BREWIN DOLPHIN

Spring Statement 2018

13 March 2018

Chancellor Philip Hammond revealed that the economy is expected to grow more strongly than expected in his first revamped Spring Statement. The chancellor said he was "positively Tigger-like" as he announced upgraded forecasts for growth and borrowing, though many economists are not so upbeat.

As promised, the chancellor resisted the temptation to tinker with tax, savings or pensions. However, he announced a number of consultations and calls for evidence designed to focus on how the tax system can be improved and how it can contribute to greening the economy, for example by tackling the problem of plastic waste. Other papers published deal with such topics as taxing the digital economy, exploring ways of encouraging innovation, promoting training and investment in human capital. However, his main focus was on the economy.

The economy

Guy Foster, Head of Research at Brewin Dolphin, says: "The chancellor passed on a set of mostly harmless fiscal reports and announced the government would listen to views on a range of topics. With no new announcements the economy remains in a stable condition. Growth estimates were revised higher but remain very low by historical standards.

"What's more, growth is a poor proxy for standards of living. Much of the UK's post-financial-crisis growth took place at a time of fast population growth, resulting in GDP per person growing far slower.

"The Office for Budget Responsibility (OBR) agreed with the Bank of England that real wages ought to turn positive next quarter but this has more to do with a fall in inflation than an acceleration in wage growth.

"As the chancellor said, these forecasts are there to be beaten and whether that happens depends upon whether productivity picks up. However, as the government is busy trying to manage Brexit and balance the budgets the chancellor didn't unveil many productivity enhancing initiatives.

"Instead he is consulting with business over the fair collection of taxes on digital businesses and the increasing use of digital payments. This reflects his perception that markets, rather than politicians, create productivity.

"It would only take small tweaks to assumptions to transform the economic picture for the UK, although those tweaks could be negative or positive. The government has a big job on its hands managing Brexit. It sounds increasingly as if much will still be unresolved in that process by the Budget in Autumn. Perhaps that's why the chancellor wears his frugality as a badge of honour."

The key points

- The OBR has increased its GDP growth forecast for 2018 to 1.5% from 1.4% previously. Forecast growth is then unchanged at 1.3% in 2019 and 2020, before picking up to 1.4% in 2021 and 1.5% in 2022.
- Inflation, which is currently above target at 3%, is expected to fall back to target over the next 12 months.
- Borrowing is now forecast to be £45.2 bn this year, £4.7bn lower than forecast in November.
- The more favourable outlook for borrowing means the debt forecast is nearly 1% lower than in November. Peaking at 85.6% of GDP in 2017-18, it is expected to fall to 85.5% in 2018-19, then 85.1%, 82.1%, 78.3%, and finally 77.9% in 2022-23.

Prepare for the new tax year

In the absence of any major tax announcements, we think this is an opportune time to remind you to make the most of the tax allowances that already exist. With just three weeks left until the end of the tax year, time is running out to use what, in some cases, are very generous allowances.

Below we explain what action you might want to take if you haven't already done so.

ISAs

If you don't use your 2017-18 individual savings account (ISA) allowance before the end of the tax year you lose it forever. In April 2017 there was a substantial increase in the annual ISA allowance to £20,000 (£40,000 for a couple).

To encourage even wider use of ISAs, the government has introduced several changes in recent years that have potentially made the accounts even more attractive.

- You can transfer ISAs as often as you like, including previous years' ISA savings. Money held in a cash ISA can be transferred into a stocks and shares ISA and vice versa. Be aware, though, that some providers restrict transfers in.
- If your ISA is flexible, you can take cash out then put it back in during the same tax year without reducing your annual ISA allowance. If you have made use of this facility in the current tax year, make sure you put the money back into your ISA before the end of the tax year on 5 April.
- April 2017 saw the introduction of the Lifetime ISA (LISA), which is aimed at helping younger adults to save for retirement or build up funds towards the purchase of a first home. A LISA can be opened by anyone between the ages of 18 and 40 and while you can only put in £4,000 a year (which comes out of your full ISA allowance), the government boosts it by 25%, so that for every £4 saved the government adds £1. This means a maximum bonus of £1,000 on the annual £4,000 limit.

Pensions

Pensions also have an annual allowance, the standard rule being that you can contribute the lower of your annual earned income or £40,000.*

The annual allowance isn't necessarily lost at the end of the tax year, as you may be able to 'carry forward' any unused allowance from the previous three years. However, for most people, putting money aside each year and using relief as soon as possible is likely to be the best way to benefit from the available tax breaks.

**The annual pension allowance is dependent upon several factors and the £40,000 limit may not apply, depending on individual circumstances.*

Dividends

The level of dividends individuals can receive tax free will be cut from £5,000 to £2,000 from 6 April 2018.[1] If you are potentially affected by the reduced allowance, you should talk to a tax expert urgently to determine if there is any action you can take to minimise the impact. Your Brewin Dolphin adviser may be able to help you restructure your investments to minimise the potential blow. However, bear in mind that Brewin Dolphin is not a tax adviser.

Capital gains tax

One allowance that many investors forget is their 'Annual Exempt Amount' for capital gains tax (£11,300 in 2017-18). You don't pay tax on gains arising from the sale of eligible assets (such as shares you hold directly) until you've gone over this level. If you have a large portfolio of shares outside an ISA, it may be worth using as much of this allowance as possible each year – by selling assets that have risen in value – or you could be storing up a large exposure to capital gains tax for the future.

Inheritance tax

Most people wait until death before passing on their wealth through their wills. But, transferring wealth while you are alive can have a transformative effect on your family's life and reduce an inheritance tax (IHT) liability.

