Budget 2020: Financial Planning Overview

Introduction

It is an unbelievable 500 days since the last Budget in October 2018. And in the face of the Coronavirus and the decline in global stock markets, Brexit seems a long time ago now.

The Chancellor, Rishi Sunak, has only been in the job a matter of weeks and to say the Budget will have represented a challenge for him may be a massive understatement. Even more so given the current world events which has led to this Budget being dubbed by some as the "Corona Budget".

Budget Day started with an announcement by the Bank of England that the base interest rate will reduce from 0.75% to 0.25%. This cut has been made in an attempt to help businesses by lowering borrowing costs and giving banks more flexibility over lending policy.

At the same time the Government has announced its intention to help people during the difficult Coronavirus days ahead and to do its best to make sick pay available in a speedy and effective manner for all. It will also do its best to support small businesses by giving VAT and PAYE payment holidays. A very significant financial commitment to public services, notably the NHS, has also been made.

A central point of the Government's economic policy is the commitment to spend a substantial amount on infrastructure projects over the next 10 years and this has apparently led to the OBR to revise its growth forecast upwards.

As far as changes to fiscal policy are concerned, the main highlights for financial planning clients were as follows:

- a reduction in the lifetime allowance for entrepreneur's relief from £10 million to £1 million;
- an increase in the threshold income and adjusted income to £200,000 and £240,000 respectively with the minimum annual allowance falling from £10,000 to £4,000;
- an increase in the JISA contribution limit to £9,000 from £4,368;
- an improvement to the rules on top-slicing relief when chargeable event gains from a life policy cause adjusted net income to exceed £100,000;
- an increase in the employee's primary threshold limit to £9,500;
- an increase in employer's NIC employment allowance to £4,000;
- an increase in the CGT annual exemption to £12,300;
- the announcement of a review to the taxation of UK funds with a view to determining whether the UK could be made more attractive as a location for funds;
- the announcement of an intention to treat non-taxpaying employees in net pay pension schemes in the same way as those who pay contributions direct and so give basic rate tax relief to both types of saver;
- a continued commitment to combat perceived aggressive tax avoidance.

Unsurprisingly, no changes were announced to tax rates, amounts of personal allowances or the maximum ISA allowance.

Surprisingly, despite considerable speculation, there was no announcement of any change to inheritance tax or even a review of the current system. But it can only be a question of time.

This Budget analysis focusses on changes and consultations announced in the Budget speech and supporting papers and what they mean for clients.

1. Income Tax

Budget announcements - Rates and allowances

Subject to the exceptions noted below, income tax rates and allowances for individuals and trustees will be frozen for the new tax year. This includes the 0% starting rate band for savings income and the higher rate tax threshold which will remain at £5,000 and £50,000 respectively. There is also no increase to the personal allowance which will remain at £12,500 for the 2020/21 tax year.

Exceptions:

- The married couple's allowance (MCA), which is only available provided at least one spouse was born before 6 April 1935, is increased to £9,075. There is a reduction in the MCA of £1 for every £2 additional income in excess of the total income threshold which is increased to £30,200. The MCA will not reduce below £3,510 (the "minimum amount").
- The blind person's allowance will increase by £50 to £2,500.

The increased allowances will take effect for the 2020/21 tax year

Planning opportunities

There are no specific planning opportunities arising from the Budget announcements made in respect of income tax however in terms of general planning:

- Couples should aim to fully utilise both personal allowances, starting/basic rate tax bands and the dividend and personal savings allowances should be used to the full and ensure that they do not lose out on the ability to transfer the transferable marriage allowance where eligible to do so.
- Any such transfers would usually be capital gains tax and inheritance tax neutral as transfers between spouses living together are treated as transfers on a no gain/ no loss basis for capital gains tax purposes and transfers between UK domiciled spouses (living together or not) are exempt from inheritance tax without limit.

2. National Insurance

Budget announcements - Rates and thresholds

The level at which taxpayers start to pay National Insurance contributions (NICs), will rise to £9,500 per year for both employed and self-employed people from 6 April 2020. All other thresholds for 2020/21 will rise with inflation, except for the Upper NICs thresholds which will remain frozen at £50,000, as announced at Budget 2018.

