SPRING BUDGET 2017 - A BRIEF SUMMARY OF KEY ISSUES

Overview

This was the Chancellor Philip Hammond's first and last Spring Budget. The main Budget will move to the Autumn going forward and a toned-down statement on the economy will be delivered in March going forward. Thankfully it was fairly "pensions light" with few significant changes being made. This should help individuals plan for the tax year ahead with some confidence.

Pensions

Money Purchase Annual Allowance (MPAA)

Individuals can generally receive tax relief on pension contributions of up to £40,000 in a tax year and this includes monies paid in from all sources including employers and any third party. When individuals access their pension funds under the new flexibility rules that came into effect in April 2015 they are subject to the MPAA. When this is triggered, the limit on contributions is reduced from £40,000 to £10,000 from that day onwards.Any contributions made above this limit will normally incur a tax charge on the individual even where contributions have not been made by the individual personally.

Following an announcement in the Autumn Statement last year and a subsequent consultation that closed in February the MPAA will be reduced from £10,000 to £4,000 in April this year. This measure is intended to minimise the re-cycling of pension savings and could be of particular importance to those who expect to continue pension funding after accessing their pensions.

There are some circumstances where the MPAA will not be triggered. This includes the scenario where only tax free cash is taken without accessing any income. It is therefore recommended that individuals seek Financial Advice where they feel they could be affected by this or any related pension planning issues.

Clampdown on Overseas Pension Transfers

HMRC generally only allows pension transfers between Registered Pension Schemes and where certain conditions are met. When individuals wish to transfer their UK pensions to an overseas scheme HMRC has concerns. Essentially they do not want pension funds that have enjoyed UK tax benefits to be able to be transferred to overseas schemes that do not have the same restrictions. However, rather than ban all overseas transfers HMRC will allow transfers to schemes that meet certain conditions to be treated as Recognised Transfers. Overseas schemes meeting these conditions are known as Qualifying Recognised Overseas Pension schemes or QROPS.

The chancellor has announced that for any transfer requests made on or after the 9th March 2017 pension transfers to QROPS will incur a 25% tax charge. The charge however is not intended to prevent those seeking genuine pension portability from transferring, so those who wish to move their pension overseas:

- to their employer's occupational scheme
- to their country of residence; or
- within the EEA

will still be able to do so without incurring the tax charge. The change should however help protect UK pension scheme members from overseas pension scammers as well as helping to fill the hole in the Government's coffers.

Other Key Points

Lifetime ISA (LISA) – A new savings option

Plans for a new Lifetime ISA were announced in the Autumn Statement last year and this has been confirmed in the Spring Budget. The new LISA will be available from April this year and is intended to be a complementary savings scheme for younger savers. It will work on a buy four get one free basis and can also be used by first time buyers wishing to get a foothold on the property ladder.

It can be taken out by the under 40's and the Government will top up savings by adding a 25% bonus at the end of each tax year. Although similar to how basic rate tax relief works on pensions, contribution limits will be lower and will be limited to £4,000 a year which will be topped up to £5,000. Savings can be made from the age of 18 and will be topped up until savers reach the age of 50.

Funds accrued in the LISA including bonus can be accessed after 12 months by first time buyers as a deposit towards the purchase of their first home valued up to £450,000. Savers will be able to withdraw funds including bonus for any reason after the age of 60.

Savings can be withdrawn at any other time for any other purpose but savers will have to return the bonus (plus any interest or growth on the bonus) to the Government and pay a 5% charge. It will be possible to access funds penalty free at any age in the event of terminal illness. LISA's will be treated the same way as ISA's in terms of inheritance tax and contributions will count toward the total ISA savings limit.

ISA's

The current subscription limit of £15,240 increases to £20,000 for the 2017/18 tax year. The subscription limit for Junior Isa's and Child Trust Funds is also increasing from £4,080 to £4,128 in the 2017/18 tax year.

