With the top rate of income tax currently at 45%, there is an obvious argument for allowing profits to stay within the company, where the maximum tax rate from this April is 19%.

This strategy has tax risks in terms of eligibility for CGT entrepreneurs' relief and inheritance tax business property relief. Money left in the company is also money exposed to creditors, so professional advice should be sought before turning a business into a money box.

EMPLOYEES

Company cars

The company car benefit scales undergo another uplift in 2017/18, but that did not stop Mr Hammond setting out changes for 2020/21 in his Autumn Statement. Precise details for the later years are awaited, but we do know the picture for the next two tax years:

TAX YEAR	CHANGES
2017/18	• 2% will again be added to all scale charges (including the 0g/km-50g/km band). • The maximum charge will stay at 37% and will apply for petrol engine cars with emissions of 190g/km and above and diesel engine cars with emissions of 175g/km and above.
2018/19	• 4% will be added to the lowest scale charges (0g/km-50g/km band), making the minimum charge 13%. • 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 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.

Once again, the changes will increase the tax on low-emission cars significantly because the same 2% addition applies whether the existing (2016/17) charge is 7% or 37% (where there is no change). The effect is worsened in 2018/19 because of the higher additions to the two lowest emission levels. For example, the scale benefit charge on a BMW i3 Hybrid with just 12g/km emissions will rise from 7% in 2016/17 to 9% in 2017/18 and 13% in 2018/19, not far short of doubling tax payable. At the other end of the Bavarian motoring stable, the scale benefit charge on the rather more exciting BMW M3 with 204g/km emissions will be unaltered at the maximum 37%.

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

> **Year end planning:**
> If you currently enjoy 'free fuel' but your private mileage is modest, you could be better off paying your own way in 2017/18, even if your employer does not compensate you for the lost benefit. Fuel scale charges now go up each year, even if fuel prices fall.

Pensions

The pensions landscape has altered dramatically in recent years and the changes are now bedding in:

- If you are not a member of a pension scheme offered by your employer, then at some point within the next year you are likely to find yourself automatically enrolled in a pension arrangement, with contributions deducted from your pay and added to by your employer. You will be able to opt out, but generally this will only make sense if you have elected with HMRC for some form of transitional protection (including the most recent variant, fixed protection 2016).

- The new single-tier 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.
- State pension ages (SPAs) are on the rise, with an increase to 67 due between April 2026 and March 2028. Another rise to 68 is now pencilled in for around 2041. By 2055 – so if you are 31 or under now – you could be facing an SPA of 69.
- From 6 April 2017, there will be a cut in the money purchase annual allowance from £10,000 to £4,000, which could affect you if you are drawing your pension benefits flexibly, but you and/or your employer are continuing to make pension contributions.

> ### Year end planning:
> The carry forward rules allow unused annual allowances to be carried forward for a maximum of three tax years. Thus, 5 April is your last opportunity to rescue unused allowance of up to £50,000 from 2013/14. Following the new restrictions for high earners introduced for 2016/17, acting before the end of the tax year could be more important than ever.

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 corollary 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, as the example shows.

A WORTHWHILE SACRIFICE				
	PERSONAL CONTRIBUTION		SALARY SACRIFICE EMPLOYER CONTRIBUTION (SACRIFICED AMOUNT + NIC SAVING)	
Tax rate	**20% £**	**40% £**	**20% £**	**40% £**
Gross Salary	1,000	1,000	Nil	Nil
Employer Pension Contribution	Nil	Nil	1,138	1,138
Employer NI Contribution (13.8%)	138	138	Nil	Nil
Total Employer Outlay	1,138	1,138	1,138	1,138
Employee Salary	1,000	1,000	Nil	Nil
Less Income Tax	(200)	(400)		
Less NI Contributions (12%/2%)	(120)	(20)		
Net Pay = Net Pension Contribution	680	580		
Tax Relief	170	387		
Total Pension Contribution	**850**	**967**	**1,138**	**1,138**

Year end planning:

From 6 April 2016 the standard lifetime allowance was reduced again, by £250,000 to £1m. However, there is still the possibility of claiming transitional protection of up to £1.5m if your pension benefits were worth over £1.25m on 5 April 2014, even if further contributions have been made. But the claim must be made before 6 April 2017.

