

For intermediaries only

Budget 2020 – initial analysis

11 March 2020

The following summary provides an overview of the main points set out in the 2020 Budget and accompanying notes.

Pensions

Tapered annual allowance

The tapered annual allowance rules will change from 6 April 2020. Both threshold figures will be increased by £90,000:

- Threshold income will increase from £110,000 to £200,000.
- Adjusted income will increase from £150,000 to £240,000.

The Chancellor has also changed the minimum reduced tapered annual allowance from £10,000 to £4,000, and said this will affect individuals with total adjusted income of over £300,000. Under current rules, the tapered annual allowance is calculated by reducing the standard annual allowance by £1 for every £2 of adjusted income over the adjusted income threshold of £150,000.

The Treasury have not set out how they expect this to work from 6 April but if we apply the same logic, only individuals with adjusted income of £312,000 or more will suffer the maximum reduction in their annual allowance. Those with adjusted incomes between £300,000 and £312,000 will see their new tapered allowance dip below the current minimum of £10,000 but won't suffer the maximum reduction.

Lifetime allowance

The lifetime allowance will be increased from 6 April 2020 to £1,073,100. This in line with the increase in the Consumer Prices Index (CPI) in the 12 months to September 2019, which was 1.7%. After applying the CPI increase to the existing lifetime allowance, it would normally be rounded to the next multiple of £100, which would have meant the new level being £1,073,000. However, HM Treasury's Budget papers indicate the new level of annual allowance for tax year will be £100 higher than this.

The 'net pay' tax relief issue

The government will shortly publish a call for evidence on pensions tax relief administration, and it is committed to reviewing the options for addressing the different ways pension schemes administer tax relief. This is in response to an anomaly within the current pensions tax relief system which means that low earners, who earn at or below the personal allowance (£12,500), don't receive basic rate tax relief on their pension contributions if they're contributing to a workplace pension scheme that operates the net pay arrangement.

Inherited State Pensions for opposite-sex partners

Following the introduction of civil partnerships for opposite sex couples, as a result of The Civil Partnerships (Opposite-sex Couples) Regulations 2019, the Budget provides funding to make sure that State Pensions can be inherited or derived from opposite-sex partners.

Other

National Insurance

The National Insurance contributions threshold at which employees and the self-employed start to pay contributions will increase to £9,500 from 6 April 2020.

Top slicing relief for investment bonds

Following the outcome of the recent *Silver v HMRC* case, the Finance Bill 2020 will contain provisions clarifying how allowances and reliefs should be offset against chargeable event gains. If a policyholder loses their entitlement to some or all of the personal allowance as a result of their full chargeable event gain being added to their other taxable income, the personal allowance can be reinstated in the top slicing relief calculation. HMRC has also confirmed that allowances and reliefs should be offset as far as possible against other income in the top slicing relief calculation as opposed to the top sliced gain. These provisions will apply to chargeable event gains occurring after 10 March 2020.

ISA thresholds

The ISA threshold remains at £20,000 for 2020/21 and the Junior ISA limit will rise from £4,368 to £9,000.

Corporation tax

Corporation tax will remain at 19% for the two financial years beginning 1 April 2020 and 1 April 2021.

Entrepreneur's Relief / Capital gains tax

Entrepreneur's Relief isn't being abolished, instead the lifetime limit for gains qualifying for entrepreneur's relief will reduce from £10,000,000 to £1,000,000 with effect from 11 March 2020.

The capital gains tax annual exemption will rise to £12,300 for individuals and £6,150 for trustees from 6 April 2020.

IR35 rules

Legislation covering the extension of the off-payroll working rules to the private sector will be included in the Finance Bill 2020 and will be implemented from 6 April 2020.

Flat rate deduction for homeworking

The flat rate deduction for homeworking is going to increase from £4 per week to £6 with effect from 6 April 2020.

Insurance Premium Tax (IPT)

The government will shortly publish a summary of the responses it has received to its call for evidence and will publish a consultation in relation to the reform of how IPT operates.

Review of UK funds regime

The government will publish a consultation and carry out a review of the UK funds regime in 2020, which will include looking at direct and indirect tax as well as the governing regulation. This will also consider the VAT treatment of fund management fees. The aim of this review is to identify changes which could help to make the UK a more attractive location for funds to hold assets.