There are a number of annual gift allowances, which you lose if you don't make use of them before the tax year end.

- You can give away £3,000 each year and this will not be subject to IHT.
- You can give as many gifts of up to £250 per person as you want during a tax year, as long as you haven't used another exemption on the same person.

A financial leg-up for your children

You can also save tax-efficiently for your children and grandchildren. With a Junior ISA, you can put aside up to the maximum subscription limit (£4,128 for 2017-18) each year, and there are the same tax benefits as an adult ISA. You must remember the money is locked away until the child is 18 at which point they can start withdrawing money.

People with no earnings can also get 20% tax relief on pension contributions of up to £2,880 per year (which boosts the value to £3,600). This includes children. Money in children's pensions can't be accessed until they are 55 but can then be used to boost their retirement savings.

2018-19 tax year changes

There were no tax changes in the Spring Statement. However, some significant tax changes announced in previous Budgets could affect you when the new 2018-19 tax year begins on 6 April.

Income tax

The personal allowance – the amount you can earn before paying income tax – will rise to £11,850 on 6 April 2018 (£11,500 in 2017-18). The threshold for the start of the higher-rate 40% tax band will rise with inflation from £45,000 currently, up to £46,350 in 2018-19.[2]

ISAs

The ISA annual subscription limit for 2018-19 will remain frozen at £20,000. However, the annual allowance for Junior ISAs and Child Trust Funds for 2018-19 will be uprated in line with Consumer Price Index inflation (CPI) to £4,260.[3]

Pensions

The annual allowance – the limit on the amount of pension contributions that can be made each year and qualify for tax relief – remains at £40,000 in 2018-19, but note this may reduce depending on your circumstances.

The lifetime allowance will increase in line with inflation from £1m to £1,030,000.[4] This allowance is the maximum amount of pension savings you can amass over a lifetime without incurring a tax charge.

The basic State Pension will be increased by 3% – a cash increase of £3.65 per week for the full basic State Pension.

The full new State Pension, for anyone who reached state pension age after 6 April 2016, will rise by £4.80 per week.[5]

Capital gains tax

The annual tax-free allowance for capital gains tax, known as the 'Annual Exempt Amount', will increase to £11,700.[6]

Inheritance tax

When an individual dies, the value of their estate over the nil rate band is liable to inheritance tax (IHT) at 40%, unless it is passed directly to a spouse or civil partner or a substantial part is donated to charity (rate could reduce to 36%).

The nil-rate band threshold in the 2018-19 tax year will remain frozen at £325,000. Married couples and registered civil partners can share their thresholds, transferring the unused element of their IHT-free allowance to their living spouse when they die. Doubling up the allowance means a married couple or registered civil partnership can pass on £650,000 tax-free before IHT becomes due.

In April 2017 an extra allowance was introduced when a residence is passed to a 'direct descendant'. This is known as the residence nil-rate band (RNRB), and like the standard nil-rate band unused elements of the allowance are transferable to a surviving spouse or registered civil partner.

In the 2018-19 tax year, the RNRB will be £125,000 per person (in the 2017-18 tax year it is £100,000 per person).[7] This means a married couple with children will be able to pass on a maximum of £900,000 in total without having to pay IHT – two lots of £325,000 (£650,000) and two lots of £125,000 (£250,000).

Property taxes

Landlords used to be able to claim tax relief on 100% of mortgage interest costs at their marginal rate (40% for higher-rate taxpayers; 45% for additional-rate taxpayers). That meant all landlords only paid tax on the difference between their expenses and income, their profit.

That changed in April 2017. In the 2017-18 tax year landlords can only claim relief at their marginal rate on 75% of mortgage interest costs. On the remaining 25%, tax relief is restricted to the basic rate of income tax of 20%.

In the 2018-19 tax year landlords will only be able to claim relief at their marginal rate on 50% of mortgage interest costs.[8] If you own a buy-to-let property this may make it less appealing. Brewin Dolphin can help you explore alternatives to buy-to-let that are more liquid and tax efficient.

How we can help

Whether you are affected by changes to come or want to make the most of available allowances before the end of the tax year, Brewin Dolphin can give you guidance.

1. Gov.uk: Finance Bill: September 2017 explanatory notes, Clause 8: Dividend nil rate for tax year 2018-19 etc., 8 September 2017.
2. Gov.uk: Annex A: rates and allowances, 22 November 2017.
3. Autumn Budget 2017, 4.6, 22 November 2017.
4. Autumn Budget 2017, 4.6, 22 November 2017.
5. Autumn Budget 2017, 7.3, 22 November 2017.
6. Gov.uk: Annex A: rates and allowances, 22 November 2017.
7. Gov.uk: Annex A: rates and allowances, 22 November 2017.
8. Gov.uk: Changes to tax relief for residential landlords, 20 July 2016.

The value of investments and any income from them can fall and you may get back less than you invested.

Past performance is not a guide to future performance and performance is shown before charges which will reduce the illustrated performance.

This information is for illustrative purposes and is not intended as investment advice. Any tax advantages mentioned are based on personal circumstances and current legislation which are subject to change.

The information contained in this document is believed to be reliable and accurate, but without further investigation cannot be warranted as to accuracy or completeness.

Please note that this document was prepared as a general guide only and does not constitute tax or legal advice. While we believe it to be correct at the time of writing, Brewin Dolphin is not a tax adviser and tax law is subject to frequent change. Tax treatment depends on your individual circumstances, therefore you should not rely on this information without seeking professional advice from a qualified tax adviser.

The opinions expressed in this document are not necessarily the views held throughout Brewin Dolphin Ltd.