The main rates for 2020/21 are as follows:

- The Employee's Primary Class 1 National Insurance rate is 12% on earnings between the Primary Threshold (£183 per week - £9,500 pa) and Upper Earnings Limit (£962 per week - £50,000 pa).
- Employees, in addition, pay 2% Primary Class 1 National Insurance on all earnings above the Upper Earnings Limit (£50,000 pa).
- The Employer's Secondary Class 1 contribution rate on earnings above the Secondary Threshold (£169 per week - £8,788 pa) is 13.8%. This rate applies also to Class 1A and Class 1B contributions.
- The self-employed Class 4 rate on profits between the Lower Profits Limit (£9,500 pa) and Upper Profits Limit (£50,000 pa) is 9% and 2% above £50,000 pa.
- The self-employed Class 2 flat rate contribution is £3.05 per week when profits exceed £6,475 pa.

Budget announcements - Employment Allowance Reform

The Chancellor confirmed that Employment Allowance will increase from £3,000 to £4,000. However, access will be restricted to employers with an employer NIC bill below £100,000 in 2019/2020.

Budget announcements - NIC holiday for employers of veterans in first year of civilian employment

The Government will consult on a relief from NICs for employers of veterans. The relief will exempt employers from any NIC liability on the veteran's salary up to the Upper Earnings Limit in the first year of their civilian employment.

Budget announcements - NIC exemption for bursary payments to care leavers

Legislation will be included in Finance Bill 2020 to provide a statutory exemption from NICs for the one-off bursary paid by the Education and Skills Funding Agency to care leavers aged 16 to 24 who start an apprenticeship.

3. Dividend Allowance

Budget announcements

No changes announced in respect of the dividend allowance or the dividend tax rates.

From 6 April 2020 the dividend tax rates will remain at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

The dividend allowance will remain at £2,000 for all individual taxpayers.

There is no £2,000 dividend allowance for trusts. The dividend rate for trusts matches the individual additional rate of 38.1%. Dividend income that falls within the trust's £1,000 standard rate band is taxed at 7.5%.

Planning opportunities

The 0% dividend allowance means that, regardless of their tax rates, a married couple or civil partners can receive up to £4,000 of dividend income with no tax liability, provided that they share their dividends equally. Whilst this may not be necessary where £2,000 is sufficient to cover their individual dividend income anyway.

Anyone who is married or in a civil partnership, may want to consider an unconditional transfer of an appropriate amount of their dividend producing investments to ensure each of a couple to use their allowance. It is reiterated that any such transfer must be made on a 'no-strings-attached' basis to ensure that the desired tax outcome is achieved.

4. Capital Gains Tax

Budget announcements Capital gains tax exemption

The capital gains tax annual exemption will increase from £12,000 in 2019/20 to £12,300 in 2020/21. The annual exemption available to trustees will increase from £6,000 in 2019/20 to £6,150 in 2020/21 – although this "per trust" limit is diluted where the settlor has created more than one trust subject to a minimum of £1,230 per trust.

The rates of capital gains tax remain unchanged. However, as previously announced, from 6 April 2020 UK residents who sell a residential property that gives rise to a capital gains tax liability, e.g. a buy-to-let property, must send a new standalone online return to HMRC and pay the tax due within 30 days of completion of the sale.

The changes to the annual exemption will take effect from 6th April 2020.

Planning opportunities- Making use of the annual exemption

The annual exemption is given on a 'use it or lose it' basis. Disposals driven by a desire to trigger gains within the exemption need to be such that they circumvent the "bed and breakfasting" anti-avoidance provisions. Of course, in the ordinary course of ensuring that a portfolio adheres to a specified asset allocation model, investors may naturally use some or all of their annual exemption as a useful and tax effective "by-product" of re-balancing.

In some cases where a disposal is ascertained to be the right thing to do and it is near to the end of a tax year, phasing the disposal (e.g. of shares or collective investments) over two tax years can prove to be beneficial as it may then facilitate the use of two annual exemptions in close succession.

It may also be possible to maximise the tax-free element of any gain by ensuring that investments are held jointly with a spouse or civil partner, so that two annual exempt amounts are available to offset against any gain on disposal. Any transfer between spouses must of course be unconditional to be effective.

Planning opportunities - Maximising the use of losses

The recent equity market volatility may mean that some holdings could be standing at a loss and as such, those who either make a capital loss or have carried forward losses need to understand how these can be used.

