CLIENT NEWSLETTER

SUCCESSION GROUP

A 'BUDGET FOR A BRIGHTER FUTURE'.

We look at the Spring Budget and highlight the most important points for you.

From a financial planning perspective, there were two significant changes:

- National Insurance increases for the Self Employed that were rescinded in a letter issued by the Chancellor
- The 60% reduction in the tax-free dividend allowance (£5,000 currently to £2,000)

Two Budgets in one year has the potential to make a major impression on your financial plan.

In the short term, everyone will be better off in 2017/18 as a result of the personal allowance being increased by £500 and the basic rate band by £1,500. However, the outlook for 2018/19 is mixed, particularly for self-employed individuals.

With a number of changes already coming into effect next month, it was a relief to see no further changes to pensions and ISAs for now. But don't rule out further substantial tax and benefit changes in the next Budget as the planning for Brexit becomes clearer.

OWNER MANAGED BUSINESSES/SELF EMPLOYED

It had been announced that the Class 4 National Insurance Contibution (NIC) rate for the self-employed would rise from 9% to 10% in 2018/19 and by a further 1% in 2019/20. The proposed increases contradicted the Conservative Party's 2015 election manifesto which stated "we can commit to no increases in VAT, Income Tax or National Insurance." This week, the Chancellor issued a letter to MPs saying that there would be no increase to Class 4 NICs "in this Parliament". However, the abolition of Class 2 NICs will still go ahead from April 2018, meaning that the self-employed will generally see their NICs bill fall from 2018/19.

From April 2017, corporation tax will be cut to 19%, with a further reduction to 17% by 2020.

Small businesses losing their rate relief will see a cap on rates rise of no more than £50 a month.

Action point: **With corporate tax rates falling between now and 2020, employers should consider the merits of making pension contributions now, where possible to take advantage of higher tax relief currently available.**

UNTOUCHED

It may be as interesting to note those areas the Chancellor left alone. Specifically, there were no changes to lifetime allowance, salary exchange, VCTs/EISs and no further hit to buy-to-let.

TAKING EFFECT FROM APRIL 2017

Personal allowance goes up

As previously announced, the threshold for higher rate tax increases from £43,001 to £45,000 in April 2017. But you begin to lose your personal allowance once you start earning over £100,000, reducing to zero for those earning £123,000 or more, with a 60% tax trap.

The level at which high earners start to pay the additional-rate tax at 45% remains unchanged, at income over £150,000.

The band on which National Insurance is levied is changing from £827 to £866 a week.

Action point: **Consider reviewing how investment income is distributed within a family to use the new higher rate limit and dividend exemption efficiently.**

Bigger ISA allowances

From April 2017, the ISA limit increases by almost a third to £20,000 a year - a really valuable benefit that should be utilised where suitable.

From April 6, savers can put £4,000 a year into a cash or stocks and shares Lisa with strict access restrictions.

Action point: **Higher rate tax payers should maximise ISA contributions where possible.**

Unlike pensions, ISAs form part of your estate on death and are therefore potentially liable to IHT. It is worth reviewing your IHT position to ensure that you have structured your estate in the most tax-efficient manner.

Buy-to-let investors lose their tax perk

From April, buy-to-let investors won't be able to offset their full mortgage interest costs against rental income.

This change was announced in 2015 and will be phased in from the 2017-18 tax year when only 75% of interest will be deductible.

Inheritance tax break starts applying to family homes

The first phase of a new allowance that will eventually allow couples to pass on a £1m inheritance tax-free launches in April.

The main residence nil-rate band (RNRB) is worth an additional £100,000 per person (on top of the usual £325,000 allowance per person) when a main residence is passed on.

From April 2017, individuals can pass on £425,000 without paying inheritance tax (40%) as long as it includes the family home and passes directly to children or grandchildren, and not via a discretionary trust.

Estates worth £2m will see the additional band tapered so they lose £1 for every £2 over the threshold.

Action point: **Review your estate planning.**

Unlike pensions, ISAs form part of your estate on death and are therefore potentially liable to IHT. It is worth reviewing your IHT position to ensure that you have structured your estate in the most tax-efficient manner.

Tax-free dividend allowance cut

Just 12 months after capping the dividend allowance at £5,000, it has been cut again to just £2,000 in April 2018 main residence is passed on.

Action point: **The Government may decide to phase out the allowance completely, and business owners should consider other tax efficient opportunities.**

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