RETIREE/AT RETIREMENT

The pension landscape in 2017

There have been many changes to pensions in recent years, with another significant set of reforms having taken effect in April 2016. These include:

- Three reductions in the standard lifetime allowance brought it down from £1.8m in 2011/12 to £1m from 6 April 2016. This allowance effectively sets a tax-efficient ceiling for the value of pension benefits.
- Further increases to State Pension Age (SPA), both legislated for and planned. For women, SPA is now about 63¾. For men it remains at 65 – for now.
- New rules, which have given much greater flexibility in drawing benefits from money purchase schemes, started on 6 April 2015 and have encouraged many people to turn their entire pension pot into (mostly taxable) cash. The new flexibility was accompanied by more generous tax treatment of death benefits, adding to the opportunities pensions offer for estate planning.
- The new single-tier state pension started on 6 April 2016. While it does not affect you if you reach SPA before then, you still have the opportunity to top up your pre-April 2016 state pension by making new Class 3A National Insurance contributions, but the deadline for these is 5 April 2017.

Interest rates: Eight years since the cut to 0.5%...

When the Bank of England base rate was cut to 0.5% on 5 March 2009, nobody anticipated that it would remain unchanged until 2016 and then be halved to 0.25%. Even now, the latest (February 2017) Bank of England Inflation Report says that the money markets are not anticipating a return to 0.5% until the end of next year, with base rate at 0.75% as 2020 begins.

The UK banks seem to have long since given up competing for deposits in this low interest rate environment. The best instant access rates for new accounts are now just above 1%, leaving National Savings & Investments Income Bonds surprisingly competitive at 1.0% - at least until their rate is reduced to 0.75% on 1 May. A similar picture emerges for cash ISAs, where again National Savings & Investments offers a competitive 1.0% instant access interest rate until a 0.25% cut in May.

If low interest rates are a concern to you:

- Make sure you take maximum advantage of your personal savings allowance and, where possible, your starting rate band.
- Maximise your cash ISAs, which pay interest tax free.
- Regularly check the interest rate on all your deposit accounts. As National Savings & Investments highlighted recently, deposit rates continue to move down, even if the Bank of England is sitting on its

hands. It is especially important to watch accounts with bonus rates – once the bonus goes they can look very unattractive. Do not simply wait for the next statement: if you are only earning 0.1%, you need to know now.

- Be wary of tying your money up in a fixed-term deposit for five or more years simply to achieve an interest rate only just over 2%. A lot can happen in five years, but another eight years of sub 1% base rates looks very unlikely.
- Do not forget that National Savings & Investments is due to launch a three-year bond with a "market-leading" fixed rate of 2.2% in April, as announced in the Budget. This is open to anyone aged 16 or over, but the maximum investment is just £3,000.
- Consider investing in UK equity income funds, where yields of 4% and more are widely available. You will lose capital security, but your initial income would be usefully higher and the dividend allowance, introduced in 2016/17, lets you receive £5,000 of dividends (£2,000 from 2018/19) before paying any dividend tax, regardless of your personal tax rate.

> **Year end planning:**
> If you have not yet arranged an ISA or invested up to the 2016/17 maximum, think about doing so by 5 April. If you are unsure where to invest given current market conditions, you can always leave your money on deposit, even in a stocks and shares ISA. Just don't expect it to earn much interest. After 5 April, think about making your 2017/18 contribution early to maximise potential tax savings. The reduction in the dividend allowance from 2018/19 has increased the appeal of ISAs.

Drawing your pension

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

> **Year end planning:**
> The changes to the death benefit rules on pensions from 6 April 2015 should have prompted a review of your pension scheme and/or the expressions of wish regarding the recipients of pension death benefits. If you have not done so, now is the time. In theory, your pension plan could provide income for future generations, as your beneficiaries will be able to pass the remaining fund to their children and so on down the line.

