RAYMOND JAMES

budget newsletter

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THE BUDGET BACKGROUND

If 'a week is a long time in politics', then nearly 18 months between Budgets must count as close to an eternity. And so it proves, if we consider the last Budget on 29 October 2018. Back then, Philip Hammond was the Chancellor, Theresa May was the Prime Minister, Brexit was due on 29 March 2019 and a General Election was not expected until May 2022. And Covid-19 had never been heard of. From a Treasury viewpoint, perhaps the most important element at the time was the Office for Budget Responsibility's (OBR) forecast of a 2019/20 budget deficit of £31.8bn, up £6.3bn on the previous year.

Wind forward two Chancellors, a new Prime Minister, Brexit (on 31 January 2020), a December General Election plus the arrival of a pandemic and, unsurprisingly, the picture is rather different. The 2019/20 Budget deficit is now forecast to be £47.4bn, although part of the increase is the result of an accounting change for student loans. Boris Johnson and his newly-installed Chancellor seem to have few concerns about the sharply rising budget deficit, given the need to respond to Covid-19. A more relaxed approach to borrowing had already been signalled in the Conservatives' Election manifesto, even though it had few explicit plans for fresh spending.

Traditionally the first Budget after an Election is the time to administer the unpalatable measures that the government hopes will have been forgotten by the next time the country goes to the polls. In recent years it has also been the occasion when a Conservative Chancellor has 'borrowed' ideas contained in the Labour party's manifesto. In the run up to the Budget day there were plenty of rumours of spending for the Midlands and North, with corresponding 'levelling up' tax rises for the (Southern) wealthy. The rumour machine pointed to reductions in IHT reliefs and flat rate pension tax relief.

In the event, there was a spending bonanza, but tax rises were relatively few – Covid-19 ensured that this was not the classic post-Election revenue-grab. Austerity is now clearly off the agenda, witness the Chancellor's decision to signal a borrowing increase of close to £100bn over the next four years and review (widely assumed to mean loosen) the 'fiscal framework' ahead of the Autumn Budget. The proposals of most interest in the first Budget of 2020 were:

- The addition of £90,000 to both pension annual allowance taper thresholds, removing the issue for over 95% of NHS consultants and GPs.
- An immediate 90% reduction in the entrepreneurs' relief lifetime limit to £1m of gains.
- A £12bn set of measures to counter the economic impact of Covid-19, ranging from further business rates relief to revised rules for statutory sick pay.
- A freeze on fuel duty (for 2020 only) and no duty increases on beer, cider and spirits.
- An increase in the National Insurance contributions (NICs) threshold from £8,632 to £9,500 for employees and the self-employed (but not employers).

- An increase in the NICs employment allowance to £4,000, targeted at smaller businesses.
- No increases in either the personal allowance of £12,500 nor the higher rate threshold, although some minor income tax allowances will rise in line with inflation.
- An increase in the capital gains tax annual exemption to £12,300.
- A similar inflation-linked increase in the lifetime allowance to £1,073,100.
- More than doubling of the Junior ISA contribution limit to £9,000, while leaving other ISA limits unchanged.
- Revisions to the rules on top-slicing relief for life policy gains designed to deal with the complications created by the tapering of the personal allowance (a measure introduced ten years ago...).

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 Tax Tips – are universal.

If you need further information on how you will be affected personally, you are strongly recommended to consult your financial adviser in the first instance.

12 Quick Tax Tips

1. Don't waste your (or your partner's) £12,500 personal allowance in 2020/21.
2. Don't forget the personal savings allowance, reducing tax on interest earned.
3. Don't ignore the dividend allowance, eliminating tax on £2,000 of dividends.
4. Don't dismiss 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.
7. Even if you're eligible for a LISA, you still might find a pension is a more beneficial choice.
8. Tax on capital gains is usually lower and paid later than tax on investment income.
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. If you have a company car, especially a hybrid – watch out for the tax changes in April.
12. Don't assume HMRC won't know: automatic information exchange is now widespread.

INVESTORS AND SAVERS

The Personal Allowance

The personal allowance was given a two-year increase to £12,500 in the 2018 Budget, according to the previous but one Chancellor. Thus, Mr Sunak's (non-) announcement that the 2020/21 personal allowance would be £12,500 was hardly a surprise. Many people do not use the current personal allowance to the full and in 2020/21 there will be a gap of £3,000 between the allowance and the starting point for National Insurance contributions (£9,500). At the other end of the income scale, some taxpayers will have no personal allowance in 2020/21 because their income exceeds £125,000, at which point their allowance is tapered to nil.