If a taxpayer has realised a gain and a loss in the same tax year:

- The loss will be set off against the gain, even if the gain is within the taxpayer's annual exemption. Some or all the exemption may therefore be wasted.

However, if the taxpayer carried forward a loss from a previous tax year:

- The carried forward loss is only used up to the extent that it reduces their overall gains to the level of the annual exemption.
- The loss is therefore only partly used when necessary with the balance carried forward to set off against gains in later tax years.

Care should therefore always be taken before realising gains and losses together in a single tax year so as not to inadvertently waste the annual exemption.

Where a large gain has been made on disposal of an asset, then subject to very careful consideration in relation to risk and liquidity, consideration could be given to investing all or part of the gain into qualifying Enterprise Investment Scheme (EIS) shares to benefit from capital gains tax deferral relief. The deferred capital gain will not then be brought into charge until the EIS shares are sold or otherwise disposed of – and may be wiped out altogether if the shares are still owned by the investor at the date of their death. As indicated above EIS investments, of course, carry a certain level of investment risk that not all investors will be comfortable with, and this must be very clearly understood before any decision to invest is made.

Budget announcements - Entrepreneurs' relief

Entrepreneurs' Relief (ER) provides for a lower rate of capital gains tax (10%) to be paid on a gain arising as a result of disposing of all or part of a business where certain criteria are met, subject to a lifetime limit of £10,000,000 of qualifying gains. The Chancellor announced that this lifetime limit will reduce from £10,000,000 to £1,000,000 for ER qualifying disposals made on or after 11 March 2020. The new rules will also provide that the lifetime limit must take into account the value of ER claimed in respect of qualifying gains in the past.

There are special provisions for disposals entered into before 11 March 2020 that have not been completed. Under section 28 of TCGA 1992, the time at which the disposal is made is the time the contract is made, and not, if different, the time at which the asset is conveyed or transferred. Rules will be introduced that apply to forestalling 15 arrangements entered into before Budget day. In such cases the disposal will be subject to the £1,000,000 lifetime cap unless:

(1) The parties to the contract demonstrate that they did not enter into the contract with a purpose of obtaining a tax advantage by reason of the timing rule in section 28 of TCGA 1992; and
(2) Where the parties to the contract are connected, that the contract was entered into for wholly commercial reasons.

In addition, where shares have been exchanged for those in another company on or after 6 April 2019 but before 11 March 2020, and:

- both companies are owned or controlled by substantially the same persons, or
- persons who held shares in company A hold a greater percentage of shares in company B than they did in company A and, on 11 March 2020, the personal company test, the trading company test and the employee/officer test are met in respect of company B,

then if an election is made under section 169Q TCGA 1992 (which prevents the original shares and the new holding being treated as the same asset and allows a claim for entrepreneurs' relief to be made as if the reorganisation involved a disposal of the original shares) on or after 11 March 2020, the share disposal is to be treated as taking place at the time of the election for ER purposes, meaning that the new lifetime limit of £1,000,000 will apply.

The ER change applies to qualifying disposals made on or after 11 March 2020.

Planning opportunities

Anyone considering making a qualifying ER disposal, or who have made such a disposal prior to 11 March 2020 that has not completed prior to 11 March, need to understand whether they will be affected by this reduction in the lifetime limit.

Budget announcements - Principal Private Residence (PPR) relief

As previously announced, from 6 April 2020, lettings relief, which is currently available on disposals of property that qualifies for an element of PPR relief, will be restricted to cases where the landlord and tenant share occupation.

The final period exemption for PPR will be reduced from 18 months to 9 months. There are no changes to the 36 months final period exemption available to disabled people or those in a care home.

This will take effect from 6th April 2020.

5. Savings And Investments

Budget announcements - Individual Savings Accounts (ISAs)

The ISA subscription limit will remain at £20,000 for 2020/21.

The annual subscription limit for Junior ISAs or CTF will be more than doubled in 2020/21, increasing from £4,368 to £9,000.

The Junior ISA/CTF increase will take effect from 6th April 2020.

Planning opportunities

Anyone who has not used their full ISA allowance should consider doing so before the end of the tax year.

