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WINTER 2017/18

The second Budget of 2017

The Chancellor was generally more cautious in his Autumn Budget than in his Spring announcements.

Back in March this year, Philip Hammond's Budget debut as Chancellor almost marked his simultaneous finale in the role because of a failed attempt to raise national insurance contributions for the self-employed. This time around seems to have gone more favourably.

Stamp duty land tax (SDLT) and first-time buyers For first time buyers (other than in Scotland), from 22 November the first £300,000 slice of their property's purchase price is exempt from SDLT, provided their home costs no more than £500,000. That could mean a tax saving of up to £5,000.

Income tax The personal allowance will rise to £11,850 and the higher rate tax threshold (excluding that for non-savings, non-dividend income in Scotland) will rise to £46,350 for 2018/19. The missing Scottish threshold awaits finalisation of the Scottish Budget.

Pensions Despite the many pre-Budget rumours, thankfully the Chancellor made no changes to reduce pension tax benefits.

ISAs The overall ISA annual subscription limit of £20,000 and the Lifetime ISA (LISA) of £4,000 will remain unchanged for 2018/19. The Chancellor may have decided that the forthcoming cut in the dividend allowance from £5,000 to £2,000 was enough of an incentive to invest in ISAs.

Capital gains tax The annual exemption will increase to £11,700 for 2018/19 – worth a tax saving of up to £3,276 to a higher rate taxpayer on property-related gains. Buy-to-let investors using property-holding companies were less lucky as, from January 2018, a technical change means more of any future capital gain being subject to corporation tax. The change will also affect UK life companies and could reduce future returns on UK endowment and single premium policies.

If you have any question about the financial planning implications, please talk to us as soon as possible.

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

The quiet NIC increases

The first Budget of 2017 in March hit a serious obstacle when the Chancellor attempted to raise national insurance contributions (NICs) for the self-employed. This time around he was subtler in his approach.

When Mr Hammond announced an increase to Class 4 NICs in the spring Budget, partly to offset the end of Class 2 contributions from April 2018, it nearly cost him his job. His backbenchers and the popular press rose up against this new imposition on white van man and his ilk. Within a week the Chancellor had backed down.

This autumn the government adopted different tactics. In a written statement issued three weeks before the Budget, the Exchequer Secretary to the Treasury announced that the proposed National Insurance Contributions Bill would be delayed until 2018, with the result that the abolition of Class 2 NICs (currently £2.85 a week) would be deferred for 12 months. The net effect may have been an increase in NICs for the self-employed, but there was barely a murmur in the press.

In his Budget, the chancellor added 10p a week to the Class 2 rate and raised the upper threshold for the full NICs rate for the self-employed (and employees) by £1,350. The net result is that in 2018/19 the self employed will pay more NICs than under the spring Budget plans if their income is less than £23,764 (but at least £8,424).

If you are a higher rate taxpaying employee, then typically your NIC bill will rise by about £104 a year, cancelling out almost a third of your income tax savings from the increased personal allowance and higher rate threshold.

NICs are an income tax in all but name. In some circumstances, such as salary sacrifice for pension contributions, this can be turned to your advantage. To find out more, please talk to us.

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Planning for long term care

The UK care system is complex, fragmented and expensive, with many elderly people funding care costs themselves.

Those worried that they – or a close relative – might need care in future should arm themselves with as much information as possible. Discuss options with family early to avoid making rushed decisions at a potentially traumatic time.

Your local council is a good place to start. They have a duty to assess care needs and provide information on local services and funding options. Councils also assess an individual's ability to pay. This will look at people's income and assets. In England, those with assets of more than £23,250 pay care costs in full. This 'means-test' typically includes the value of any property, although it is excluded if a spouse or partner continues to live there. Even those without savings but with good pensions can end up paying care fees themselves.

