

# Budget 2020



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## INTRODUCTION

Somewhat unusually, there was no budget in 2019. The budget, which was moved from Spring to Autumn by Philip Hammond in 2017, had been planned for the Autumn but was cancelled due to the timing of the 2019 General Election. It has therefore been over 12 months since the last budget and three years since the budget speech was last delivered in the Spring leaving shorter time until many of the changes will come into force.

Thankfully, this chancellor's speech was not a series of one-liner jokes which we endured in Phil Hammond's last budget in 2018. But whether you agree or disagree with the statement, the catchphrase of this budget speech and one in which many MPs eventually joined in with the chorus of, has to be *"This budget gets it done"*!

The chancellor painted a rosy picture of the economy, albeit recognising that the Office of Budget Responsibility's forecast was closed before the spread of COVID-19 hit the UK. Coronavirus will be a temporary disruption to the economy; the government will be urgently assessing what has happened and what can be done to fix it. "We will get through this together", in true Brit style we should be worried, but not daunted and rise to the challenges presented to us.

The announcements made the promise to provide security for today, and to plan for prosperity for tomorrow from a Government that *"gets things done"*.

It is possible that 20% of the working population may be affected and not be able to work; business supply chains will be affected; productivity will shrink as well as a reduction in consumer spending. But all temporary, normality will return (if anyone can remember what that is!). Things will be tough for a period, but economic performance will recover.

Support has been announced for those who get sick, or who need to self-isolate as well as for businesses. A three-point plan was announced:

- 1) Whatever the NHS needs, it will get; whether that is funding for resources, vaccine research or testing.
- 2) Financial help for individuals; earlier access to SSP and Employment Support Allowance and more able to be arranged by phone or online.
- 3) Support for Small and Medium businesses who are expected to be hit the hardest; SSP claimed for coronavirus related absence will be reclaimable in full, as well as a temporary Business Interruption Loan scheme available from banks with government backed guarantees.

We had to wait until nearly the very end of the speech for anything pension-related which had been widely speculated upon. Given the effects of the tapered Annual Allowance on high earning NHS staff, it is somewhat reassuring that in these times when our NHS will play such an important role, some relief in the form of an increase in the income threshold over which the pension contribution Annual Allowance is reduced is being given from next month.

Some allowances and benefits continue to be linked to the CPI figure for September and therefore we already knew of some 1.7% increases from 6<sup>th</sup> April 2020.



## PERSONAL TAXATION

### Personal Allowance

The personal allowance was increased to £12,500 one year early, and so there is no increase from 6<sup>th</sup> April 2020; high rate income tax will continue to become payable only on earnings over £50,000 per year.

### National Insurance

A significant increase in the lower earnings threshold limit for National Insurance Contributions was announced with the threshold increasing from £8,632 to £9,500 per year. This is the first step towards increasing the threshold at which employees and the self-employed start paying NICs to £12,500 aligning the threshold to the Personal Allowance.

A 12-month NIC holiday was announced to support where veterans are employed.

**Class 1 contributions** (employees); the lower earnings threshold (to qualify for certain benefits such as State Pension) will increase to £120 per week. National Insurance contributions rates are unchanged at 12% (employees) and 13.8% (employers) and will be payable on earnings between £183 and £962 per week.

For the self-employed, **Class 2 contributions** are set at £3.05 per week where profits exceed the small profits threshold of £6,475; self-employed earners with profits below this level can pay Class 2 voluntarily.

The rate for **Class 3** voluntary NIC will be £15.30 per week from 6<sup>th</sup> April 2020.

**Class 4 contributions** are payable at the main rate of 9% on profits between the lower profits limit, £9,500 for 2020/21 and the unchanged upper profits level of £50,000, and at the additional rate of 2% on profits in excess of £50,000.

### Dividend Allowance

No changes to the reduced dividend allowance or rates of tax on dividends which exceed the tax-free amount of £2,000.

### Comment

*The taxation of dividends continues to be at a lower (significantly lower for basic rate tax payers) rate than that for income. Therefore, there continues to be opportunities for private company shareholders to reduce their personal tax liabilities by drawing dividends, although care should be taken as these do not qualify for State Pension accrual or earnings for pension contribution tax relief purposes.*

### Top-slicing Relief

Currently those realising a chargeable gain through surrender of an Investment Bond, which when added to other income, increases total income to in excess of £100,000 potentially lose their



personal allowance. Legislation is being introduced to reinstate the personal allowance where it is reduced by reason of including a gain in income; in these instances, the personal allowance will be calculated by reference to the individual's other income and a proportion of the gain, not the whole gain.