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.
- Make sure that in retirement you (and your partner) each have enough pension income. On its own, state pension provision is not enough, be it the new state pension (up to £175.20 a week in 2020/21) or the old state pension of £134.25 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 (£1,250 in 2019/20 and 2020/21).

The Personal Savings Allowance

The personal savings allowance (PSA) first appeared in April 2016 and has been unchanged since then. 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 investment bonds, including offshore bonds. Although called an allowance, the reality is that the PSA is a nil rate tax band, so it is not as generous as it seems. The PSA means that banks, building societies, National Savings & Investments and UK-based fixed interest collective funds now all pay interest without any tax deducted, but they do report payments to HMRC. Thus, if your interest income exceeds your PSA, you could have tax to pay. Be warned that if you do not tell HMRC, it will have the data to tell you.

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 today's ultra-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 also started life in April 2016, originally at a level of £5,000 before it was reduced to the current £2,000.

The allowance means that in 2020/21 the first £2,000 of dividends you receive is not subject to any tax in your hands, regardless of your marginal income tax rate. Once the £2,000 allowance is exceeded, there is a tax charge of 7.5% (for basic rate taxpayers), 32.5% (for higher rate taxpayers) and 38.1% (for additional rate taxpayers). Like the personal savings allowance, the dividend allowance is really a nil rate band, so up to £2,000 of dividends do not disappear from your tax calculations, even though they are taxed at 0%.

With recent Covid-19 induced market falls meaning that the yield on UK shares is now 5.3%, a portfolio worth more than about £38,000 could attract additional tax on dividend income, even for a basic rate taxpayer.

The Starting Rate Band

The starting rate band for savings income was launched at £5,000 in 2016/17 and a tax rate of 0%, and will remain on that basis for 2020/21. Sadly, most people are not able to take advantage of the starting rate band: if your earnings and/or pension income exceed £17,500 in 2020/21, 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.

Planning point

If you don't anticipate using all your personal allowance or personal savings allowance in 2019/20 think about creating more income by closing deposit accounts before 6 April and crystallising the interest in this tax year. But beware of 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 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 £20,500 a year tax free in 2020/21, 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 basic rate band (£37,500 in 2019/20 and 2020/21) 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 2020/21, the capital gains tax annual exempt amount will rise in line with inflation to £12,300.

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, once the £2,000 level of the dividend allowance is exhausted, favouring capital gains over income when setting your investment goals can be a sensible approach.

Planning point

If you do not use your £12,000 annual exemption by Friday 3 April 2020, you will lose it and a possible tax saving of over £3,300. If you have gains of over the exempt amount to realise, it could be worth deferring the excess until 6 April or later to gain another annual exemption and defer the CGT bill until 31 January 2021. However, CGT on residential property gains (eg buy-to-let) will be payable within 30 days of sale from 6 April 2020.

Individual Savings Accounts (ISAs)

The annual ISA investment limit for 2020/21 will remain at £20,000. There will be no change in the £4,000 limit for the Lifetime ISA (LISA), which was launched in April 2017 to encourage savings by the under-40s and to replace the Help-to-Buy ISA (which disappeared last December). The limit for the Junior ISA (JISA), which is attracting more university-fee-planning investors, will more than double from £4,380 to £9,000**,** 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 complicated matters, as it 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 £220,000 largely out of reach of UK taxes.

Planning point

The first Child Trust Fund accounts will mature in September of this year as their owners reach 18. However, the tax benefits will continue as a ‘protected account’ until instructions to deal with the monies are provided. One option will be to transfer to an ISA.

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

VCTs and EISs have been subject to many rule changes in recent years, with some significant reforms being introduced in the Finance Act 2018. Those reforms have changed the nature of schemes by raising the element of risk. For example, they included:

- **A “risk to capital” requirement** - This focused the investment made by VCTs, EISs and seed enterprise investment schemes (SEISs) on companies where there is a real risk to the capital being invested and excludes from investment those companies and arrangements intended to provide “capital preservation”.
- **Increased limits for investments in knowledge-intensive companies** - The amount an individual may invest under the EIS in a tax year was doubled to £2 million from 6 April 2018, provided any amount over £1 million is invested in one or more knowledge-intensive companies. Similarly, the annual investment limit for

knowledge-intensive companies receiving investments under the EIS and from VCTs doubled to £10 million, although the lifetime limit remains at £20 million.