Dividend Allowance

A tax free dividend allowance of £5,000 was introduced in April 2016 which meant that the first £5,000 of dividends individuals received from their investments (or shares they own in their own limited company) would be free from income tax.

Any income received above the tax free dividend allowance is taxed at either 7.5%, 32.5% or 38.1% depending on the individual's marginal rate of income tax.

It has been confirmed in this Budget that this tax free dividend allowance will however be reduced to £2,000 in April 2018. Those with significant share portfolios may therefore wish to maximise their ISA allowances before the end of the 2017/18 tax year when the reduced dividend allowance becomes effective.

Income tax
It was previously intended that the income tax personal allowance would increase from £11,000 to £11,500 per annum and the basic rate tax band would increase from £32,000 to £33,500 (meaning the 40% tax threshold will now be £45,000 for those with the standard personal allowance) for the 2017/18 tax year. As expected these changes were confirmed in this Spring Budget.

Capital Gains Tax
The annual exemption amount is increasing from £11,000 in 2016/17 to £11,300 in the 2017/18 tax year.

National Insurance
The government initially announced that it was going to increase Class 4 National Insurance contributions (NIC's) paid by the self-employed to 10% from April 2018 and to 11% in April 2019. However on March 15 2017, the Chancellor Philip Hammond announced the government was no longer going ahead with the proposal and the increases would not be implemented.

Inheritance Tax (IHT)
A new residence nil-rate band comes into effect from April 2017. This essentially increases the standard IHT nil-rate band of £325,000 where a main residence is passed on to direct descendants such as children and grandchildren. It is worth up to £100,000 in the 2017/18 tax year and is due to increase every year until it becomes £175,000 in 2020/21. It will then be increased in line with CPI indexation from 2021 onwards. Where the net estate is worth more than £2 million the additional nil-rate band will be reduced by £1 for every £2 above this threshold.

Finally, a reminder of what's still in place for the 2017/18 tax year

Lifetime Allowance
As covered in previous Budget Summaries the Lifetime Allowance (which is the maximum that can be drawn from pensions without triggering an extra tax charge) was reduced from £1.25m to £1m in April 2016. It is possible for individuals to protect their pension savings from these changes in certain circumstances and Fixed Protection 2016 and Individual Protection 2016 options are still available where applicable. These can be applied for by using the HMRC online system.

It should be remembered that those applying for Fixed Protection 2016 will need to have ceased pension contributions/benefit accrual by 5 April 2016.
Those applying for Individual Protection 2016 will need to have a fund value of more than £1m as at 5th April 2016.

It is also worthy of mention here that those with fund values above £1.5 million as at 5 April 2014 can still apply for Individual Protection 2014. The window of opportunity is however closing fast on this as the application deadline is the 5th April 2017.

Tapered Annual Allowance (AA) for High Earners
With effect from April 2016 those with “Adjusted Income” of £150,000 or above and a “Threshold Income” of over £110,000 will see their AA reduced on a two for one tapering basis from the standard £40,000 down to a minimum of £10,000 where “Adjusted Income” is £210,000 or higher.

It should be remembered that even when a reduced AA applies it will still be possible to carry forward any unused AA from the previous 3 tax years. However it should be noted that the 5th April 2017 is the last date that any unused AA from the 2013/14 tax year can be carried forward. The window is therefore still open (but closing rapidly!) for those who are able to (and who wish to) carry forward any unused annual allowances from the 2013/14 tax year when the AA was £50,000 (the AA has since been reduced to £40,000).
Using the carry forward facility could reduce the impact of the tapered AA in the short term for those affected by the changes.
The standard Annual Allowance will remain unchanged at £40,000 for the 2017/18 tax year

Any questions?
The above is only a brief summary of the main points from the Spring Budget 2017. If you think you may be affected by any of the above or would simply like to receive further information you can contact Goddard Perry as follows;

telephone - 020 8603 3700
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The above is based on Goddard Perry’s understanding of the Spring Budget 2017 and current law and HM Revenue and Customs practise, which may change.

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