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BUDGET NEWS 2017

A word of warning

The information given below is based mainly on the Chancellor's budget speech and associated press releases. Therefore, I cannot accept responsibility for the accuracy of such information. I have covered the parts of the budget which have the widest effect on taxpayers; it is not an exhaustive account. On any individual tax problem, there is no substitute for taking specific advice.

The Budget in General

This was not a budget where the Chancellor had much room for manoeuvre. Previous forecasts of growth and productivity improvements have proved overoptimistic, leaving government finances in a worse state than expected. The government will have to continue to run a budget deficit for several years beyond the date (2020) when it should have been eliminated. The most hopeful thing the Chancellor could offer was that the national debt will start to fall as a proportion of GDP as the economy grows. Even that would be dependant on a good trade deal after Brexit, so there are uncertain times ahead.

The gloomy mood was lifted only slightly by some measures on housing and a little more cash for the NHS.

National Minimum Wage

The National Minimum Wage used to increase in October each year, but that has been moved to April to align it with changes to the National Living Wage. These are the changes in April 2018 (hourly rates):

	<u>Old</u> £	<u>New</u> £
<u>Age</u>		
25 and over (National Living Wage)	7.50	7.83
21 to 24	7.05	7.38
18 to 20	5.60	5.90
16 to 17	4.05	4.20
Apprentice under 19 or in first year	3.50	3.70

Self-employed NI

Self-employed people pay two National Insurance Contributions: Class 2, which is a fixed weekly amount (currently £2.85) and earns entitlement to benefits, and Class 4, which is a percentage of profits above the Lower Profits Limit (currently £8,164). Class 2 NIC was due to be abolished in April 2018, but that has been delayed by a year to 2019. Self-employed people will then pay only Class 4 NIC and that contribution will earn entitlement to benefits. There will be a new Small Profits Limit (around £6,000 would be my guess) and anyone with profits over that but under the Lower Profits Limit, will still earn benefits although they will not be paying any Class 4 NIC.

At the moment, it appears that anyone with profits below the Small Profits Limit, who wanted to earn benefits, would have to pay the Class 3 Voluntary Contribution (currently £14.25 a week) which is considerably more than Class 2 NIC.

Marriage Allowance

This allowance was introduced in 2015/16 and allows one spouse with income below the personal allowance to transfer 10% of that allowance to the other, provided that spouse is not a higher-rate taxpayer. The legislation provides that the couple have to be married at the time the claim is made, as claims by separated or divorced couples would be against the spirit of the measure. Unfortunately, that provision also meant that a claim could not be made after the death of one spouse.

That does seem heartless, especially if it was unexpected death which led to the deceased spouse having a low income. The government has now accepted that the situation is unfair so the law will be changed and back-dated claims will be allowed.

Mileage Allowances

Employed and self-employed people can use mileage allowances to claim relief for work travel. From 2017/18, that has been extended to individuals and partnerships with rental income, for travel to manage the property.

IR35

For many years, workers providing their labour through companies have been required to look at each contract they undertake and decide whether they would have been employees of the client if the company were not there, then tax themselves as such. In April 2017, the rules were changed for workers in the public sector, so that the client now has to make the decision. The government is now consulting on whether to extend that change to the private sector.

Income Tax changes for 2018/19

	Increase £	New rate £	Notes
Personal allowance	350	11,850	1
Marriage allowance	35	1,185	2
Born before 6.4.35			3
Married couples maximum	250	8,695	4
minimum	100	3,360	4
Income limit	900	28,900	
Blind person's allowance	70	2,390	
Personal Savings Allowance			5
Basic-rate taxpayer		1,000	
Higher-rate taxpayer		500	

Notes:

- The personal allowance is available in full only if income does not exceed £100,000. If it does, the allowance is reduced by £1 for every £2 of the excess until £123,700, when it is lost completely.*
- Marriage allowance can be claimed by married couples or civil partners where one partner has income below the personal allowance and the other is not a higher-rate taxpayer.*
- The married couple's allowance can be claimed only by those born before 6 April 1935. If income exceeds the limit, then the maximum is reduced by £1 for every £2 of the excess, until it equals the minimum amount.*
- Tax relief is given at 10% on these allowances.*
- The new Personal Savings Allowance applies to bank interest.*

The basic-rate of tax is still 20% and will apply to the first £34,500 of income. The next £115,500 is taxable at the higher rate of 40% and anything over £150,000 at the additional rate of 45%. There are two exceptions to these rates:

- The first £2,000 of dividend income is exempt (previously £5,000) then anything over that is taxed at 7.5% for basic-rate taxpayers, 32.5% for higher-rate taxpayers and 38.1% for additional rate taxpayers.
- There is a 0% tax rate up to £5,000 on the savings income (usually bank interest) of people whose taxable non-savings income is below that level.

VAT Threshold

The UK's VAT registration threshold of £85,000 is far higher than any other EU country. While this reduces the administrative burden on small businesses, it can discourage growth because a business just over the threshold and VAT-registered can be considerably worse off than one just below and not registered. At one point in the Chancellor's speech it seemed that he was leading up to announcing a reduction in the threshold but, instead, he just announced a freeze and a consultation on what to do next.

Capital Gains Tax

- The annual exemption for individuals is increased from £11,300 to £11,700 for 2018/19.
- Companies can still claim indexation relief on the cost of assets sold, something which was abolished for individuals about 20 years ago. That indexation allowance will be frozen at 1 January 2018, to bring companies into line with individuals.
- Gains on residential property are taxed at 18% for basic-rate taxpayers and 28% for higher-rate taxpayers. Other gains are taxed at 10% and 20%.
- Companies pay Corporation Tax, currently 19%, on their Capital Gains.

Excise Duties

- Tobacco duties have increased by 2% above inflation, except hand-rolling tobacco, where the increase will be 1% more.
- All alcohol duties are frozen, but a new duty will be imposed on strong ciders in 2019.
- Fuel duties will be frozen until the end of the 2018/19 tax year.

Stamp Duty Land Tax

With immediate effect, first-time house buyers will not pay SDLT on the first £300,000 of the purchase price of the property, as long as the full price is no more than £500,000. I would guess that there will be a complex set of rules to cover such situations as a couple purchasing a property, where one is a first-time buyer and the other is not.

Rent-a-room Relief

The relief has not changed, but the government will start a consultation on whether it is achieving its aim of supporting longer-term lettings.

Individual Savings Account

The ISA limit for 2018/19 is unchanged at £20,000, but the limit for Junior ISAs and Child Trust Funds is increased by £132 to £4,260.

Tax Credit Rates

	<u>Increase</u> £	<u>2018/19</u> £
<u>Working Tax Credit</u>		
Basic element	0	1,960
Couple and lone parent element	0	2,010
30 hour element	0	810
Disabled worker element	90	3,090
Severe disability element	40	1,330
<u>Child Tax Credit</u>		
Family element	0	545
Child element	0	2,780
Disabled child element	100	3,275
Severely disabled child element	135	4,600
<u>Income thresholds for withdrawal of Tax Credits</u>		
Basic	0	6,420
Those entitled to CTC only	0	16,105
The withdrawal rate is still 41%		
<u>Childcare element (weekly)</u>		
Maximum - one child	0	175
two or more children	0	300

Up to 70% of costs can be covered.

Tax Credit awards are always paid provisionally, based on the previous year's income, then reassessed at the end of the year when actual income is known. A £2,500 or more reduction in income will give a back-dated award, while an increase in income of £2,500 or more will lead to Tax Credits being reclaimed in whole or in part.

By now, Tax Credits should have been replaced by the new Universal Credit but, as has been widely reported, the system has severe problems.