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Technical Update No. 21 7th November 2018

Saver / Investor / Estate Planner / Business Owner / Retired

Things to keep an eye on post-budget

Many breathed a sigh of relief after the Budget announcements, given that the widely expected tax rises to pay for the NHS did not materialise. Financial planning was, in fact, remarkably unaffected for a change. However, the spectre of further tax rises - should Brexit go awry - remains ever present. As such there are several things to bear in mind:

- Experts warn there is no certainty how long current pensions' tax reliefs will last and advise clients to make the most of their full tax allowances while they can.
- Most people will pay less income tax from next April after the personal allowance and higher rate tax thresholds were unexpectedly increased in the Budget — but higher earners will see part of that gain cancelled out by linked increases to national insurance.
- From April 2020, reforms to the "off-payroll" working rules will mean private sector companies who cannot prove their workers are self-employed will become liable for paying employer NICs and deducting higher taxes from their workers' pay.

Saver / Investor / Retired

Use or lose your £40,000 pension bonus

Higher earners have six months left to take advantage of a quirk in the pension rules that allows them to double up on their tax relief. Savers can put £40,000 a year tax free into a pension, as their "annual allowance". They are also allowed to carry forward any unused allowance from the previous three years. However, a rule change in the 2015-16 tax year allowed people to put in double the annual allowance for that year, increasing their contribution from £40,000 to £80,000. Under the carry forward rules, anyone who did not take advantage of the double tax break then must do so before April 2019 or lose it.

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When will the markets recover?

After a grim October, markets around the world appear to have stablished a touch, primarily on the back of growing optimism around the US/China trade dispute. On Thursday (1 November), President Donald Trump tweeted that he had had a "very good conversation" on trade with Xi Jinping, the president of China, giving hope the trade war that has dogged markets this year may soon come to an end. This helped to create a broader positive sentiment, spurring hopes that the heavy selling market that occurred in October may now be over. Despite closing slightly down on Friday's trading, the FTSE 100 closed with gains of 2.38% last week. Despite these gains, most markets remain in the red year-to-date. However, the recovery has given hope that October's selling was a correction in the mould of the February sell-off this year, rather than the start of a more prolonged market downturn.

Property Owner

Landlords hit by the Budget

When you sell a property, you may have to pay capital gains tax (CGT) if you have let it out. How much you pay depends on how long you lived there. You pay tax on your "chargeable gain", which is your gain, minus any private residence relief (PRR) you are eligible for. PRR is the tax relief that keeps people's main homes out of the CGT net. At the moment you don't have to pay any CGT for the years you lived in the property, plus an additional exemption for the final 18 months that you owned it, even if you weren't living there at the time. But Hammond announced that from April 2020 this final period exemption will be cut to nine months. The other change is arguably a bigger deal and involves something called lettings relief, which currently provides up to £40,000 of relief (£80,000 for a couple) to people who let out a property that is, or has been in the past, their main home. From April 2020, lettings relief will only apply where the owner is sharing occupancy of the home with a tenant – effectively spelling the end of this perk.

Parents

Child Benefit fines to be wiped?

HMRC is considering refunding some parents and guardians who were fined for not registering for the high-income child benefit charge. The department has said it will review cases in the 2013/14, 2014/15 and 2015/16 tax years and will offer refunds to taxpayers who it finds had a reasonable excuse for not registering to pay the high-income child benefit charge (HICBC). Alongside this, HMRC is writing to taxpayers who might be liable to pay the HICBC for 2016/17 and 2017/18 to explain the rule and help them avoid having to pay a penalty.

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All

Rates held but Brexit won't get in the way of rises

The borrowing costs of UK households and businesses may rise in the event of a no-deal Brexit, the Bank of England has warned. The central bank stressed that it may not be able to cushion the economic blow of the UK leaving the European Union next March with no agreement. For now the base rate is held at 0.75% but the central bank forecasts growth of 1.3% this year, rising to 1.7% in 2019. The rationale behind expected increases irrespective of the Brexit outcome is that the economy is now broadly in balance, rather than in being material excess supply as it was then. Inflation is notably above target, not significantly below. The Bank also stressed that a 'no-deal' scenario would probably cause another slump in the pound, pushing up inflation and supporting the case for borrowing costs to rise.

All

40% disparity between male and female pensions

While gender parity may have been achieved on paper - since 2010, women's pension age has been gradually rising from 60, where it has been set since the 1940s, to equalise with men, retirement outcomes remain shockingly unequal. In the UK between 2016 and 2017, women received 39.5% less than men on retirement – a circa £7,000 difference on average. Analysis found that the gender pensions pay gap is more than twice that of the gender pay gap which is 17.9% for all employees. There are fears that the rules of the auto-enrolment system also disadvantage women because unless you're earning more than £10,000 a year, you're not auto-enrolled at all.

All

Record pension withdrawals

Pensioners have cashed in a record £5.7billion from their retirement pots so far this year. The scale of the draw-downs has led to warnings that pensioners may face a lack of cash in later life. Official figures on the amount withdrawn since January means the total amount raided from retirement savings has reached a staggering £21.6billion in the three years since pension freedoms were introduced. Evidence that people were starting to treat their retirement nest egg as a bank account emerged in figures released by HMRC. They showed that as many as 585,000 withdrawals were made by 258,000 people in the three months to the end of September, to a total of nearly £2billion. In the three-and-a-half years of pension freedoms, nearly five million withdrawals have been made by more than 1.3 million people, totalling £21.6billion.

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Business Owner / Estate Planner

Entrepreneurs tax relief rules tightened

The Chancellor left capital gains tax (CGT) broadly unchanged in the 2018 budget but has tweaked rules on tax relief for entrepreneurs by extending the qualifying period of the tax break from 12 months to two years, with the aim of encouraging longer-term investment in British business.

Entrepreneurs pay a lower rate of tax at 10pc, compared to the standard rate of 20pc, on capital gains when they sell all or part of their business if more than the annual exempt amount of £11,700. From on or after April 6 2019, in order to qualify you must be a sole trader of business partner and have owned all or part of a business for at least 24 months before you sell.

If you have any questions related to this update or indeed anything else then please contact your adviser at Champain.

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