- Further VCT rules tightening several other technical changes were made to VCT rules in the Finance Act 2018, including an accelerated investment of capital raised and an increase in the proportion of VCT funds that must be held in qualifying holdings to 80%.

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. In 2018/19 VCT fundraising was at its highest level in 13 years. Many of the long-established VCTs started their 2019/20 capital raising early, well ahead of the tax year end (and the then expected General Election), so supply is now limited.

Planning point

The best VCT offers can sell out quickly – even before you read about them in the weekend press. With many offers already closed, do be sure you let us know as soon as possible if you want to make any VCT investment in this tax year.

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 is that the 50% top tax rate could reappear following a change of government, although that is now probably at least four years away.
- Some tax liability might disappear completely. Under current rules there is generally no capital gains tax on death, although several voices have suggested this exemption should be withdrawn.
- 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 £90,000 higher in 2020/21. It is scheduled to start rising again in 2021/22.

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 44%, according to Nationwide, and UK share prices have risen by a similar amount (March 2009 marked their low point in the wake of the financial crisis).

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 2020/21 the RNRB will rise to £175,000, its original target level. Thereafter it should increase in line with CPI inflation. While the RNRB does help to ease the burden of IHT for many estates, it is by no means a panacea: the government's IHT tax take is expected to keep rising according to the OBR projections.

IHT Yearly Exemptions

The 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 2018/19, you can make gifts totalling £5,000 covered by the annual exemption in 2019/20 by 5 April 2020.
- 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 exempt amount.
- 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.

Future Changes?

In July 2019, the Office of Tax Simplification (OTS) made a range of proposals to simplify some of the complexities of IHT. It had been expected (and rumoured) that some of these would be taken up in this Budget, but instead the Chancellor made no mention of the tax. That may reflect the attention on more urgent matters surrounding Covid-19. Come the Autumn Budget, IHT reform could re-emerge.

As is often the case with 'simplification', the OTS proposals would have created winners as well as losers. Given that there has now been what looks like a delay, if IHT is a concern to you, then it would be wise to seek advice on which category you might fall into.

Will Review

The arrival of the RNRB should have meant that you review 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.

Planning point 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. Friday April 3 is the final banking day of the 2019/20 tax year.

BUSINESS OWNERS

Corporation Tax Rate

The rate of corporation tax was due to fall from 19% to 17% for the financial year starting on 1 April 2020. However, the change, which has been legislated for, will now not occur and the rate will stay at 19%, giving the Exchequer around an extra £7bn a year by 2023/24.

The historically low rate of corporation tax is one of the reasons why the reform of dividend taxation was introduced from 2016/17. 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 a corporation tax rate that is below the basic rate of income tax – rather than personal tax rates on earnings of up 45% (46% in Scotland). However, the government continues to attack the use of one-person companies, its latest effort being the introduction of off-payroll working rules to private and third sector employers (see below).

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 'temporarily' raised to £1,000,000 for two years from 1 January 2019. The AIA has been a favourite measure for Chancellors to tweak, so it would be surprising if it did automatically revert to its previous £200,000 level in 2021. Expect a just-in-time announcement in the Autumn Budget.

Planning point The combination of a falling corporation tax rate and a temporary AIA increase means that capital investment needs careful timing to maximise company tax savings. In particular, the rules which prorate tax rates and the AIA where either changes during a company's financial year pose traps for the unwary.

Pension Changes

There have been many important pension changes in the past few years, with one new measure announced in the Budget:

- For 2020/21 there will be a £90,000 increase to both of the annual allowance tapering trigger points, taking them to £200,000 (threshold income) and £240,000 (adjusted income). Annual allowance taper has become an increasing problem in the public sector, particularly the NHS, and the new limits are estimated to remove the problem for around 98% of NHS consultants and 96% of GPs. However, there is a sting in the tail for those with very high incomes: the minimum tapered annual allowance will drop from £10,000 to £4,000.

- Since April 2018, the lifetime allowance has started to rise in line with inflation, after a series of cuts that reduced the allowance from £1.8m to £1.0m. Indexation will mean the allowance rises to £1,073,100 from April 2020.

- Auto-enrolment minimum contributions into pension arrangements increased in April 2018 and again in April 2019. No further rises are currently scheduled, although it is widely accepted that today's 8% minimum total contribution rate is inadequate.

- The earnings threshold for auto-enrolment in 2020/21 will remain at £10,000 and the upper limit will also be unchanged at £50,000. The lower earnings limit, which sets the floor for the contribution earnings band, will rise to £6,240.

