

Budget 2020



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Well, my tax-planning friends... it's been a while. Back in the middle of the last decade, it seemed like no tax year could pass without some weighty changes to our tax and pension planning landscape... and then it all went quiet. In truth, I can't pretend Budget 2020 has delivered any earth-shattering news but there are a few bits of interest here and there (at least from the perspective of this tax-planning geek) and, in any event, it's always nice to stay in touch with you. I'll start by covering a few of the legislative changes within the Budget and then look at some of the pertinent consultations that are to take place.

Pensions: annual allowance (tapering)

The two tapered annual allowance thresholds will each be raised by £90,000 from 6 April 2020. The 'threshold income' moves from £110,000 to £200,000 and the 'adjusted income' from £150,000 to £240,000.

Additionally, the minimum tapered annual allowance will be decreased from £10,000 to £4,000 from 6 April 2020. The tapering or reduction continues at £1 for every £2 that adjusted income exceeds the threshold.

In essence, the 'standard' allowance of £40,000 will begin tapering away where adjusted income starts to exceed £240,000 (assuming that the threshold limit of £200,000 is also exceeded) reducing down to an annual allowance of £4,000 where adjusted income is £312,000 or more.

Comments

Draft legislation has yet to be published but one rather assumes the new figures will simply replace the existing figures and that there are no other fundamental changes to the definitions of these income terms or the overall calculation process. Generally, performing the calculations is reasonably straightforward, but we still tend to see some confusion around how employer and individual pension contributions interact within the calculations; sometimes confusion as to whether a particular aspect of 'income' is included or not and sometimes oversight or confusion regarding the dual 'anti-avoidance' salary sacrifice/manipulation rules. Take care and if in doubt always refer to the relevant legislative provisions.

Pensions: lifetime allowance

The lifetime allowance (LTA) for pension savings will increase in line with the CPI, rising from £1,055,000 to £1,073,100 for tax year 2020/21.

Comments

Nice to see an increase but the new figure is even more annoying when trying to show simple mathematical examples on a flip-chart. A tax-geek's life was much simpler when it was a flat £1m and the sooner it's up to £2m the better. More seriously, if you have any clients who are on the standard allowance and they are contemplating an upcoming crystallisation event [BCE] it can pay to delay until the new tax year, as it uses a lesser percentage of the LTA. Not a massive difference but every little (tax saving) helps!

Income Tax: starting rate for savings

The band of savings income that is subject to the starting rate of tax will be retained at its current level of £5,000 and at the current rate of tax of 0% for tax year 2020/21.

Individual Savings Accounts (ISAs)

The 'adult' ISA annual subscription limit for 2020/21 will remain unchanged at £20,000.

Junior ISA and Child Trust Funds

The annual subscription limit for Junior ISAs and Child Trust Funds will be increased from £4,368 to £9,000 for tax year 2020/21.

Life insurance bonds: top-slicing relief

Simplistically, the rules for top-slicing relief (TSR) were written long ago, in a time before the introduction of more recent legislation, which removes entitlement to the Income Tax personal allowance (PA) when income exceeds a certain figure.

The interaction of this change within the TSR calculation had started to cause some angst. This came to a head last year in a court case (*Silver v. HMRC* [2019] UKFTT 0263 (TC)). The court found in favour of the taxpayer's approach to the TSR calculation and against HMRC. It's a jolly interesting case, should you be in self-isolation and need a geeky tax read.

The TSR calculation is complex, but it calculates the relief that applies to an 'initial' tax bill on the gain, as opposed to it being a calculation which automatically gives the final tax bill on the gain.

Briefly, the TSR calculation is in two parts. First, you calculate the tax bill as if the whole gain fell in the tax year. Then you do another calculation as if just the 'slice' fell in the tax year, multiplying the tax bill on that slice by the number of years. Deduct the latter from the former and that is the amount of the relief. That is then deducted from the tax payable on the gain, which is 'initially' calculated based on it all falling in the tax year (easy hey!).

In simple terms, the legal argument stemmed over the calculation of the tax on the slice in the TSR calculation (stage two). Assume a very large gain; that will wipe out the PA in the overall tax bill. It will also wipe out the PA in the stage one TSR calculation. But then in stage two of the calculation, assume that the slice, when added to all other income, falls below the income level at which the PA is lost. Should you include the PA in step two (this will often decrease the tax on the slice and therefore then increase the amount of TSR) or should the PA not be included in step two? That was the question for the Court. Take your own pick... in my opinion, the law wasn't very clear.

Anyway, the Budget now confirms that a personal allowance can be 'reinstated' within the taxpayer's TSR calculation, where it has been reduced by reason of including a gain in their income for the year. For this purpose, the personal allowance will be calculated by reference to the taxpayer's other income and a proportion of the gain. The changes also confirm that in the TSR calculation, allowances and reliefs have to be set as far as possible against other income in preference to the gain (meaning you can't simply say the slice falls within the PA). The measure will apply to all relevant gains occurring on or after 11 March 2020.

