Autumn Budget
Personal Tax

Thy Will be done

Highlighting the income tax, savings and pensions changes.

The personal allowance

The personal allowance is currently £11,500. The personal allowance for 2018/19 will be £11,850.

> **Comment**
> A reminder that not everyone has the benefit of the full personal allowance. There is a reduction in the personal allowance for those with 'adjusted net income' over £100,000, which is £1 for every £2 of income above £100,000. So for 2017/18 there is no personal allowance where adjusted net income exceeds £123,000. For 2018/19 there will be no personal allowance available where adjusted net income exceeds £123,700.

Tax bands and rates

The basic rate of tax is currently 20%. The band of income taxable at this rate is £33,500 so that the threshold at which the 40% band applies is £45,000 for those who are entitled to the full personal allowance.

In 2017/18 the band of income taxable at the basic rate for income (other than savings and dividend income) is different for taxpayers who are resident in Scotland to taxpayers resident elsewhere in the UK. The Scottish Government set the band of income taxable at the basic rate at £31,500 so that the threshold at which the 40% band applies is £43,000.

The additional rate of tax of 45% is payable on taxable income above £150,000 (other than dividend income) for all UK residents.

Tax bands and rates 2018/19

The government has announced that for 2018/19 the basic rate band will be increased to £34,500 so that the threshold at which the 40% band applies is £46,350 for those who are entitled to the full personal allowance.

The additional rate of tax of 45% remains payable on taxable income above £150,000.

The Scottish Government will announce the Scottish income tax rates and bands for 2018/19 in the Draft Budget on 14 December.

Tax bands and rates - dividends

Dividends received by an individual are subject to special tax rates. Currently the first £5,000 of dividends are charged to tax at 0% (the Dividend Allowance). Dividends received above the allowance are taxed at the following rates:

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

Dividends within the allowance still count towards an individual's basic or higher rate band and so may affect the rate of tax paid on dividends above the £5,000 allowance.

To determine which tax band dividends fall into, dividends are treated as the last type of income to be taxed.

Reduction in the Dividend Allowance

The Chancellor has confirmed the Dividend Allowance will be reduced from £5,000 to £2,000 from 6 April 2018.

> **Comment**
> The government expect that even with the reduction in the Dividend Allowance to £2,000, 80% of 'general investors' will pay no tax on their dividend income. However, the reduction in the allowance will affect family company shareholders who take dividends in excess of the £2,000 limit. The cost of the restriction in the allowance for basic rate taxpayers will be £225 increasing to £975 for higher rate taxpayers and £1,143 for additional rate taxpayers.

Tax on savings income

Savings income is income such as bank and building society interest.

The Savings Allowance was first introduced for the 2016/17 tax year and applies to savings income. The available allowance in a tax year depends on the individual's marginal rate of income tax. Broadly, individuals taxed at up to the basic rate of tax have an allowance of £1,000. For higher rate taxpayers the allowance is £500. No allowance is due to additional rate taxpayers.

Some individuals qualify for a 0% starting rate of tax on savings income up to £5,000. However, the rate is not available if taxable non-savings income (broadly earnings, pensions, trading profits and property income less allocated allowances and reliefs) exceeds £5,000.

The Marriage Allowance

The Marriage Allowance allows certain couples, where neither pay tax at more than the basic rate, to transfer 10% of their unused personal allowance to their spouse or civil partner, reducing their tax bill by up to £230 a year in 2017/18. The government will legislate to allow Marriage Allowance claims on behalf of deceased spouses and civil partners, and for the claim to be backdated for up to four years where the entitlement conditions are met.

This measure will come into force on 29 November 2017.

Individual Savings Accounts (ISAs)

The overall ISA savings limit for 2017/18 and 2018/19 is £20,000.

Help to Buy ISAs

Help to Buy ISAs are a type of cash ISA and potentially provide a bonus to savers if the funds are used to help to buy a first home.

Lifetime ISA

The Lifetime ISA has been available from April 2017 for adults under the age of 40. Individuals are able to contribute up to £4,000 per year, between ages 18 and 50, and receive a 25% bonus from the government. Funds, including the government bonus, can be used to buy a first home at any time from 12 months after opening the account, and can be withdrawn from age 60 completely tax free.

> **Comment**
> The overall ISA limit was significantly increased from £15,240 to £20,000 for 2017/18. The increase in the investment limit was partly due to the introduction of the Lifetime ISA. There are therefore four types of ISAs for many adults from April 2017 - cash ISAs, stocks and shares ISAs, Innovative Finance ISAs (allowing investment into peer to peer loans and crowdfunding debentures) and the Lifetime ISA. Money can be placed into one of each kind of ISA each tax year.
>
> As stated above, Help to Buy ISAs are a type of cash ISA and therefore care is needed not to breach the 'one of each kind of ISA each tax year rule'.