By saving towards their future, families can give children a significant financial asset when they reach adulthood – helping them into higher education, training, or work. Junior ISAs (JISAs) and Child Trust Funds (CTFs) are tax-advantaged accounts for children, designed to encourage a long-term savings habit through tax efficiencies. No new CFTs can be set up but contributions can continue to the established ones.

Budget announcements - Regulation of pre-paid funeral plans

Following a consultation in 2018 and call for evidence in 2019 it was announced today that the Government will introduce a number of measures intended to regulate funeral plan providers including bringing them within the remit of the FCA. This will require changes to secondary legislation and the new regulatory framework is likely to be in place within two years.

6. Pensions

Budget announcements – Lifetime Allowance Increase

The Chancellor today confirmed that the 2020/2021 Lifetime Allowance will be £1,073,100. although we still await the legislation.

This will take effect from 6th April 2020.

Planning opportunities

- We have known for a while that the Lifetime Allowance will be increasing in April broadly in line with CPI so planning of crystallisations pre and post the tax year end should already be in place.
- This will not impact those with FP, FP14, FP16 or Individual Protection. Those with Individual Protection 2016 less than £1,073,010 will lose their protection because it will no longer be needed.
- The increase in the Lifetime Allowance will have an impact on protected tax-free cash, reducing the amount protected by a small amount.

Budget announcements – Tapered Annual Allowance Changes

As expected, the Chancellor has announced the that Threshold Income level for the tapered annual allowance will be increasing in 2020/21. However, the increase was more significant than expected, increasing by £90,000. The Threshold Income level will now be set at £200,000 and the Adjusted Income level will be set at £240,000.

In addition, the minimum the taper can take the annual allowance down to will now be £4,000, a reduction from £10,000 previously. The minimum will be reached when Adjusted Income is £312,000 or more.

One small comment made in the Red Book was that proposals to offer greater pay in lieu of pension contributions for senior clinicians in the NHS Pension Scheme will not be taken forward. This may impact plans already in place for some senior clinicians for the next tax year.

This will take effect from 6th April 2020.

Planning opportunities

- This will mean fewer pension members will be impacted by the tapered annual allowance.
- This will not have an impact in the tax year 19/20 but may give those with income between £110,000 and £200,000 more scope for pension contributions next tax year.
- Anyone who has recommended opted out of a pension scheme or taken reduced pension contributions in exchange for increased salary, should revisit these calculations in light of this change.

7. Life Policy Taxation

Budget announcements

Legislation will be introduced to amend sections 535 to 537 in Chapter 9, Part 4 of the Income Tax (Trading and Other Income) Act 2005 to permit the personal allowance to be reinstated within the taxpayer's top-slicing relief calculation where it has been reduced by reason of including a gain in their income for the year.

This broadly means that in a situation where an individual can benefit from top-slicing relief, it would be the 'slice' that would be added to their other income to determine the loss of any personal allowance.

The personal allowance reduces by £1 for every £2 for those with adjusted net income in excess of £100,000. This means that there will be no personal allowance available once adjusted net income exceeds £125,000.

So, for example, if someone had adjusted net income of £40,000 and incurred a chargeable event gain of £90,000 over 10 years; in calculating the tax on the top-slice, the top-sliced gain of £9,000 would be added to £40,000 to determine any loss of personal allowance as opposed to £90,000. In this example, if the whole gain were added to other income this would be £130,000 so the client would have lost full entitlement to their personal allowance. However, by adding the top-slice of £9,000 to other income of £40,000 in calculating the tax on the top-slice (and thus top-slicing relief) they actually benefit from their full personal allowance which results in a tax saving of £2,500 in tax (20% of the £12,500 personal allowance).

This change follows the decision made in the recent First-tier Tribunal case of Marina Silver v The Commission for HMRC. Here HMRC argued that it should be the full gain that should be added to other income to determine loss of any personal allowance in calculating the tax on the top-slice but lost the case. HMRC has appealed and the appeal is expected to be heard within the next 2 months.

The legislation will also be amended to confirm that when carrying out the top-slicing tax calculation, allowances and reliefs (in section 25(2) of the Income Tax Act 2007) have to be set as far as possible against other income in preference to the gain.

This change is effective for chargeable events that occur on or after 11 March 2020. It is presumed that earlier chargeable events will be dealt with under the previous rules.