Those needing care should also look at annuity options. These pay a fixed sum for life, meaning it's less likely you'll have to move somewhere cheaper if funds are exhausted. With residential care costing hundreds of pounds a week, financial planning can help. It isn't possible to insure against this cost, so save what you can and, if necessary, take specialist advice.

Tax return time

Wednesday 31 January is the deadline for submitting your 2016/17 self-assessment tax return online – the paper return deadline was 31 October.

Miss the deadline and you could face an immediate £100 penalty, even if HMRC owes you money. Since September, HMRC has started to remove some taxpayers – mainly pensioners – from the self-assessment return regime by the introduction of 'simple assessment'.

Under this system, HMRC uses data it already holds to calculate the tax due and issues the taxpayer with a tax calculation. Be warned: if you receive an HMRC calculation, you have only 60 days to raise any queries.

The Financial Conduct Authority does not regulate tax advice and tax laws may change.

The buy-to-let headline you didn't see

The Autumn Budget contained more bad news for many buy-to-let investors which went largely unnoticed.

April 2018 will see the next step down in mortgage interest relief for investors in buy-to-let (BTL) residential properties. The amount of interest that can be offset against rental income drops from 75% to 50%, with a corresponding increase to 50% in the element that qualifies for a 20% tax credit.

If you pay tax at more than basic rate, that means more interest on which you effectively receive only 20% relief rather than 40% or 45%. It could also mean an increase in your gross income, which might trigger other undesirable tax consequences, such as a phasing down or out of your personal allowance.

The mortgage interest changes have encouraged BTL investors to buy new properties via specially-established companies, sometimes also transferring existing properties into the same company. Using a company can create a double capital gains tax charge – once in the company and a second time on the shareholder. So far, however, the impact of this has been abated by the fact that corporate capital gains still benefit from indexation relief. That relief means only gains above inflation (measured on the more favourable Retail Prices Index – RPI) suffer corporation tax (currently 19%). As the example shows, even when inflation is relatively low, indexation can provide a real tax advantage.

The benefit of indexation relief

In February 2010, the Graham Property Company Ltd bought a flat for £200,000, including costs. Seven and a half years later the company sold the property for £257,000 (net of expenses) – a rise roughly in line with the performance of the Nationwide House Price Index. The RPI increase over the period was 25.3%, meaning the company had to pay corporation tax on a net gain of only:

£257, 000 – £200,000 x 1.253 = **£6,400**

From January 2018, indexation will be frozen at the December 2017 level, exposing all future gains to tax. HMRC said in the policy paper on the change that "This measure has no impact on individuals or households as it only affects companies", but clearly individuals who have been driven to use companies for their BTL investment will be affected.

As if that were not enough, the proposed Stamp Duty Land Tax (SDLT) exemption for most first-time buyers outside Scotland will also hit BTL investors competing to purchase lower-priced property. On a typical £250,000 purchase, the first-time buyer will pay no SDLT, while the BTL investor faces an SDLT bill of £10,000, whether buying personally or via their company. If you have the sense that the government is tilting the scales ever more against your BTL investment, then why not talk to us about other investments that are less heavily taxed?

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

Refresh your New Year resolutions

It's that time of year again, but with so many good intentions falling by the wayside after the new year, why not try a new approach that might stick?

For 2018, try adopting a different type of New Year resolution – a financial one. Here are three possibilities to consider:

- **I will review my will** Ensuring your will is up to date is one way to make sure your assets are dealt with in the way that you want when you are not around. Relying on the intestacy rules can create unpleasant surprises for those left behind.
- **We will review our ownership of investments** The past few years have seen a steady flow of changes to the tax treatment of investment income, such as the introduction of the personal savings allowance and the reform of dividend taxation. Couples may be able to share the tax burden.
- **I will obtain an estimate of my current pension benefits** The changes to pension rules over recent years, across both state and private pension provision, could well have altered your retirement income and even when you will receive some of your pension.

This trio are one-offs, so why not call us now and start 2018 the right way?

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax, will writing, trust advice and some forms of estate planning.