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Financial Planning Ltd

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talkingpoints

Welcome to the latest edition of Talking Points and our round-up of the Chancellor's Budget, delivered on 8th March 2017.

His message about the economy was upbeat, with borrowing down and employment levels up. The Office for Budget Responsibility – an independent fiscal watchdog – has revised expected growth for the year up from 1.4% to 2%. For the time being at least, the country appears to be in better shape than had been forecast in the run up to our vote to leave the European Union. However, the Chancellor has outlined the need for fiscal discipline to provide a strong and stable platform as we prepare to leave the single market.

Overall, the Budget delivered few surprises, with funding allocated, as predicted, towards social care and help for businesses.

Most controversial were measures announced by the Chancellor to raise National Insurance Contributions for the Self-Employed in 2018 - a decision which many felt was breaking a Conservative Party Manifesto pledge. The proposals were subsequently withdrawn by the Chancellor on the 15 March 2017.

We will take a look at the key changes introduced or implemented in the Budget Statement in more detail later in this issue, focussing on the policy changes that could affect your personal finances. Please note, all changes are subject to future amendment.

Going forwards, a new fiscal timetable will move the Budget to the Autumn. As the UK Government focus on our Brexit negotiations and triggering Article 50, it may be that the Autumn Statement will prove to be a platform for greater change, as the Chancellor will have a much clearer idea then about what the Brexit landscape will look like.

For now, as we approach the end of the tax year, the priority for many moves to maximising tax relief and annual allowances in relation to pension and ISA contributions - allowances which will be lost if they are not utilised. This is an ever-changing area which can prove confusing.

If you need advice or assistance with this or any other area of your financial planning why not speak to one of our Consultants? We have a team of highly experienced and fully independent Financial Advisers situated throughout the UK advising both individuals and businesses. Please contact us for more information on the services we can offer and our charging structure. Our contact details are on the back page.

Personal Taxation

- As previously confirmed, the Personal Allowance will rise to £11,500 in April 2017. This will take 1.3 million people out of income tax altogether *(source Spring Budget 2017 Policy Paper – 8 March 2017)*. The Personal Allowance is reduced if you earn over £100,000, and reduces to zero if you earn over £123,000.
- The threshold for paying higher rate (40%) tax will rise from £43,000 to £45,000 in April.
- Additional rate tax will continue to be paid at 45% on income over £150,000.
- The Scottish Government is using its new tax raising powers to reduce the basic rate band to £31,500. As a consequence, Scottish taxpayers will start paying higher rate tax when their taxable income reaches £43,000.
- The Chancellor reconfirmed his commitment to increase the Personal Allowance to £12,500 and the higher rate tax threshold to £50,000 by 2020.

Salary Sacrifice

The Income Tax and Employer National Insurance advantages of salary sacrifice schemes will be removed from April 2017, except for arrangements relating to:

- Pensions (including advice)
- Childcare Vouchers
- Cycle to Work
- Ultra-low emission cars

Arrangements in place before April 2017 will be protected until April 2018, and arrangements for cars, accommodation and school fees will be protected until April 2021.

Corporation Tax

The current 20% rate of corporation tax will reduce to 19% from April 2017 and will further reduce to 17% from 2020.

National Insurance for the Self-Employed

It has now been confirmed that National Insurance for the Self-Employed will not increase during this Parliament.

Class 2 NICs will be abolished in April 2018. The rates for 2017-18 are a flat rate of £2.85 per week when profits are a minimum of £6,025.