Planning opportunities

This is a welcome change and will mean that those making an encashment now who may have previously lost entitlement to the personal allowance where the gain added to other income caused adjusted net income to exceed £100,000 (but the top-slice did not) could now benefit from part/all of the personal allowance.

8. Inheritance Tax

Budget announcements

There were no new announcements in relation to the rate(s) of inheritance tax payable. The inheritance tax nil rate band will remain at £325,000 and the residence nil rate band (RNRB) will, as previously announced, increase to £175,000 from April 2020.

9. Trust Taxation

Budget announcements

There have been no announcements in the Budget in relation to trusts.

The increase in the annual CGT exemption affects trustees.

The annual CGT exemption available to trustees will increase from £6,000 to £6,150 from 6 April 2020 – although this limit will be diluted according to the number of trusts created by the same settlor but will not be less than £1,230 per trust.

The CGT change is effective from 6 April 2020.

Planning opportunities

While the Budget does not provide any immediate planning points, we need to be aware of the ongoing review of trusts being carried out by the Government. At the moment HMRC is still reviewing responses to their extensive consultation entitled "The taxation of trusts: a review" issued in November 2018 and closed in February 2019 as well as dealing with responses to the more recent consultation on the expansion of the Trust Registration Service. So, it is most likely that there will be some important news relevant to trustees published later this year.

10. Corporation And Business Tax

Budget announcements - Corporation Tax Rate

The chancellor confirmed the previously confirmed decision that corporation tax would remain at 19%, rather than a planned reduction to 17% as had been outlined in previous legislation.

The 19% corporation tax rate remains low in relation to the G7 and G20 group of countries and demonstrates the UK to be an attractive place to run a business.

Planning opportunities

The attractive corporation tax rate will result in individuals continuing to run businesses through LTD companies and robust holistic advice to SME owners will only increase in importance.

Planning could include, dependent on needs, tax efficient corporate investment, pension planning, business succession and continuation and excepted group life and relevant life policies.

Budget announcements - NIC Employment Allowance

In order to increase the attractiveness of taking on new staff, it was confirmed in the budget that the NIC employment allowance would increase from £3,000 to £4,000, benefitting 510,000 businesses.

The change will come into effect from April 2020.

Budget announcements - Business Rates

Business rates have been removed for the vast majority of business for the next financial year. The government has already announced the Business Rates retail discount will be increased to 50% in 2020-21. To support small businesses affected by COVID-19 the government is increasing it further to 100% for 2020-21. The relief will also be expanded to the leisure and hospitality sectors.

Budget announcements - Support for the self-employed

The government has committed to improve the access to finance and credit for self employed individuals by extending funding for the start-up loan program and improving the guidance for self-employed people applying for mortgages.

The government will make it easier for self-employed people to find the information and guidance that is relevant to them and their business. The Budget announces that HMRC will launch new interactive guidance in summer 2020 which will make it easier for self-employed taxpayers to navigate the tax system.

Additionally, the government will consider how to provide appropriate support to self-employed parents so that they can continue to run their businesses, as part of its wider review of Parental Pay and Leave.

11. Taxation Of Shareholding Directors

Budget announcements - National Insurance Changes

It was announced in the 2020 budget that the National Insurance Contributions (NICs) Primary Threshold and Lower Profits Limit for employees and the self-employed respectively would increase to £9,500.

The increase will benefit around £31 million people with a typical employee saving around £104 per year and a self-employed person saving around £78 per year. Around £1.1m will be taken out of paying NICs entirely.

The changes come into effect from 6 April 2020.

Planning opportunities

Many shareholding directors should establish whether their current renumeration structure remains tax efficient following the changes. Shareholding directors should consider increasing their salary to £9,500 and reducing their dividends accordingly.

A salary payment will usually be an allowable business expense and will provide a corporation tax deduction, therefore increasing the salary to the new NICs threshold will be tax efficient.

Budget announcements - Dividend Allowance and Personal Allowance

The dividend allowance and personal allowance will remain £2,000 and £12,500 respectively for the 2020/21 tax year.

Budget announcements - Entrepreneur’s Relief

The chancellor announced that Entrepreneur’s Relief would not be scrapped, however the £10 million lifetime limit would be reduced to £1 million.

Further details on this change can be found in Capital Gains Tax above.