QROPS: GUIDANCE ON CHANGES FROM HMRC

Qualifying recognised overseas pension schemes: charge on transfers

Who is likely to be affected:

- individuals who request an overseas pension transfer on or after 9 March 2017
- scheme administrators of registered pension schemes
- scheme managers of qualifying recognised overseas pension schemes (QROPS)
- advisers who have clients who want to make an overseas pension transfer

This measure ensures that transfers to QROPS requested on or after 9 March 2017 will be taxable unless, from the point of transfer, both the individual and the pension savings are in the same country, both are within the European Economic Area (EEA) or the QROPS is provided by the individual's employer.

If this is not the case, there will be a 25% tax charge on the transfer and the tax charge will be deducted before the transfer by the scheme administrator or scheme manager of the pension scheme making the transfer.

It also widens the scope of UK taxing provisions so that, following a transfer to a QROPS on or after 6 April 2017, they apply to payments out of those transferred funds in the five tax years following the transfer.

This measure supports the government's objective of promoting fairness in the tax system. It continues to allow overseas transfers from pension schemes that have had UK tax relief that are made when people leave the UK and take their pension savings with them to their new country of residence.

The tax treatment of overseas transfers from registered pension schemes has remained broadly the same since the changes to the pensions tax regime in 2006. The regime was strengthened between 2012 and 2015 to more precisely define the types of pension schemes that could receive tax-free transfers and improve the information required in relation to these transfers.

The overseas transfer charge will have effect for transfers requested on or after 9 March 2017 and the extended taxing provisions on payments out of QROPS will have effect on and after 6 April 2017.

For more information please see:
https://www.gov.uk/government/publications/qualifying-recognised-overseas-pension-schemes-charge-on-transfers/qualifying-recognised-overseas-pension-schemes-charge-on-transfers#detailed-proposal

PARENTS

Child benefit

The high income child benefit tax charge – the child benefit tax – came into being a little over four years ago. If you or your partner has income of £60,000 or more in the current tax year there will be a tax charge equal to your total child benefit unless you have taken a decision to stop benefit payments.

Between £50,000 and £60,000 of income, the tax charge is 1% of benefit for each £100 of income above £50,000. The result can be high marginal rates of tax in the £50,000-£60,000 income band. If you have three children eligible for child benefit, the marginal rate is 65%.

> ### Year end planning:
> As the high income child benefit tax charge is based on taxable income, you could reduce the impact of the tax by making a pension contribution.

Tax-free childcare payment

A new payment for working parents was announced just before the 2013 Budget and, after assorted delays, is due to be "rolled out gradually to families, with parents of the youngest children able to apply first" during 2017. The new scheme pays 20% of childcare costs up to £2,000 per child (up to the age of 12), per year, eventually replacing the existing childcare vouchers system. For couples, it will only be available if both partners are working and each earning a minimum of £115 a week. An individual upper income limit of £100,000 will apply.

In some circumstances the existing childcare voucher scheme is preferable, so you may need to act fast to secure the advantage if you are not already using it.

Junior ISAs

Junior ISAs (JISAs) were launched in November 2011 with an annual investment limit of £3,600, which has since been increased to £4,080 in 2016/17 (and £4,128 in 2017/18). JISAs can be invested in cash deposits and/or stocks and shares in any proportion and can usually be arranged for any child aged under 18 who was born before 1 September 2002 or after 2 January 2011. A child cannot have both a JISA and a Child Trust Fund account (which has the same investment limits). It is possible to transfer Child Trust Fund accounts to a JISA, a move that may result in reduced fees and a wider investment choice.

University funding

The £9,250 a year maximum tuition fee for new 2017/18 students in England and Wales is, for now, a fact of student life. The limited maintenance grants system in England has now ended for new students, meaning that all maintenance assistance is now by way of loans.