- Changes to women's state pension age (SPA) have continue to work through the system. Women's SPA reached 65 a year ago and now both men and women are on the path to a common SPA of 66 from October 2020.

Entrepreneurs' Relief

"We also have to recognise that some measures haven't fully delivered on their objectives. So we will review and reform Entrepreneur's Relief." So said the Conservative's Election manifesto last year. In the days before the Budget there were rumours that the relief would be abolished completely.

Instead, the Chancellor reduced the lifetime limit for gains from £10m to £1m, ironically the level at which it was introduced in 2008. The change takes effect for disposals on or after 11 March 2020 and there will be anti-forestalling measures aimed at pre-Budget arrangements such as conditional sales.

Employer's National Insurance Contributions

2018 saw the introduction of measures to curtail cafeteria remuneration packages, which had allowed employees to sacrifice salary for less highly taxable (and NICable) benefits. Most newly established arrangements are now 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). Transitional provisions for pre-6 April 2017 arrangements gave some limited exemptions. Salary sacrifice for pension contributions remains favourably treated and fully exempt from the 2018 rules.

Planning point The old salary sacrifice rules continue for up to four years for company cars where the sacrifice arrangement was in place by 5 April 2017.

The Employer's Allowance will increase from the current £3,000 to £4,000 in 2020/21. However, at the same time it will cease to be available for any employer whose secondary Class 1 NICs in the immediately preceding tax year were £100,000 or more.

Business Rates

No Budget seems to go by without some temporary fix to the problems surrounding business rates and/or the promise of a review. The latest Budget was no exception:

- The Business Rates retail discount, which broadly applies to a shop, restaurant, café, bar or pub in England with a rateable value of less than £51,000 will be 100% for 2020/21 only, rather than the 50% previously announced. The relief will also be expanded to cover the leisure and hospitality sectors.
- The Business Rates discount for pubs with a rateable value below £100,000 in England will be increased from £1,000 to £5,000 for one year from 1 April 2020.
- A "fundamental review of business rates" was announced by the Chancellor, due to report in the Autumn.

Off-payroll Working

From 6 April 2020 the off-payroll working rules will start to apply to private and third sector employers. This will place the onus on employers to decide whether a contractor working through a personal service company falls within the IR35 tax rules. It has already prompted some large companies to tell contractors they must either move on to PAYE, with the accompanying hit to their net earnings, or leave. A review undertaken by the Treasury earlier this year confirmed the measure would go ahead, but it will be limited to services provided after 5 April 2020.

Importantly, the new rules do not apply to small companies, which in this context means that the company using a contractor meets at least two of the following criteria:

- an annual turnover of not more than £10.2m;
- a balance sheet total of not more than £5.1m; and
- average number of employees of no more than 50.

Dividends or Salary...

Regular changes to National Insurance contributions and tax rates have altered the mathematics of the choice between dividends and salary. For shareholder/directors able to choose between the two, and not caught by the ever-tightening IR35 personal company rules (see above), 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% in 2020 /21;
- the director is not resident in Scotland;
- and they already have annual income in excess of £50,000

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 NICs 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 all dividends at 32.5% for higher rate taxpayer and 38.1% for additional rate taxpayer as the dividend allowance is assumed to be fully utilised elsewhere.

....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% (46% in Scotland) - and marginal rates potentially much higher - there is an obvious argument for allowing profits to stay within the company, where the maximum tax rate is 19%.

This strategy has tax risks in terms of eligibility for (the lowered) 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 will undergo radical changes in 2020/21:

- For cars registered from 6 April 2020, CO2 emission levels will be based on WLTP figures, not the existing NDEC numbers. The WLTP test is much closer to a ‘real world’ test, producing results 20%-25% higher than the largely discredited NDEC test. However, for cars registered before 6 April 2020, the NDEC results will continue to apply in setting scale benefits.

- The scale charge for zero emission cars (eg electric-only) will fall from the current 16% to nil in 2020/21 (rising to 1% in 2021/22 and 2% in 2022/23), creating a major incentive to choose an electric-only vehicle.

- For hybrid cars registered from 6 April 2020 with CO2 emissions of 1g/km-50g/km, the scale charge will be based on the electric-only range figure, varying from 0% for a range of at least 130 miles to 12% if the range is below 30 miles. For older hybrid vehicles with emissions of up to 50g/km, the scale charge will range from 2% to 14%.