VAT

The government will publish legislation to provide clarification on when fund management services are exempt from VAT. It will also set up an industry working group to review the VAT treatment of financial services.

2020/21 allowances and rates

	Tax year 2020/21	Tax year 2019/20
Income tax – allowances		
Personal Allowance*	£12,500	£12,500
Income limit for personal allowance	£100,000	£100,000
Marriage allowance	£1,250	£1,250
Dividend allowance	£2,000	£2,000
Personal savings allowance- basic rate taxpayer	£1,000	£1,000
Personal savings allowance – higher rate taxpayer	£500	£500
Personal savings allowance – additional rate taxpayer	Nil	Nil
<i>* Reduced by £1 for every £2 of income over £100,000</i>		
Rest of UK income tax – rates		
Basic	20%	20%
Higher	40%	40%
Additional	45%	45%
Scottish income tax - rates		
Starter	19%	19%
Basic	20%	20%
Intermediate	21%	21%
Higher	41%	41%
Top	46%	46%
Welsh income tax - rates		
Basic	Rest of UK rates apply	Rest of UK rates apply

	Tax year 2020/21	Tax year 2019/20
Higher	Rest of UK rates apply	Rest of UK rates apply
Additional	Rest of UK rates apply	Rest of UK rates apply
*** From April 2019, the Welsh Government are able to vary the rates of income tax paid by Welsh taxpayers. The proposal for 2020/21 is to keep the rates the same as those paid by English and Northern Ireland taxpayers.		
Savings rates		
Starting rate – limit first £5,000 of savings income	0%	0%
Savings rate – basic rate	20%	20%
Savings rate – higher rate	40%	40%
Savings rate – additional rate	45%	45%
Dividend rates		
Ordinary rate	7.5%	7.5%
Upper rate	32.5%	32.5%
Additional rate	38.1%	38.1%
Rest of UK (including Wales) income tax - bands		
Basic rate	Up to £37,500	Up to £37,500
Higher rate	£37,501 to £150,000	£37,501 to £150,000
Additional rate	Over £150,000	Over £150,000
Scottish income tax - bands		
Personal allowance	£12,500	£12,500
Starter rate	£12,501 to £14,585	£12,501 to £14,549
Basic rate	£14,586 to £25,158	£14,550 to £24,944
Intermediate rate	£25,159 to £43,430	£24,945 to £43,430
Higher rate	£43,431 to £150,000	£43,431 to £150,000

	Tax year 2020/21	Tax year 2019/20
Top rate	Over £150,000	Over £150,000
Rate applicable to discretionary trusts		
First £1,000 of income	7.5% for dividend income or 20% for other income	7.5% for dividend income or 20% for other income
Rate applicable to trusts	45%	45%
Dividend rate	38.1%	38.1%
Pensions tax		
Standard lifetime allowance	£1,073,100	£1,055,000
Annual allowance****	£40,000	£40,000
Money purchase annual allowance	£4,000	£4,000
**** Reduced by £1 for every £2 of adjusted income above £240,000 (19/20 £150,000), to a minimum of £4,000 (19/20 £10,000)		
Capital gains tax		
Annual exemption (individuals and personal representatives)	£12,300	£12,000
Annual exemption (trustees)	£6,150	£6,000
Basic rate (other than residential property)	10%	10%
Basic rate (residential property)	18%	18%
Higher rate (other than residential property)	20%	20%
Higher rate (residential property)	28%	28%
Trust rate (other than residential property)	20%	20%
Trust rate (residential property)	28%	28%
Inheritance tax		
Rate	40%	40%

	Tax year 2020/21	Tax year 2019/20
Nil rate band	Up to £325,000	Up to £325,000
Residence nil rate band	£175,000	£150,000
ISA thresholds		
Maximum investment	£20,000	£20,000
Junior ISAs	£9,000	£4,368
Class 1 National insurance thresholds		
Weekly Lower earnings limit (LEL)	£120	£118
Weekly Primary threshold (PT)	£183	£166
Weekly Secondary threshold (ST)	£169	£166
Class 1 National insurance rates		
Employee contribution rates		
Below LEL	0%	0%
Between LEL and PT	0%	0%
Between PT and UEL	12%	12%
Above UEL	2%	2%
Employer contribution rates		
Below ST	0%	0%
Above ST*****	13.8%	13.8%
***** Special rules for under 21 years old and apprentices under 25 years old		