### **Capital Gains Tax (CGT)**

The Capital Gains annual exempt amount will increase to £12,300 from 6<sup>th</sup> April 2020 with rates unchanged at 10% for basic rate payers and 20% for higher rate payers (with an additional 8% for non-main residence residential property transactions).

### **Trust taxation**

We still have no further announcements on this although still expect something to be announced. The expansion of the Trust Registration Service under the Fifth Anti-Money Laundering Directive was due to take effect from 10 March 2020 and we await details following the consultation which ended on 21 February 2020.

### **Comments**

*We will issue a communication when there are any further announcements.*



## PERSONAL SAVINGS

### ISA allowance

The Junior ISA and Child Trust Fund allowances see a significant increase to £9,000 from 6<sup>th</sup> April 2020, whilst the ISA allowance remains at £20,000 for next tax year.

#### Comments

*For anyone that makes monthly savings into JISAs or Child Trust Funds and wants to maximise the tax-efficient savings, the monthly amount you save should be increased to £750 from the first payment date after 6<sup>th</sup> April 2020.*

*A very tax efficient method of saving towards children or grand-children's further education costs, although remember that they have complete control over these savings at age 18 and that any payments into the savings vehicle are classed as gifts for inheritance tax purposes and therefore may reduce your Nil Rate Band if you do not have sufficient surplus income over normal expenditure to satisfy the gifts out of income exemption*

### Pension Tax Relief

Yet again, the rumours were unfounded, although the government will shortly call for evidence on pensions tax relief administration, which may affect those who claim pension contribution tax relief, but do not pay any income tax themselves.

### Annual Allowance

With the UK being highly reliant on the NHS to get through this temporary shock of coronavirus, there have been many headlines highlighting the potential impact the tapered Annual Allowance may have on high earning medical staff working longer hours to meet our needs.

The standard Annual Allowance for pension contributions continues to be £40,000, however whilst under current year's limits anyone with income over £110,000 could potentially be restricted to a tapered Annual Allowance, this income threshold has been increased to £200,000 from 6<sup>th</sup> April 2020.

From 6<sup>th</sup> April 2020 only those with total income, which includes employer pension contributions, exceeding £240,000 will suffer a reduction in their Annual Allowance. With anyone with total income exceeding £312,000 being restricted to pension funding at £4,000 per year (the current tapered Annual Allowance for those with income over £210,000 is £10,000).

#### Comments

*Carry forward of unused Annual Allowance is still available; once you have used your current year's full Annual Allowance. Pension contribution tax relief on personal contributions continues to be available up to your total earnings each tax year, and at basic rate for those who do pay no income tax.*



*Employer contributions do not have the same restriction, other than satisfying the “wholly and exclusively” test to be classed as an expense for Corporation Tax purposes.*

*Do not delay in considering your pension funding, we do not expect this to be the last we will hear of it!*

### **Lifetime Allowance**

The Lifetime Allowance was set to increase by CPI and whilst previously the amount has been rounded up, not so this year; next tax year the limit will be £1,073,100.

### **Comments**

*If you are thinking of accessing your pension benefits, delaying this until next tax year will reduce the amount of your Lifetime Allowance you use therefore reduce your potential to exceed the Lifetime Allowance and incurring tax charges.*



## **CORPORATE MATTERS**

### **Corporation Tax**

No change to Corporation Tax rates this year or next, although help was given to small companies in the retail, leisure and hospitality sector. There will be no business rates for companies in those sectors with rateable values of less than £51,000. A review of long-term business rates is to be launched.

### **National Living Wage**

The National Living Wage will increase to £8.72 from April 2020.

### **Entrepreneurs Relief**

Said not to always benefit those entrepreneurs it was introduced to incentivise, whilst the rate is unchanged at 10%, the lifetime limit on gains which qualify for the relief is reduced from £10m, to £1m, which should not affect 80% of those using the relief.

### **Comments**

*The measures announced are to support smaller businesses, recognising that they may be significantly impacted, temporarily.*





## OTHER ANNOUNCEMENTS

### VAT

This tax, I recall (from reading text books!) was introduced in 1973 and replaced Purchase Tax which prior to the UK joining the EEC was levied at various rates depending on the luxuriousness of the goods being purchased. It has always been something of a puzzle as to which goods and services it is applied to at what rate and it has been applied at various rates over the years; currently the standard rate is 20%, with a reduced rate of 5% for some goods and others being zero-rated.