Comments

This saga arguably demonstrates that if you change one bit of tax law without fully dovetailing its knock-on effect into other parts, you can have a problem. It also arguably shows that the 'short-hand' version of the TSR calculation, long used in our industry, is inadequate in these more complicated tax times. It is complex and, undoubtedly, more expansive commentary will develop over time to deepen understanding and also provide clarification on how any previously taxed relevant gains will be dealt with by HMRC. Suffice to say, the 'confirmation' of the TSR calculation basis will work to the benefit of some bondholders who may cash-in in the future. It is estimated to cost the Exchequer £15m p.a. or so for a few years (compared, I guess, to if the PA couldn't be included)... enough for now.

Capital Gains Tax: annual exempt amount

The CGT annual exempt amount for tax year 2020/21 will increase from £12,000 to £12,300 for individuals and personal representatives and from £6,000 to £6,150 for most trustees of a settlement. The rates of tax remain unchanged.

Capital Gains Tax: Entrepreneurs' Relief

From Budget day (11 March 2020), the lifetime limit on gains eligible for Entrepreneurs' Relief (which offers a reduced 10% rate of Capital Gains Tax on qualifying disposals) will be reduced from £10 million to £1 million.

Finally, on tax changes... should you be a homeworker

From 6 April 2020, the government is increasing the flat rate income tax deduction for homeworking from £4 per week (£208 p.a.) to £6 per week (£312 p.a.) where employees work at home under homeworking arrangements.

Comments

This 'allowance' isn't automatic for anyone who simply just works from home, as there are some stringent criteria to be fulfilled. Where they are fulfilled, it presumably remains possible to claim 'actually incurred' expenses, but as these are often (but not always) difficult or impossible to properly quantify, the higher flat rate can be claimed... giving a little more back to the taxpayer.

Interesting consultations announced at the Budget

Raising standards in the market for tax advice

The government is to publish a call for evidence in spring 2020 on raising standards for tax advice. This will seek evidence about providers of tax advice, current standards upheld by tax advisers, and the effectiveness of the government's efforts to support those standards, in order to give taxpayers more assurance that the advice they are receiving is reliable.

Comments

Watch this space... it will be interesting to see whether this 'feeds' into the world of a Financial Adviser or is constrained to the 'accountancy' profession alone.

Review of the UK funds regime

The government is to undertake a review of the UK's funds regime during 2020. This will look at both direct and indirect tax of funds, as well as relevant areas of regulation, with a view to considering the case for policy changes. The review will also consider the VAT treatment of fund management fees and other aspects of the UK's funds regime.

VAT on financial services

The government is to set up an industry working group to review how financial services are treated for VAT purposes.

Comments

At this stage, it's unknown whether this will examine the undoubtedly currently murky waters of adviser fees and VAT. Similarly, whether the UK will look to depart from the hitherto effectively EU prescribed rules on VAT. What's certain is there's still some confusion on adviser fees and VAT and certainly some differing practises out there in adviser-land... when is it intermediation, when is it not intermediation, etc? Don't start me on that one!

Pension tax relief at source (lower earners)

For those earning around or below the level of the Income Tax personal allowance and personally saving into a workplace pension it can be a bit hit or miss on whether they receive tax relief on their contribution. In simple terms, if the pension scheme operates on a 'net-pay' basis they won't, whereas if the scheme operates 'relief at source' they will. The government is to call for evidence and has committed to reviewing options for addressing these - seemingly, somewhat unfair - differences.

That's it for now... all the best and happy pension and tax planning.

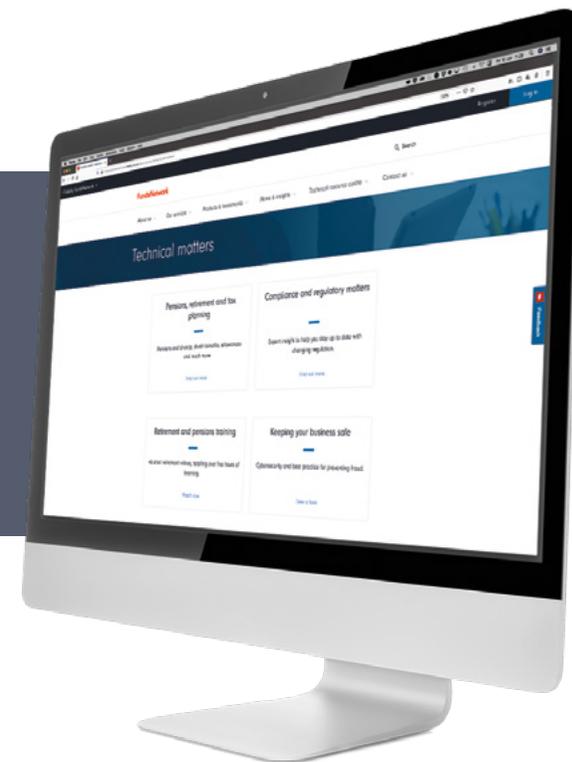
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