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MONEY MATTERS

MAY 2019

GUIDE TO

TAX MATTERS

2019/20 KEY CHANGES YOU NEED TO KNOW



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GUIDE TO

TAX MATTERS

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2019/20 key changes you need to know

In this guide we set out the main tax changes that apply to the 2019/20 tax year, which commenced on 6 April 2019. Reviewing your tax affairs to ensure that available reliefs and exemptions have been utilised, together with future planning, can help to reduce your tax bill. Personal circumstances differ, so if you have any questions or if there is a particular area you are interested in, please do not hesitate to contact us.

Increases to the tax-free personal allowance announced in last year's Budget have now also come into effect, alongside a number of other proposals. We've provided our summary of the key changes.

Income Tax

The tax-free personal allowance increased from £11,850 to £12,500, after Chancellor Philip Hammond announced in the 2018 Budget that he was bringing the rise forward by a year. The higher-rate tax band increased from £46,350 to £50,000 in England, Wales and Northern Ireland. But in Scotland, where Income Tax rates are devolved, the higher-rate tax band remains at £43,430 – £6,570 lower than the rest of the UK.

National Insurance contributions across the UK have also increased to 12% on earnings between £46,350 and £50,000. In line with the rest of the UK, someone in Scotland pays National Insurance at a rate of 12% on earnings up to £50,000, before this reduces to 2% on earnings above this level.

Inheritance

The threshold at which the 40% Inheritance Tax rate applies on an estate remains at £325,000. However, the Residence Nil-Rate Band increased to £150,000. This is an allowance that can be added to the basic tax-free £325,000 to allow people to leave property to direct descendants such as children and grandchildren, taking the combined tax-free allowance to £475,000 in the current tax year. However, the allowance is reduced by £1 for every £2 that the value of the estate exceeds £2 million.

When you pass on assets to your spouse, they are Inheritance Tax-free, and your spouse can then make use of both allowances. This means the amount that can be passed on by a married couple is currently £950,000.

Pensions

The State Pension increased by 2.6%, with the old basic State Pension rising to £129.20 a week, and the new State Pension rising to £168.60 a week.

The amount employees now pay into their pensions has increased to a minimum total of 8% under the Government's auto-enrolment scheme. The increase means employers now pay in a minimum 3% of a saver's salary, while the individual pays in a minimum 5%.

The level of the State Pension rises every year by the highest of 2.5%, growth in earnings or Consumer Price Index (CPI) inflation. This is due to the 'triple lock' guarantee, which was first introduced in 2010.

The pension lifetime allowance increased to £1,055,000 on pension contributions, in line with CPI inflation. This is the limit on the amount retirees can amass in a pension without incurring additional taxes. Anything above this level can be taxed at a rate of 55% upon withdrawal.

The overall annual allowance has remained the same at £40,000, along with the annual allowance taper which reduces pension relief for those with a yearly income above £150,000.

Student Loans

The earnings threshold before you start to repay a student loan for:

- Plan 1 loans has increased to £18,935 (from £18,330)
- Plan 2 loans has increased to £25,725 (from £25,000)

If you're a director being paid salary and dividends from your company, and you're paying back a student loan, you must remember the threshold for repayment is based on your total income. This will apply to all current and future student loans where employers make student loan deductions. So if you run a payroll for any employees who have student loan deductions, you need to ensure you have a record of what type of loan they have, so that the correct deductions are made.



Investors
The Junior Individual Savings Account (ISA) limit increased to £4,368. All other ISA limits remain the same. The annual amount that can be sheltered across adult ISAs stays at £20,000 for the 2019/20 tax year.

The Capital Gains Tax annual exemption, that everyone has, increased to £12,000. Above this amount, lower-rate taxpayers pay 10% on capital gains, while higher and additional-rate taxpayers pay 20%. However, people selling second properties, including buy-to-let landlords, pay Capital Gains Tax at 18% if they are a basic-rate taxpayer, or 28% if a higher or additional-rate taxpayer.

Capital Gains Tax for non-UK residents has been extended to include all disposals of UK property.

Entrepreneurs' Relief gives a Capital Gains Tax break to those who sell shares in an unlisted company, provided they own at least 5% of the shares and up to a lifetime value of £10 million. The holding period to qualify for the relief is 24 months.

This is also the first tax year where claims can be made for Investors' Relief which, in a similar way, gives Capital Gains Tax breaks to those who sell shares in unlisted firms. While the former is aimed at company directors, the latter is geared to encourage outside investment in firms.

There is no minimum shareholding to be eligible, but investors must have held the shares for at least three years. As the relief was introduced in 2016, this is the first tax year when it can be used.

Buy-to-let landlords
On 6 April, the next stage of the phased removal of mortgage interest relief came into effect. Buy-to-let landlords used to be able to claim the interest paid on their mortgages as a business expense to reduce their tax bill. Now, they will only be able to claim a quarter of this amount as tax deductible ahead of the complete removal of the relief in the 2020/21 tax year.

Corporation Tax
Corporation Tax is payable on business profits and remains at 19%. The Government is planning to reduce this to 17% for the 2020/21 tax year (on 6 April 2020). ■

WOULD YOU LIKE HELP WITH TAX PLANNING?

The UK tax system is very complex, but the benefits of structuring your finances tax-efficiently can be significant. We are here to ensure that you have made the best use of the reliefs and allowances available for your particular situation. There are a variety of planning ideas available for individuals, entrepreneurs and business owners. Should you need to discuss or require advice on tax planning ideas, please do not hesitate to contact us.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

WANT TO REVIEW YOUR TAX PLANNING OPPORTUNITIES?

We take the time to carry out a review of your tax and financial affairs to identify any tax planning opportunities and take action before it's too late.

If you would like to review your situation or discuss the options available, please contact us for further information – we look forward to hearing from you.

This guide is for your general information and use only, and is not intended to address your particular requirements. The content should not be relied upon in its entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of the content. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested. All figures relate to the 2019/20 tax year, unless otherwise stated.

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