Taxation of Dividends

Less than a year after the introduction of the new £5,000 tax free dividend allowance the Chancellor has announced it will be reduced to £2,000 from 6th April 2018. If dividend income is less than £2,000 no tax will be due. However, on any excess over £2,000, tax will be paid at the following rates:

- 7.5% for basic rate taxpayers
- 32.5% for higher rate taxpayers
- 38.1% for additional rate taxpayers

Help for Businesses

Business rates are due to see their biggest hike for years in April. Ahead of the Budget, there was fierce lobbying from businesses and backbench MPs for the Chancellor to ease the burden of these higher rates. The tax raises £25 billion a year, so it will not be removed, but three measures were unveiled to help those affected:

- No business losing small business rate relief will see their bill increase next year by more than £50 a month
- 90% of local pubs will have a £1,000 discount on their business rates bill
- A £300 million fund has been provided for local councils to offer discretionary relief for hard-hit cases

Individual Savings Accounts (ISAs) and Savings

The ISA subscription limit will increase to £20,000 from 6 April 2017 and the Junior ISA subscription limit to £4,128.

There are now six different types of ISA. The newest, the Lifetime ISA (LISA), launches on the 6 April 2017.

In summary, LISAs are available to savers and investors aged 18 to 40. For every £1 paid into a LISA the Government will add a 25 pence bonus. The bonus is only available on contributions paid up to age 50. You can save up to £4,000 each year.

Money paid into a LISA counts towards the normal ISA allowance, so if you pay £4,000 into a LISA only £16,000 can be paid into other ISAs. The money saved in the LISA can be used to purchase a first home or for retirement from age 60 onwards. It should be noted that money taken out of a LISA, for any purpose other than the purchase of a first home or for retirement, will suffer a 25% penalty of the total amount withdrawn.

Both Cash and Stocks & Shares versions of the LISA will be available.

The other types of ISAs currently available are:

- Cash ISAs – these can include savings in bank and building society accounts and some National Savings & Investment (NS&I) products. You must be aged 16 or over to open a Cash ISA.
- Help to Buy ISAs – these are designed for people saving to buy a first home. Depending on how much you save, it could provide a maximum bonus of £3,000. It will be possible to transfer funds from a Help to Buy ISA to a Lifetime ISA from April 2017.
- Junior ISAs – these are tax-efficient savings accounts for children under 18. You can make contributions on your child's behalf. Junior ISAs replaced the Child Trust Fund (CTF), but there is no Government payment into a Junior ISA.
- Stocks & Shares ISAs – these can include Unit Trusts, Investment Trusts, shares in companies, and Corporate Bonds.
- Innovative Finance ISAs – another recent arrival - these can include peer-to-peer loans (loans that you provide to other people or businesses without using a bank).
- You must be 18 or over to open a Stocks & Shares or Innovative Finance ISA

NS&I Savings Bond

The Budget confirmed that a new NS&I Savings Bond will be available for 12 months from April 2017, offering a rate of 2.2% over a 3-year term. The Bond will be open to everyone aged 16 and over, subject to a minimum investment limit of £100 and a maximum investment limit of £3,000. The income will be taxable, although the personal savings allowance will apply.

Pensions

The Money Purchase Annual Allowance (MPAA) will reduce from £10,000 to £4,000 from 6 April 2017. The MPAA applies to individuals who have flexibly accessed their pension benefits in excess of their Tax-Free Cash allowance. It has been reduced in an attempt to minimise the "re-cycling" of pension savings. It should be noted that any unused Annual Allowance from earlier years cannot be carried forward once the MPAA has been triggered.

Care needs to be taken in this area and we would recommend that you seek advice before taking any action if you plan to access your pension savings prior to retirement, whilst continuing to make pension contributions.

Overseas Pension Transfers

A new charge is being introduced for some pension transfers to a Qualifying Recognised Overseas Pension Scheme (QROPS). The charge will be 25% of the transfer value, which will be deducted by the scheme administrator before making the transfer. The charge will be applied to transfers of pensions to overseas schemes when the saver is not living in that country.

The Government has estimated that there are between 10,000 and 20,000 transfers to foreign schemes a year. However, the schemes have been beset by claims that they help facilitate pension scams.

The charge will not apply if the individual and scheme are within the European Economic Area or if the overseas scheme is provided by the individual's employer.