- New scale rates will be introduced for cars with CO2 emissions above 50g/km which in most instances will mean a 1% increase in the scale charge.

- From January 2021, all newly registered diesel cars must meet the RDE2 emission standards (cutting NOx emissions significantly). Some new non-hybrid diesels already satisfy the RDE2 standard which means they are exempt from the 4% car scale surcharge that would otherwise apply. On a £30,000 car that could mean an annual tax saving of up to £540.

- The maximum charge will be unchanged at 37% and will apply for petrol engine and RDE2 diesel engine cars with emissions of 170g/km and above registered from 6 April 2020, and 160g/km and above for older vehicles. The corresponding limits for non-RDE2 diesel engine cars are 150g/km and 140g/km respectively.

Planning point: If you are changing your car soon, think ahead to what it will cost you in tax terms as a result of the reforms in 2020/21. It may make sense to accept cash instead of a new car, switch to a hybrid vehicle or choose an electric-only car.

Pensions

The pensions landscape has altered dramatically in recent years and continues to change. As a reminder:

- For 2020/21 there will be a £90,000 increase to both of the annual allowance tapering trigger points, taking them to £200,000 (threshold income) and £240,000 (adjusted income). Annual allowance taper has become an increasing problem for higher paid employees and the new limits will generally remove the problem for those with incomes of under £200,000. However, there is a sting in the tail for people with very high incomes: the minimum tapered annual allowance will drop from £10,000 to £4,000 (at an adjusted income of £312,000 or more).

- Automatic enrolment for employees in a workplace pension arrangement is now fully in force, with new employees automatically enrolled. A second increase in the minimum contribution rates took place from April 2019, raising the total (employer and employee) contributions from 5% of "band earnings" (£6,240 - £50,000 in 2020/21) to 8%. No further increases are scheduled at present. Nevertheless, pension experts generally agree that the current overall contribution rate is 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.

- State pension ages (SPAs) continue to rise. In November 2018, the SPA for men and women equalised at age 65. It is now gradually rising to reach a common SPA of 66 by October 2020. An increase to 67 is then due between April 2026 and March 2028. The rise to 68 is scheduled between April 2037 and March 2039, although the necessary legislation has been deferred and the dates could change due to a slowing rate of life expectancy increases. By 2050 – so if you are 38 or under now – you could be facing a SPA of 69.

- The lifetime allowance is now enjoying indexation-linked rises after three cuts that had reduced its value by 44%. Another indexation increase, to £1,073,100 was announced in the Budget.

Planning point: The carry forward rules allow unused annual allowances to be carried forward for a maximum of three tax years. Thus 5 April 2020 will be your last opportunity to rescue unused allowance of up to £40,000 from 2016/17.

Salary Sacrifice

National Insurance Contributions (NICs) can cost up to 25.8% of gross pay – up to 13.8% 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 NIC saving, 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

Planning point: On 6 April 2016 the standard lifetime allowance was reduced to £1,000,000. It has since been increased in line with inflation twice and will rise again to £1,073,100 from 6 April 2020. However, there is still the possibility of claiming transitional protection of up to £1,250,000.

RETIREE/AT RETIREMENT

The Pension Landscape in Spring 2020

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

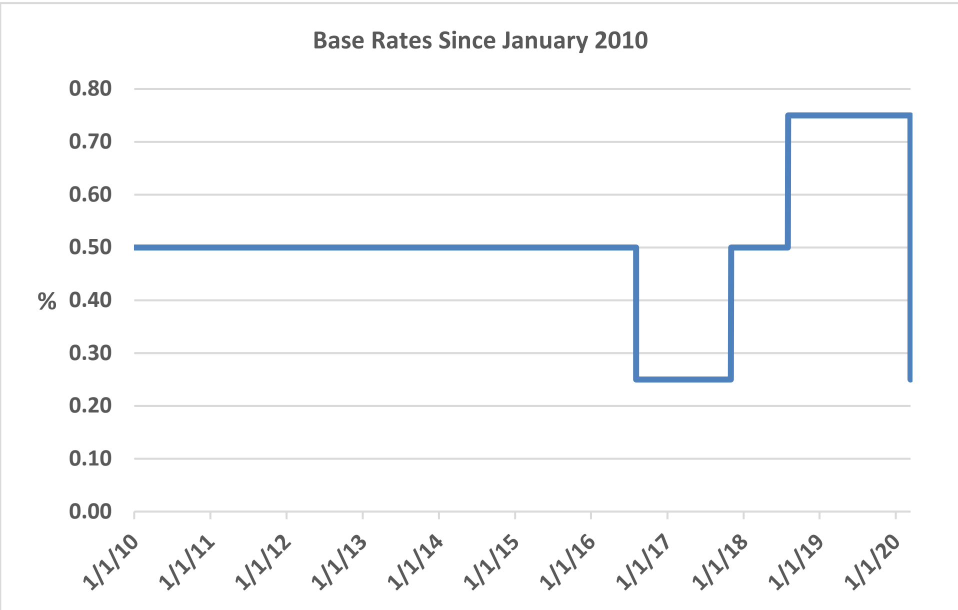
- Three reductions in the standard lifetime allowance brought it down from £1.8m in 2011/12 to £1m for 2016/17. This allowance effectively sets a tax-efficient ceiling for the value of pension benefits and, from April 2018, started to rise annually in line with CPI inflation, meaning it will be £1,073,100 in the coming tax year.