Coming soon after International Women's Day last Sunday, a headline announcement was made that "Tampon-tax" which has been at the reduced rate since 2001 will be abolished.

"Reading tax" will also be abolished on digital books and magazines from 1<sup>st</sup> December 2020 to align them with hard copies.

*Although we urge you to download a copy of Nick's book "Retireability" now to begin planning your retirement journey as soon as possible rather than delaying until the tax reduction later in the year.*

### Beers, wines and spirits

Recognising the importance to Scotland of the export of Scotch Whisky, a £1m support fund to promote Scottish food and drink overseas was announced, in addition to the planned duty rise on beers, wines, spirits and cider being cancelled; although a call for a review of the current complexity of the alcohol duty system was called for in the detail of the budget report.

Tobacco duty rates will continue to increase by 2% above the higher inflation measure of the Retail Prices Index; duty on hand-rolling tobacco increases by an additional 4% to 6% above RPI inflation.

The discount on business rates for pubs with a rateable value of less than £100,000 is also being increased to £5,000 for one year only.

### Cars and motoring

Whilst the chancellor announced that the government can no longer afford to freeze fuel duty, it will remain frozen for this year. users of cleaner forms of fuel will be incentivised. £500m was promised towards improving the infrastructure for fast charging electric vehicles so that they will be available within a 30 miles radius for most people.

Significant funding was also announced for roads, including a "pot-hole" fund which will enable 50,000,000 pot-holes to be filled! That will be welcomed by drivers all over the country who are experiencing the poor condition the recent floods have left many of our roads in.



## Broadband

The objective is for 95% of the UK to have 4G coverage with £510m invested into the rural phone network.

*The outbreak of coronavirus has highlighted the benefits of more of us having the capability to work from home. Although we do appreciate the camaraderie of coming into the office occasionally! If not the journey along the pot-hole ridden roads to get there!*

## Plastic Packaging

A new tax is being introduced from 2022 for plastic produced in or imported into the UK that does not contain at least 30% recycled plastic. A consultation will be held on the design and implementation of the tax.

## NHS Funding

The NHS continues to be the government's number one spending priority with investment to increase staffing, investment in hospitals and ensuring that new arrivals to the UK contribute to the NHS through an increased Immigration Health Surcharge of £624, with a discounted rate for children.

## Education

As someone who benefited greatly from music lessons at school, now runs and was a bit of a maths-geek at school, I was encouraged to hear of investment initiatives for our education sector.

Investment in our education sector continues with an increase in school funding per pupil, earlier support of the School Sport and Activity Action Plan to ensure that children get an active start in life and an Arts Premium is also to be introduced to help schools provide high quality arts programmes and extracurricular activities.

## Research and Development

The chancellor introduced this section of his budget speech by listing many British inventions and scientific laws now relied on globally. Further public investment (UK-wide) into R&D was announced to ensure UK businesses are leading the way in technology and innovations.

## Housing

The number of homeless people in the UK continues to hit headlines and Yvonne and Carmen will be representing Henwood Court at the YMCA Sleep Easy Challenge later this month raising awareness, and money, towards helping to prevent youth homelessness.

The budget announced a package of measures to help rough sleepers into permanent accommodation as well as measures to improve social housing



## CONCLUDING REMARKS

After over a year gap between budgets, the main announcements affecting Personal Financial Planning are the increases to the income threshold amounts for tapered Annual Allowance, the doubling of the JISA allowance for children, increase of the NIC lower income threshold and changes to Top Slicing Relief and loss of Personal Allowance for chargeable gains.

We heard nothing of restrictions on pension contribution tax relief which had been widely speculated and still await announcements following the OTS review of the Simplification of IHT and Trust taxation. We will continue to monitor this and issue bulletins if details are announced over the coming months.

Much of the news is now occupied by the coronavirus outbreak, and this is certainly affecting stock markets in the short term but we continue to recommend you take advantage of all the tax efficient savings allowances available to you while you can and not to fear short-term volatility; what is important is the way we react to volatility – don't!

Please do not hesitate to contact us if you wish to discuss any aspects of your Personal Financial Planning further.

**This paper is based on our current interpretation of the Budget 2020 and various industry comments. It is a broad summary and cannot cover every nuance. You should not take, or refrain from taking any action based on this information. Tax treatment can change and depends on your circumstances. This information does not constitute advice and is purely for information purposes. The views noted above may differ significantly from the final version of the legislation.**