Main Residence Nil Rate Band

From April, those individuals who have direct descendants and who have an estate (including a main residence) worth more than the nil-rate band of £325,000 will be able to utilise the Main Residence Nil Rate Band.

This will be worth up to an additional £100,000 per person, so an individual can pass on up to £425,000 without paying inheritance tax so long as the estate includes the family home and passes directly to children or grandchildren, and not via a discretionary trust. It should be noted that these are the maximum amounts - the additional allowance will be reduced accordingly if the value of the family home is less than £100,000.

The new allowance will increase by £25,000 a year until it reaches £175,000 in April 2020. That will give each person a £500,000 allowance, or £1 million for a couple.

There will be a tapered withdrawal of the Main Residence Nil Rate Band for estates with a net value of more than £2 million. The withdrawal will be at a rate of £1 for every £2 over this threshold.

Buy-to-let investors

From April, Landlords will no longer be able to offset the full cost of their mortgage interest against their rental income. This change is being phased in over four years – starting in 2017, when only 75% of interest will be deductible.

As an example, if an investor currently receives £18,000 a year in rent and pays £12,000 a year in mortgage interest they could deduct the full £12,000. From April, only 75%, or £9,000 could be deducted, meaning the Landlord would pay tax on profits of £9,000 instead of on £6,000, as now. They do, however, get 20% of the interest payments deducted from their tax bill.

Tax Avoidance

Those individuals enjoying tax loopholes were also hard hit. The Chancellor stated that while the UK had the lowest tax gap in the world, "there is more that we can do".

He said he would tackle the abuse of foreign pension schemes, introduce UK VAT on roaming telecoms services, and implement new financial penalties for professionals who enable a tax avoidance arrangement that is later defeated by HM Revenue & Customs.

In other news . . .

Bank Deposit protection has returned to £85,000

On 30 January 2017 the Financial Services Compensation Scheme (FSCS) increased the protection for deposits in banks, building societies and credit unions from £75,000 to £85,000 – reflecting the fall in the value of the pound against the euro following the Brexit vote. It was reduced to £75,000 in July 2015. Joint accounts will benefit from a new limit of £170,000.

The FSCS protects consumer savings and investments in the event of a firm's failure. According to EU regulations, non-euro member states are required to adjust their deposit protection limits every five years to the equivalent of €100,000, but significant fluctuations in currency may trigger further reviews.

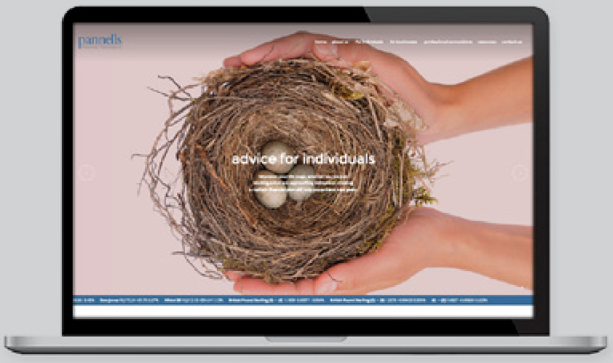
Payment Protection Insurance (PPI) – deadline for claims announced

The Financial Conduct Authority (FCA) has confirmed that the final deadline for making a new PPI complaint to the Financial Ombudsman Service (FOS) will be 29 August 2019. There will be a two-year consumer communications campaign launched in August to support this. The FCA hope that the deadline and campaign will mean people who were potentially mis-sold PPI will be prompted to take action rather than put it off.

Complaints about PPI policies sold after 29 August 2017 are not subject to the deadline.

For more information

If you would like to find out more about our Company and the services we provide, please take a look at our website **www.pannellsfp.co.uk**.



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Financial Planning Ltd

www.pannellsfp.co.uk

Contact us

For Newsletter and General Enquiries:
Sarah Cook on 0121 609 3210
Email: sarah.cook@pannellsfp.com

For Mortgage and Equity Release Enquiries:
John Studman on 0121 609 3247
Email: john.studman@pannellsfp.com