- Further increases to State Pension Age (SPA), both legislated for and planned. For women, SPA reached 65 a year ago. The next step up to a SPA of 66 (by October 2020) is now underway.

- 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 that pensions offer for estate planning.

- The single-tier state pension started on 6 April 2016. If you are near to state pension age, it is worth checking whether your National Insurance contribution record will gain you the maximum available.

Interest Rates: Lower for longer becomes low forever?



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%, a level to which it reverted on Budget day as part of a range of measures to counter the impact of the Covid-19 pandemic.

The main UK banks seem to have long since given up competing for deposits in this low-interest-rate environment, as has National Savings & Investments after its latest round of cuts (which take effect in May). The best instant access rates for new accounts are now from new and challenger banks at around 1.3%, a similar picture emerges for instant access cash ISAs.

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. It is especially important to watch accounts with bonus rates – once the bonus period ends 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. Note that the NS&I Direct ISA now pays only 0.9%, although this rate has escaped the latest round of cuts.
- Be wary of tying your money up in a fixed-term deposit for five or more years simply to achieve an interest rate only around 2.0%. A lot can happen in five years – just think back to 2015...
- Consider investing in UK equity income funds, where yields of 5.5% and more are widely available. You will lose capital security, but your initial income would be usefully higher and the dividend allowance currently lets you receive £2,000 of dividends before paying any dividend tax, regardless of your personal tax rate.

Planning point: If you have not yet arranged an ISA or invested up to the 2019/20 maximum, think about doing so. If you are unsure where to invest at present, you can always leave your money on deposit, even in a stocks and shares ISA. Just don't expect it to earn much interest.

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.

Planning point: The changes to the death benefit rules on pensions from 6 April 2015 mean 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. One consequence is that from an inheritance planning viewpoint it can be better to draw on – and even run down – non-pensions assets in retirement rather than use your pension arrangements as a source of income.

PARENTS

Child benefit

The High Income Child Benefit Tax Charge – the child benefit tax – means that 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 over 65%.

Planning point: 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.

Junior ISAs

Junior ISAs (JISAs) were launched in November 2011 with an annual investment limit of £3,600, which has since been increased to £4,380 in 2019/20. For 2020/21 the limit will more than double to £9,000. 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 (CTF) account (which has the same investment limits). It is possible to transfer CTF accounts to a JISA, a move that may result in reduced fees and a wider investment choice.

The first CTF accounts, for children born in September 2002, will reach maturity in the coming September. Regulations passed in January will mean that by default maturing CTF accounts will continue to enjoy their current UK tax exemptions as a ‘protected account’ or, if instructions are given, can be transferred to an ISA. Any such transfer will not count as a contribution for the year unless it is to a Lifetime ISA.

University funding

The £9,250 a year maximum tuition fee for new 2020/21 students in England and Wales is, for now, a fact of student life. Despite the recommendation to reduce this to £7,500 in the Augar report, which emerged last year, the last government reportedly decided that it would leave it unchanged and there have been no indications to the contrary from the current administration. All maintenance assistance is now also 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 a greater degree of 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 many experts consider that it makes sense to take the student fee loans while at university rather than pay fees from capital. That is because repayment for most recent and new English and Welsh loans only begins once earnings reach £25,725 (£26,575 from 2020/21) and any debt is currently written off after 30 years from the April after graduation.

