southern
independent financial consultancy

Autumn Budget 22nd November 2017

The budget this week was quite uneventful from a financial planning perspective. There was pre-budget concern that pension rules and tax relief would be reviewed but thankfully nothing came to fruition. Below summarises the general areas appropriate to financial planning.

Tax –Free Dividend Allowance

No changes were announced regarding **Dividend Taxation**. A reduction in tax-free dividend allowance for shareholders from £5,000 to £2,000 was announced in March this year and will be effective from April 2018. A reminder, directors of Limited companies drawing dividends will suffer from this reduction. One option available to Directors is to pay an employer contribution into their pension. The contribution can subject to certain criteria be deemed a business expense for corporation tax purposes. (Advice should be sought if this is something you wish to consider).

Capital Gains Tax

The individual Capital Gains Tax annual exemption will increase to £11,700, and the annual exemption generally available to trustees will increase to £5,850 from April 2018.

Personal Taxation

There were no changes to tax rates. **Personal tax-free allowance** (the amount you can earn before paying any income tax) will rise by £350 to £11,850 from 6th April and the basic rate allowance increases to £34,500 meaning you can earn £46,350 before paying higher rate income tax.

The **starting rate for savings income** remains £5,000. This means you can receive £5,000 of interest tax free. However the more you earn, the less your starting rate will be. If your other income is more than £16,500 you are not eligible for the starting rate for savings income.

Depending on your tax rate you may have a **Personal Savings Allowance**. This means you can receive tax free interest of £1,000 as a basic rate tax payer, £500 as a higher rate tax payer and if you are an additional rate tax payer, you have no Personal Savings Allowance.

ISA's

No changes were announced regarding ISA's. The regular ISA limit will remain at its current limit of £20,000 for next year.

Pensions

No major changes were announced regarding pensions. **The Money Purchase Annual Allowance** (MPAA) is the maximum you can accrue in pension savings if you have flexibly accessed a pension is £4,000. This is something to be aware of if you intend to access a pension and draw more than the 25% tax free cash element. For example if you continue to work and receive employer pension contributions, you could fall foul of this limit.

The **Lifetime Allowance** will increase in April 2018 to £1,030,000 (in line with September's Consumer Prices Index (CPI) rate) has been confirmed. (This is the maximum you can have in total in all your pensions when you access benefits without incurring an additional tax charge).

The A**nnual Allowance** is unchanged. It's based on your earnings for the year and is capped at £40,000. The A**nnual Allowance** is a limit to the total amount of contributions that can be paid to defined contribution **pension** schemes and the total amount of benefits that you can build up in defined benefit **pension** scheme each year, for tax relief purposes. If you hold a defined benefit pension (also known as Final Salary pension), you should ensure you establish what the pension input amount is from the scheme each year to ensure you do not exceed the limits.

High Earners can be subject to a Reduced / Tapered Annual Allowance if their "Threshold Income" is more than £110,000. The definition of Threshold income is complicated. Threshold Income in summary is your salary (do not include any pension contributions made through salary sacrifice), plus any bonuses, commission and any benefits in kind, plus Income from property, plus Dividend payments and interest from saving, plus any self-employed earnings, plus any salary/bonus you have sacrificed for pension contributions. You should then deduct: Any contributions you make to a pension (do not include any contributions made by your employer). If this totals more than £110,000 then further calculations are required to establish if you are subject to a tapered annual allowance. Please feel free to contact us if this is of concern. These rules have applied since 16/17 Tax year.

Inheritance Tax (IHT)

No changes were announced regarding Inheritance Tax (IHT). The government revenue from Inheritance tax is increasing year on year. The threshold at which estates are subject to IHT has been at the same level (£325,000) since 2009.

The personal residence represents a major part of most estates. The average house in England price in April 2009 was £161,000 and January 2017 is was £235,000. This is an increase of 45.96%. (Source: HM Land Registry).

A residential Nil Rate Band for inheritance tax purposes of £100,000 introduced this tax year and can increase your allowance before IHT is due if you leave your home to direct descendants and meet the qualifying criteria. This will increase as planned to £125,000 in April 2018.

There are tax-planning options available to help mitigate inheritance tax. Please contact us if this is an area you wish to discuss.

Tax Year End Planning

The tax year end is not far away. It is prudent to utilise your full ISA allowance and also consider pension contributions which can reduce your income tax liability if you are a higher rate tax payer. If you wish to discuss this or indeed any matter, please feel free to contact us on 02380 275375.

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