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Reminders for the new tax year

The start of the new tax year on 6 April marks several changes to tax and related matters that could make you richer… or poorer.

The absence of a Spring Budget does not mean that the usual raft of changes at the start of the new tax year have disappeared. Most of the important changes were announced in the Autumn Budget, in November 2017. However, Scotland has also recently approved a new set of income tax rates and bands.

Here is a list of the more important changes that take effect for 2018/19:

• The personal allowance rises by £350 to £11,850. However, the allowance will still be phased out at £1 per £2 of income over £100,000, leaving an effective 60% (61.5% in Scotland) tax band for between £100,000 and £123,700.

• The higher rate threshold will rise by £1,350 to £46,350.

• Scotland will see several changes to income tax. A new 'starter rate' of 19% applies to the first £2,000 of taxable income and an 'intermediate rate' of 21% applies to taxable income between £12,150 and £31,580. The higher rate threshold will increase by £430 to £43,430 and the higher rate will rise by 1% to 41%.

• National Insurance Thresholds rise, with the starting point for Class 1 (employers and employees) and Class 4 (self-employed) becoming £8,424 a year. For employees and the self employed the upper limit for full rate contributions will also rise in line with the non-Scottish higher rate threshold (to £46,350).

• The dividend allowance will fall from £5,000 a year to £2,000 a year, reducing a higher rate taxpayer's net income by up to £975.

• Company car scale rates will generally rise by 2% for petrol vehicles and 3% for diesels. The proportionate increase in tax can be more than those numbers suggest. For example, on a BMW 320d the charge rises from 24% to 27%, increasing the tax payable by one-eighth.

• The pension lifetime allowance will increase for the first time since 2010, albeit only by £30,000 to £1,030,000.

• Pension automatic enrolment minimum contributions will rise. In most instances that will mean a doubling for employers and a 150% increase for employees.

The number of changes, both positive and negative, can make April pay checks a puzzle if you are an employee. This is one reason why the start of the tax year is a good time to talk to your financial adviser.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.

Shaky start to 2018 for markets

Global markets were hitting new all-times highs repeatedly in 2017 before encountering some turbulence in 2018.

If you were invested in world stock markets last year, you should have enjoyed some healthy returns, although markets have experienced a much bumpier ride of late.

In 2017, the benchmark for developed markets, the MSCI World Index, was up nearly 10% in sterling terms, while the corresponding emerging markets index rose by over 20%. The US epitomised the strength of global share markets, with the Dow Jones Index closing at a new high 70 times in the year, itself a record.

Unpredictable futures

Despite this performance, markets have proven their unpredictability at the start of 2018.

If you are a long-term investor, it's generally unwise to suddenly turn into a short-term trader because of market volatility. In any case, holding cash is an unattractive option when the base rate is 0.5% and inflation is running at around 3%, guaranteeing a post-inflation loss. A compromise for fresh investment could be to drip feed sums into funds regularly, rather than make a single purchase.

We are happy to discuss your investment options.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

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State pension age continues to rise

When planning for retirement it is crucial to know what state pension you are entitled to, and when you will get it.

The level of the state pension has become more straightforward thanks to the introduction of a flat-rate pension in 2016. But figuring out when you will receive your pension has become more complex.

Women used to collect their state pension at the age of 60 and men received theirs from age 65, but the State Pension Age (SPA) for women has been rising. By the end of this year it will be equal with men.

This will not be the end of the increases, because from December 2018 the SPA will start to be increased to 66. It will then ratchet up to 67 from 2026.

Who is affected by these changes?

If you were born between 6 October 1954 and 5 April 1960 you will reach your SPA at 66.
If you were born after 6 April 1961 you won't reach your SPA until your 67th birthday.

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There are two periods when the SPA will rise each month according to your date of birth.

The first affects those born between 6 December 1953 and 5 October 1954. The second (increasing SPA from 66 to 67) affects those born between 6 April 1960 and 5 March 1961.

Staying informed

Many women who have seen their state pension age rise in recent years have complained they were not given sufficient warning about these changes.

We can help you understand how these changes will affect you and your retirement planning. In particular, we can advise you how to bridge the gap between the time when you expected to get your state pension and when it will actually be paid.

Tax relief reductions affecting landlords

The next instalment of tax changes affecting landlords and investors in buy-to-let properties takes effect from 6 April.

George Osborne's reform of tax relief on buy-to-let residential mortgage interest was announced in the summer 2015 Budget. The change began in April 2017, with the full effect not felt until 2020/21.

Borrowers will get a 20% tax credit on interest under the new scheme, instead of deducting interest against rental income. This is equivalent to basic rate relief, and it increases borrowing costs for higher or additional rate taxpayers. The change is being phased in until 2020/21. The amount of interest deductible against rental income is 75% for 2017/18, reducing by 25% each year after. Borrowers can claim 25% of the tax credit in 2017/18, increasing by 25% a year to reach 100% from 2020/21.

Credit: iStock/Martin Nancekievill

One consequence is that taxable income will increase. This can have unfortunate tax side effects – for example, pushing a borrower over an important tax threshold such as the £100,000 income level at which the personal allowance begins to be tapered away.

In the longer term, the impact of the reform could be significant for higher and additional rate taxpayers. The switch to a 20% tax credit could even turn a profit into a loss for a higher rate taxpayer.

Some buy-to-let investors are planning to sell in the face of the growing tax burden. If that includes you, talk to us about all your options.

The Financial Conduct Authority (FCA) does not regulate tax advice. Levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances. Tax laws can change. Business buy-to-let and commercial mortgages are not regulated by the FCA. Think carefully before securing other debts against your home.

An improvement to the ISA inheritance rules

The rules for inheriting ISAs will change from 6 April.

It was announced by George Osborne in 2014 that ISAs would become inheritable by surviving spouses and civil partners. At the time, nobody – not even the Treasury – was clear what the then chancellor meant.

The plans for ISA 'inheritance', when they eventually emerged, were far from simple. Although a surviving spouse or civil partner could effectively take over the investments in their deceased partner's ISA, the process revolved around the ISA's value at the date of death, not when the transfer took place.

To make matters worse, the ISA tax rules ceased to apply at death, but started up again once the survivor's inherited ISA was in place. It made an administratively complex structure of a straightforward idea.

Last November regulations were approved to simplify the process considerably, thanks to much lobbying and a protracted development of legislation. Now, for deaths occurring after 5 April 2018, in most circumstances:

- The ISA tax advantages of UK income tax and capital gains tax exemptions will continue throughout the period of estate administration.
- The inherited ISA can include any increase in value during that period.

If you are in a couple and needed another excuse for contributing to an ISA, either as a tax-year-ending or tax-year-starting payment, the new inheritance rules are a good one. The value of your investment can go down as well as up and you may not get back the full amount you invested.

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