If you have children likely to go to university, it makes sense to consider your funding options. For example, JISAs are a potentially valuable tool to build up a fund by age 18. For those who prefer more control over the student's access to the investment at age 18 (while retaining tax efficiency) collective investments held subject to an appropriate trust can look attractive, as could an offshore investment bond.

Despite these tax-efficient “pre-funding” opportunities, under the current rules some pundits consider that it makes sense to take the student fee loans while at university rather than pay fees from capital. That is because repayment only begins once earnings reach £21,000 and any debt is written off after 30 years from the April after graduation.

University debt will add to the difficulties young people face in getting onto the now rapidly rising property ladder. Another reason, maybe, why parents and grandparents might like to consider tax-effective “pre-funding”.

MAIN INCOME TAX ALLOWANCES AND RELIEFS

	2016/17 £	2017/18 £
Personal allowance – standard	11,000	11,500
Personal allowance reduced if total income exceeds [1]	100,000	100,000
Transferable tax allowance (marriage allowance) [2]	1,100	1,150
Married couple’s allowance [3] – minimum amount	3,220	3,260
Married couple’s allowance [3] – maximum amount	8,355	8,445
Maintenance to former spouse [3]	3,220	3,260
Married couple’s allowance reduced if total income exceeds [4]	27,700	28,000
Employment termination lump sum limit	30,000	30,000

1 For 2016/17 and 2017/18 the reduction is £1 for every £2 additional income over £100,000. As a result there is no personal allowance if total income exceeds £123,000 (£122,000 for 2016/17).
2 Available to spouses and civil partners born after 5 April 1935, provided neither party pays tax at above basic rate.
3 Relief at 10%. Available only if at least one of the couple was born before 6 April 1935.
4 For 2016/17 and 2017/18 the reduction is £1 for every £2 additional income over the total income threshold. Standard allowance(s) only are available if total income exceeds:-

	2016/17 £	2017/18 £
Taxpayer born before 6 April 1935 [married couple’s allowance]	37,970	38,370

INCOME TAX RATES

	2016/17 £	2017/18 £
Starting rate	0%	0%
Starting rate on savings income	1-5,000	1-5,000
Personal savings allowance (for savings income)		
- Basic rate taxpayers	1,000	1,000
- Higher rate taxpayers	500	500
- Additional rate taxpayers	Nil	Nil
Basic rate	20%	20%
Maximum tax at basic rate+	6,400	6,700+
Higher rate - 40%	32,001-150,000	33,501-150,000+
Tax on first £150,000+	53,600	53,300+
Additional rate on income over £150,000	45%	45%
Discretionary and accumulation trusts (except dividends)	45%	45%
Discretionary and accumulation trusts (dividends) °	38.1%	38.1%
Tax credit attaching to dividends	N/A	N/A
Dividend nil rate band (dividend allowance)	1-5,000	1-5,000
Basic rate on dividends	7.5%	7.5%
Higher rate on dividends	32.5%	32.5%
Additional rate on dividends	38.1%	38.1%
High income child benefit charge	1% of benefit per £100 income between £50,000 and £60,000	

\+ Assumes starting rate band not available and personal savings allowance is ignored. £6,700 on first £33,500 (£6,400 on first £32,000 in 2016/17) and £52,300 (£52,600 in 2016/17) on first £150,000 if full starting rate band is available.

° In Scotland the basic rate tax band for 2017/18, which covers non-dividend, non-savings income, will be £31,500, leaving the higher rate threshold unchanged at £43,000.
Up to the first £1,000 of gross income is generally taxed at the standard rate, ie. 20% or 7.5% as appropriate.

CAR BENEFITS

The charge is based on a percentage of the car's "price". "Price" for this purpose is the list price at the time the car was first registered plus the price of extras.

For cars first registered after 31 December 1997 the charge, based on the car's "price", is graduated according to the level of the car's approved CO_2 emissions.

For petrol cars with an approved CO_2 emission figure.

