

Philip Hammond, Chancellor of the Exchequer, delivered his 2018 Budget on Monday 29 October 2018. This document summarises the key announcements and tax rates relevant to financial planning.

As is often the way, the weeks leading up to the Budget were filled with much speculation and rumour; particularly in relation to pensions. Thankfully, not only did pensions escape unscathed, there was very little change in relation to personal taxation and financial planning.

Forecasts from the Office for Budget Responsibility (OBR) were a slightly mixed bag, with growth revised up for some years and down for others. Overall, the Chancellor painted a positive picture of the economy, despite ongoing uncertainty around Brexit and continuing issues in relation to productivity, underemployment and low wage growth.

Arguably, the most significant announcement was that the planned increases to the personal allowance and higher rate tax threshold (to £12,500 and £50,000 respectively) will take effect from April 2019 – a year earlier than expected. However, as is the case now, anyone earning over £100,000 a year has their personal allowance tapered away. Very high earners will therefore not benefit from the increased personal allowance.

Turning to pensions, the standard lifetime allowance will increase to £1,055,000 from April 2019. The standard annual allowance remains at £40,000, and the existing taper rules for high earners remain. State pensions will benefit from the 'triple lock' guarantee and be raised in line with the growth in national average earnings (NAE) in April.

The main adult allowance for individual savings accounts (ISAs) will remain at £20,000 next year. However, Junior ISAs will benefit from an increased contribution limit of £4,368 from April 2019 (this increased allowance also applies to existing child trust funds). Despite calls for it to be scrapped, the Lifetime ISA (LISA) also remains in its current format, with an annual contribution limit of £4,000 (excluding the Government bonus).

Income tax rates and thresholds (England and Wales)

	2018/19 (£)	2019/20 (£)	Tax rate (%)
Personal allowance*	11,850	12,500	0
Basic rate	11,851 - 46,350	12,501 - 50,000	20
Higher rate	46,350 - 150,000	50,000 - 150,000	40
Additional rate	over 150,000	over 150,000	45

Different allowances apply in Scotland.

*The standard personal allowance is tapered away for anyone earning over £100,000 per annum. For the 2019/20 tax year, once you have earnings of more than £125,000 per annum you no longer benefit from a personal allowance.

NIC rates and thresholds

For employees:

	2018/19	2019/20
	£ per week	
No NICs due on your first	162	166
Main rate of 12% due on earnings of	162 - 892	166 - 962
NICs of 2% due on earnings over	892	962

For the self-employed:

	2018/19	2019/20
Small profits threshold for Class 2 NICs	£6,205 per year	£6,365 per year
Class 2 NICs	£2.95 per week	£3 per week
Lower profits limit (LPL) for Class 4 NICs	£8,424 per year	£8,632 per year
Upper profits limit (UPL) for Class 4 NICs	£46,350 per year	£50,000 per year
Class 4 NICs on profits between LPL and UPL	9%	9%
Class 4 NICs on profits over UPL	2%	2%

The previously planned abolition of Class 2 NICs from April 2019 has been scrapped, with the Chancellor confirming Class 2 NICs for the self-employed will remain for at least the duration of this parliament.

Employees earning between £46,350 - £50,000 will see an increase in NIC's which could perhaps be mitigated by increasing pensions contributions made by salary sacrifice.

Pensions

	2018/19 (£)	2019/20 (£)
Standard annual allowance (AA)	40,000	40,000
Standard lifetime allowance (LTA)	1,030,000	1,055,000

- The standard AA is tapered for anyone with earnings over £150,000 per annum, down to a minimum AA of £10,000.
- Anyone who has started to flexibly access benefits from a defined contribution (DC) or money purchase pension arrangement, is instead subject to the money purchase annual allowance (MPAA) of £4,000.
- The State Pension will increase to £168.60 per week from April 2019 (different rates apply for those who retired before 6 April 2015).

Individual Savings Accounts (ISAs)

	2018/19 (£)	2019/20 (£)
ISA allowance	20,000*	20,000*
Junior ISA allowance	4,260	4,368

*Of which, £4,000 can be saved into a Lifetime ISA (for those eligible - see below).

- Anyone aged between 18 - 40 can open a Lifetime ISA (LISA), with a savings limit of £4,000 per annum. The Government adds a 25% bonus to any savings in a LISA (so if you saved the maximum of £4,000, the Government would add £1,000). You can carry on contributing and receiving the Government bonus until you reach age 50. If you withdraw funds from a LISA prior to age 60, for any reason other than buying your first home, the bonus is removed and you will also pay a penalty of 6.25% on the amount you have contributed to the LISA.

Dividend taxation

- **Dividend allowance will remain at £2,000** for the 2019/20 tax year (as for the current tax year).
- Any dividends received in the tax year, in excess of the dividend allowance, are taxed at the following rates:
 - o **basic rate** **7.5%**
 - o **higher rate** **32.5%**
 - o **additional rate** **38.1%**

Capital gains tax (CGT)

- Annual exempt amount for individuals:
 - o **2018/19** **£11,700**
 - o **2019/20** **£12,000**
 - Any gains realised by individuals in excess of this amount will be taxed at the following rates:
 - o **basic rate taxpayer (residential property*)** **18%**
 - o **higher rate taxpayer (residential property*)** **28%**
 - o **basic rate taxpayer (other gains)** **10%**
 - o **higher rate taxpayer (other gains)** **20%**
- *CGT does not apply to your primary residence - however, the Chancellor confirmed some minor changes to the rules surrounding the primary residence exemption where people are renting out or not actually living in their primary residence.
- Different rates apply for trustees.
 - Gains qualifying for entrepreneurs' relief are taxed at 10%. From April 2019, the minimum holding period to qualify for entrepreneurs' relief will increase to two years.

Inheritance tax (IHT)

	2018/19	2019/20
Nil rate band	£325,000	£325,000
Residence nil rate band	£125,000	£150,000
Rate	40%	40%

The residence nil rate band is tapered away for estates worth over £2million.

Any questions?

Should you have any queries regarding any of the information in this briefing, or would like assistance with your financial planning needs, please contact your usual Loricaweb adviser or get in touch:

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