MAIN INCOME TAX ALLOWANCES AND RELIEFS

	2019/20	2020/21
	£	£
Personal allowance – standard	12,500	12,500
Personal allowance reduced if total income exceeds ∞	100,000	100,000
Transferable tax allowance (marriage allowance)§	1,250	1,250
Married couple's allowance* – minimum amount	3,450	3,510
– maximum amount	8,915	9,075
Maintenance to former spouse *	3,450	3,510
Married couple's allowance reduced if total income exceeds ¶	29,600	30,200
Employment termination lump sum limit	30,000	30,000

∞ For 2019/20 and 2020/21 the reduction is £1 for every £2 additional income over £100,000. As a result there is no personal allowance if total income exceeds £125,000 in 2020/21 (or 2019/20).

§ Available to spouses and civil partners born after 5 April 1935, provided neither party pays tax at above basic rate.

* Relief at 10%. Available only if at least one of the couple was born before 6 April 1935.

¶ For 2019/20 and 2020/21 the reduction is £1 for every £2 additional income over the total income threshold. **Only** the standard allowance is available if total income exceeds:-

	2019/20	2020/21
	£	£
Taxpayer born before 6 April 1935 [married couple's allowance]	40,530	41,330

INCOME TAX RATES (UK EXCLUDING SCOTTISH TAXPAYERS' NON-DIVIDEND, NON-SAVINGS INCOME)

	2019/20	2020/21
	£	£
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+	7,500+¶	7,500+¶
Higher rate - 40%	37,501-150,000+¶	37,501-150,000+¶
Tax on first £150,000+	52,500+¶	52,500+¶
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%
Dividend nil rate band (dividend allowance)	1-2,000	1-2,000
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.

If full starting rate band is available:

- £6,500 on first £37,500 in 2020/21 and 2019/20; and
- £51,500 in 2020/2021 and 2019/20 on first £150,000.

¶ For Scotland, the 2020/21 tax bands and tax rates, which cover only non-dividend and non-savings income, are:

19% starter rate on income up to	£2,085
20% basic rate on next slice of income up to	£12,658
21% intermediate rate on next slice up to	£30,930
41% higher rate on next slice up to	£150,000
46% top rate on income over	£150,000

Wales can now set its own tax rates, but adhered to the UK bands for 2019/20 and will do so again in 2020/21.

° 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.

CO2 g/km[1]	Electric Range (miles)	% of price subject to tax[2]		
		19-20	20-21	
			Registered pre-6/4/20 (NDEC)	Registered 6/4/20 on (WLTP)
0	N/A	16	0	0
1-50	130 or more	16	2	0
1-50	70-129	16	5	3
1-50	40-69	16	8	6
1-50	30-39	16	12	10
1-50	Less than 30	16	14	12
51-54		19	15	13
55-59		19	16	14
60-64		19	17	15
65-69		19	18	16
70-74		19	19	17
75		19	20	18
76-79		22	20	18
80-84		22	21	19
85-89		22	22	20
90-94		22	23	21
95–99		23	24	22
100–104		24	25	23
105–109		25	26	24
110–114		26	27	25
115-119		27	28	26

CO2 g/km[1]	% of price subject to tax[2]		
	19-20	20-21	
		Registered pre-6/4/20 (NDEC)	Registered 6/4/20 on (WLTP)
120-124	28	29	27
125-129	29	30	28
130-134	30	31	29
135-139	31	32	30
140-144	32	33	31
145-149	33	34	32
150-154	34	35	33
155-159	35	36	34
160-164	36	37	35
165-169	37	37	36
170 or more	37	37	37

Notes

1. The exact CO_2 emissions figure are based on NDEC for pre-6 April 2020 registration and WLTP for cars registered thereafter.
2. For diesels (other than diesel hybrids) add 4% unless RDE2 emissions standards are met (mandatory for registrations from 1 January 2021), subject to maximum charge of 37%.

CAR FUEL BENEFITS

For cars with an approved CO2 emission figure, the benefit is based on a flat amount of £24,500 (£24,100 for 2019/20). To calculate the amount of the benefit the percentage figure in the above car benefits table (that is from 0% to 37%) is multiplied by £24,500. The percentage figures allow for a diesel fuel surcharge. For example, in 2020/21 a petrol car registered before 6 April 2020 emitting 118 g/km would give rise to a fuel benefit of 28% of £24,500 = £6,860.

INHERITANCE TAX

	Cumulative chargeable transfers [gross]		tax rate on death %	tax rate in lifetime* %
	2019/20 £	2020/21 £		
Nil rate band+	325,000	325,000	0	0
Residence nil rate band¶	150,000	175,000	0	N/A
Residence nil rate band reduced if estate exceedsº	£2,000,000	£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 2020/21 if the total estate exceeds £2,350,000 (£2,700,000 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

	2019/20 £	2020/21 £
Annual exemption	12,000*	12,300*
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 £1,000,000. Gains taxed at 10%

* Reduced by at least 50% for most trusts.