CO_2 g/km[1]	% of price subject to tax[2]		CO_2 g/km	% of price subject to tax[2]		CO_2 g/km	% of price subject to tax[2]	
	16-17	17-18		16-17	17-18		16-17	17-18
50 or less	7	9	125–9	22	24	170–4	31	33
51–75	11	13	130–4	23	25	175–9	32	34
76–94	15	17	135–9	24	26	180–4	33	35
95–99	16	18	140–4	25	27	185–9	34	36
100–4	17	19	145–9	26	28	190–4	35	37
105–9	18	20	150–4	27	29	195–9	36	37
110–4	19	21	155–9	28	30	200 and over	37	37
115–9	20	22	160–4	29	31			
120–4	21	23	165–9	30	32			

Notes

1. The exact CO_2 emissions figure should be rounded down to the nearest 5 g/km for levels of 95g/km or more.

2. For all diesels add 3%, subject to maximum charge of 37%.

CAR FUEL BENEFITS

For cars with an approved CO_2 emission figure, the benefit is based on a flat amount of £22,600 (£22,200 for 2016/17). To calculate the amount of the benefit the percentage figure in the above car benefits table (that is from 7% to 37%) is multiplied by £22,600. The percentage figures allow for a diesel fuel surcharge. For example, in 2017/18 a petrol car emitting 132 g/km would give rise to a fuel benefit of 25% of £22,600 = £5,650.

INHERITANCE TAX

	Cumulative chargeable transfers [gross]		tax rate on death%	tax rate in lifetime*%
	2016/17 £	2017/18 £		
Nil rate band+	325,000	325,000	0	0
Residence nil rate band¶	N/A	100,000	0	N/A
Residence nil rate band reduced if estate exceedsº	N/A	£2,000,000	N/A	N/A
Excess above available nil rate band(s)	No limit	No limit	40[∞]	20

* Chargeable lifetime transfers only.

+ On the death of a surviving spouse on or after 9 October 2007, their personal representatives may claim up to 100% of any unused proportion of the nil rate band of the first spouse to die (regardless of their date of death).

¶ On the death of a surviving spouse on or after 6 April 2017, their personal representatives may claim up to 100% of any residence nil rate band of the first spouse to die (regardless of their date of death, but subject to the tapered reduction).

º For all tax years the reduction is £1 for every £2 additional estate over £2,000,000. As a result, there is no residence nil rate band available in 2017/18 if the total estate exceeds £2,200,000 (£2,400,000 on second death if the full band is inherited).

[∞] 36% where at least 10% of net estate before deducting the charitable legacy is left to charity.

CAPITAL GAINS TAX

Main exemptions and reliefs

	2016/17 £	2017/18 £
Annual exemption	11,100*	11,300*
Principal private residence exemption	No limit	No limit
Chattels exemption	£6,000	£6,000
Entrepreneurs' relief	Lifetime cumulative limit £10,000,000. Gains taxed at 10%	Lifetime cumulative limit £10,000,000. Gains taxed at 10%

* Reduced by at least 50% for most trusts.

Rates of tax

Individuals:	10% on gains within UK basic rate band, 20% for gains in UK higher and additional rate bands
Trustees and personal representatives:	20%
Additional rate for residential property and carried interest gains	8%

STAMP DUTY LAND TAX, LAND AND BUILDINGS TRANSACTION TAX AND STAMP DUTY

UK excluding Scotland: SDLT

Residential (on slice of value)	Rate¶	Commercial (on slice of value)	Rate
£125,000 or less	Nil	£150,000 or less	Nil
£125,001 to £250,000	2%	£150,001 to £250,000	2%
£250,001 to £925,000*	5%	Over £250,000	5%
£925,001 to £1,500,000*	10%		
Over £1,500,000*	12%		
** 15% for purchases over £500,000 by certain non-natural persons* *¶ All rates increased by 3% for purchase of additional residential property if value is £40,000 or more*			