Help to Save accounts

In 2016 the government announced the introduction of a new type of savings account aimed at low income working households. Individuals in low income working households will be able to save up to £50 a month into a Help to Save account and receive a 50% government bonus after two years. Overall the account can be used to save up to £2,400 and can benefit from government bonuses worth up to £1,200. Account holders can then choose to continue saving under the scheme for a further two years. The scheme will be open to all adults in receipt of Universal Credit with minimum weekly household earnings equivalent to 16 hours at the National Living Wage or those in receipt of Working Tax Credits.

Accounts will be available no later than April 2018.

Universal Credit

Universal Credit is a state benefit designed to support those on low income or out of work. It is intended to replace some benefits such as housing benefit, tax credits and income support. It is being introduced in selected areas. The intention is that the rollout will be completed by September 2018.

An individual's entitlement to the benefit is made up of a number of elements to reflect their personal circumstances. Claimants' entitlement to Universal Credit is withdrawn at a rate of 63 pence for every extra £1 earned (the 'taper rate') where claimants earn above the work allowances.

Following concerns about the roll out of Universal Credit, the Chancellor announced that households in need who qualify for Universal Credit will be able to access a month's worth of support within five days, via an interest-free advance, from January 2018. This advance can be repaid over 12 months.

Claimants will also be eligible for Universal Credit from the day they apply, rather than after seven days. Housing Benefit will continue to be paid for two weeks after a Universal Credit claim.

Increased limits for knowledge-intensive companies

The government will legislate to encourage more investment in knowledge-intensive companies under the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs). The government will:

- double the limit on the amount an individual may invest under the EIS in a tax year to £2 million from the current limit of £1 million, provided any amount over £1 million is invested in one or more knowledge-intensive companies
- raise the annual investment limit for knowledge-intensive companies receiving investments under the EIS and from VCTs to £10 million from the current limit of £5 million. The lifetime limit will remain the same at £20 million, and
- allow knowledge-intensive companies to use the date when their annual turnover first exceeds £200,000 in determining the start of the initial investing period under the permitted maximum age rules, instead of the date of the first commercial sale.

The changes will have effect from 6 April 2018. This measure is subject to normal state aid rules.

Venture Capital

The government will introduce measures to ensure venture capital schemes (the EIS, Seed Enterprise Investment Scheme and VCTs) are targeted at growth investments. The government has announced that relief under the schemes will be focussed on companies where there is a real risk to the capital being invested, and will exclude companies and arrangements intended to provide 'capital preservation'.

Detailed guidance will be issued shortly after the publication of the Finance Bill.

VCTs

The government will legislate to limit the application of an anti-abuse rule relating to mergers of VCTs. The rule restricts relief for investors who sell shares in a VCT and subscribe for new shares in another VCT within a six month period, where those VCTs merge. This rule will no longer apply if those VCTs merge more than two years after the subscription, or do so only for commercial reasons.

The change will have effect for VCT subscriptions made on or after 6 April 2014.

The government will also legislate to move VCTs towards higher risk investments by:

- removing certain 'grandfathering' provisions that enable VCTs to invest in companies under rules in place at the time funds were raised, with effect on and after 6 April 2018
- requiring 30% of funds raised in an accounting period to be invested in qualifying holdings within 12 months after the end of the accounting period, with effect on and after 6 April 2018
- increasing the proportion of VCT funds that must be held in qualifying holdings to 80%, with effect for accounting periods beginning on and after 6 April 2019
- increasing the time to reinvest the proceeds on disposal of qualifying holdings from six months to 12 months for disposals on or after 6 April 2019, and
- introducing a new anti-abuse rule to prevent loans being used to preserve and return equity capital to investors, with effect on and after Royal Assent.

This measure is subject to normal state aid rules.

Rent a room relief

The government will publish a call for evidence on 1 December 2017 to build the evidence base around the usage of rent a room relief and to help establish whether it is consistent with the original policy rationale to support longer-term lettings.

Simplification of Gift Aid donor benefit rules

The government will introduce legislation to simplify the donor benefit rules that apply to charities that claim Gift Aid. Currently there are a mix of monetary and percentage thresholds that charities have to consider when determining the value of benefit they can give to their donors in return for a donation on which Gift Aid can be claimed. These will be replaced by two percentage thresholds:

- the benefit threshold for the first £100 of the donation will remain at 25% of the amount of the donation, and
- for larger donations, charities will be able to offer an additional benefit to donors up to 5% of the amount of the donation that exceeds £100.

The total value of the benefit that a donor will be able to receive remains at £2,500.

The government have confirmed that four extra statutory concessions that currently operate in relation to the donor benefit rules will also be brought into law. The changes will have effect on and after 6 April 2019.

Thy Will Be Done is a trading style of Thy Will Be Done (Spain) Ltd
Registered in the UK at 36a Goring Road, Worthing, West Sussex BN12 4AD
Companies House number 10791190