**£1,000,000 for disposals on or after 11 March 2020

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, LAND TRANSACTION TAX AND STAMP DUTY

England and Northern Ireland: 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

°First-time buyers: First £300,000 slice of value at 0% if property consideration is not more than £500,000

¶ 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 £250,000	1%
£250,001 to £325,000	5%	Over £250, 000	5%
£325,001 to £750,000	10%		
Over £750,000	12%		
¶ All rates increased by 4% for purchase of additional residential property if value is £40,000 or more *£175,000 for first-time buyers			

Wales: LTT

Residential (on slice of value)	Rate¶	Commercial (on slice of value)	Rate
£180,000 or less	Nil	£150,000 or less	Nil
£180,001 to £250,000	3.5%	£150,001 to £250,000	1%
£250,001 to £400,000	5%	£250,001 to £1,000,000	5%
£400,001 - £750,000	7.5%	Over £1,000, 000	6%
£750,001 to £1,500,000	10%		
Over £1,500,000	12%		
¶ 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	
	2020	**2021**
Main rate	19%	19%

TAX-PRIVILEGED INVESTMENTS [MAXIMUM INVESTMENT]

	2019/20 £	**2020/21 £**
ISA		
Overall per tax year:	20,000	20,000
Maximum in cash for 16 and 17 year olds	20,000	20,000
Junior ISA (additional to overall limit for 16-17 year olds)	4,380	9,000
Help to buy ISA°	£1,000 initial (to 30/11/19) and £200 a month	£200 a month
Lifetime ISA	4,000	4,000
ENTERPRISE INVESTMENT SCHEME (30% income tax relief)	2,000,000*	2,000,000*
Maximum carry back to previous tax year for income tax relief	1,000,000	2,000,000
SEED ENTERPRISE INVESTMENT SCHEME (50% income tax relief)	100,000¶	100,000¶
VENTURE CAPITAL TRUST (30% income tax relief)	200,000	200,000

PENSIONS

	2019/20	2020/21
Lifetime allowance*	£1,055,000	£1,073,100
Lifetime allowance charge:		
Excess drawn as cash	55% of excess	
Excess drawn as income	25% of excess	
Annual allowance	£40,000	£40,000
Annual allowance taper:¶		
Threshold income limit	£110,000	£200,000
Adjusted income limit	£150,000	£240,000
Minimum annual allowance	£10,000	£4,000
Money purchase annual allowance	£4,000	£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.

¶ 50% taper down to the minimum allowance based on excess over adjusted income limit if threshold income limit is also exceeded

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee				
	2019/20		2020/21	
	Employee	Employer	Employee	Employer
Main NIC rate	12%	13.8%	12%	13.8%
No NICs on first:				
Under 21*	£166 pw	£962 pw	£183 pw	£962 pw
21* & over	£ 166 pw	£166 pw	£ 183 pw	£169 pw
Main NIC charged up to	£962 pw	No limit	£962 pw	No limit
Additional NIC rate	2%	N/A	2%	N/A
on earnings over	£962pw		£962pw	

* Under 25 for apprentices

Employment Allowance		
	2019/20	2020/21
Per business*	£3,000	£4,000+

* Not available if a director is the sole employee

+ Only available if 2019/20 secondary NICs were less than £100,000

Limits and Thresholds	2019/20		2020/21	
	Weekly £	Yearly £	Weekly £	Yearly £
Lower earnings limit	118	6,136	120	6,240
Primary earnings threshold	166	8,632	183	9,500
Secondary earnings threshold	166	8,632	169	8,788
Upper secondary threshold – U21s*	962	50,000	962	50,000
Upper earnings limit	962	50,000	962	50,000

* Under 25 for apprentices

Self-employed and non-employed	**2019/20**	**2020/21**
Class 2		
Flat rate	£3.00 pw	£3.05pw
Small profits threshold	£6,365 pa	£6,475pa
Class 4 (*Unless over state pension age on 6 April)*		
On profits	£8,632– £50,000 pa: 9% Over £50,000 pa: 2%	£9,500 – £ 50,000 pa: 9% Over £ 50,000 pa: 2%
Class 3 (Voluntary)		
Flat rate	£15.00 pw	£15.30 pw

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