Scotland: LBTT

Residential (on slice of value)	Rate¶	Commercial (on slice of value)	Rate
£145,000 or less	Nil	£150,000 or less	Nil
£145,001 to £250,000	2%	£150,001 to £350,000	3%
£250,001 to £325,000	5%	Over £350, 000	4.5%
£325,001 to £750,000*	10%		
Over £750,000*	12%		
* 15% for purchases over £500,000 by certain non-natural persons ¶ All rates increased by 3% for purchase of additional residential property if value is £40,000 or more			

UK Stamp Duty (including SDRT)

Stocks and marketable securities:	0.5%
No stamp duty charge unless the duty exceeds £5	

CORPORATION TAX

	Year Ending 31 March	
	2017	2018
Main rate	20%	19%

TAX-PRIVILEGED INVESTMENTS [MAXIMUM INVESTMENT]

	2016/17 £	2017/18 £
ISA		
Overall per tax year:	15,240	20,000
Maximum in cash for 16 and 17 year olds	15,240	20,000
Junior ISA (additional to overall limit for 16-17 year olds)	4,080	4,128
Help to buy ISA	£1,000 initial and £200 a month	
Lifetime ISA	N/A	£4,000
ENTERPRISE INVESTMENT SCHEME (30% income tax relief)	1,000,000*	1,000,000*
Maximum carry back to previous tax year for income tax relief	1,000,000	1,000,000
SEED ENTERPRISE INVESTMENT SCHEME (50% income tax relief)	100,000¶	100,000¶
VENTURE CAPITAL TRUST (30% income tax relief)	200,000	200,000

* No limit for CGT reinvestment relief.

¶ 50% CGT reinvestment exemption in 2016/17 and 2017/18

PENSIONS

	2016/17	2017/18
Lifetime allowance*	£1,000,000	£1,000,000
Lifetime allowance charge:		
Excess drawn as cash lump sum	55% of excess	
Excess drawn as income	25% of excess	
Annual allowance	£40,000¶	£40,000¶
Money purchase annual allowance	£10,000	£4,000
Annual allowance charge	20%-45% of excess	
Max. relievable personal contribution	100% relevant UK earnings *or* £3,600 gross if greater	

* May be increased under 2006, 2012, 2014 or 2016 transitional protection provisions.

¶ Subject to 50% taper down to a minimum of £10,000 based on adjusted income in excess of £150,000, if threshold income exceeds £110,000

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee				
	2016/17		2017/18	
	Employee	Employer	Employee	Employer
Main NIC rate	12%	13.8%	12%	13.8%
No NICs on first:				
Under 21*	£155 pw	£827 pw	£157 pw	£866 pw
21* & over	£155 pw	£156 pw	£157 pw	£157 pw
Main NIC charged up to	£827 pw	No limit	£866 pw	No limit
Additional NIC rate	2%	N/A	2%	N/A
on earnings over	£827 pw		£866 pw	
Certain married women	5.85%	13.8%	5.85%	13.8%

* 25 for apprentices

Employment Allowance		
	2016/17	2017/18
Per business*	£3,000	£3,000

* Not available if a director is the sole employee

Limits and Thresholds	2016/17		2017/18	
	Weekly £	Yearly £	Weekly £	Yearly £
Lower earnings limit	112	5,824	113	5,876
Primary earnings threshold	155	8,060	157	8,164
Secondary earnings threshold	156	8,112	157	8,164
Upper secondary threshold – U21s*	827	43,000	866	45,000
Upper earnings limit	827	43,000	866	45,000

* Under 25 for apprentices

Self-employed and non-employed	2016/17	2017/18
Class 2		
Flat rate	£2.80 pw	£2.85 pw
Small profits threshold	£5,965 pa	£6,025 pa
Class 4 (*Unless over state pension age on 6 April*)		
On profits	£8,060 – £43,000 pa: 9% Over £43,000 pa: 2%	£8,164 – £45,000 pa: 9% Over £45,000 pa: 2%
Class 3 (Voluntary)		
Flat rate	£14.10 pw	£14.25 pw