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Spring Budget 2017 – Initial Analysis

8 March 2017

The Chancellor delivered his final Spring Budget today. The following summary provides an overview of the main points set out in the budget and accompanying notes.

Pensions

Reduction in the money purchase annual allowance

The government announced in the Autumn Statement a consultation on the proposed reduction of the Money Purchase Annual Allowance (MPAA) from £10,000 to £4,000.

The government response to the consultation will be published on 20 March, but the Chancellor confirmed today that the reduction would go ahead from 6 April 2017.

The reduced MPAA will apply to anyone who has triggered the MPAA before 6 April 2017 (including anyone who had a flexible drawdown before 6 April 2015), and anyone who triggers the MPAA on or after 6 April 2017.

There is no change to how the MPAA will operate, for example, trigger events etc (more information can be found here.)

New tax charge on QROPS transfers

In a surprise move, the government is introducing a new tax charge – the 'overseas transfer charge' - that will apply to certain transfers to, and from, qualifying recognised overseas pension schemes (QROPS). Legislation will be introduced in the Finance Bill 2017.

The new tax charge will mean that transfers to QROPS requested by members on or after 9 March 2017 are taxed at a rate of 25%, at the point of transfer, unless at least one of the following apply –

- after the transfer the individual is resident in the same country in which the receiving QROPS is established
- after the transfer the individual is resident in a country within the European Economic Area (EEA) and the QROPS is

established in a country within the EEA, although they need not be the same country
- the QROPS is an occupational pension scheme sponsored by the individual's employer
- the QROPS is an 'overseas public service pension scheme' and the individual is employed by one of the scheme's participating employers
- the QROPS is a pension scheme established by an 'international organisation' to provide benefits in respect of past service as an employee of the organisation and the individual is employed by that international organisation

If none of the above apply, a 25% tax charge will be deducted by the transferring scheme administrator or manager, before making the transfer, and paid direct to HM Revenue & Customs (HMRC).

The overseas tax charge can also apply where funds are transferred from a QROPS, or former QROPS, where those funds originated in a registered pension scheme and had benefitted from UK tax relief.

A transfer that is made free of the overseas tax charge at the point of transfer can become taxable if, within five tax years of the transfer being made, there is a change in circumstances. For example, if the individual subsequently moves to a different country from the country where the QROPS is established (unless both are still within the EEA).

Conversely, the overseas transfer charge can be reclaimed from HMRC if, within five tax years of a taxable transfer being made, the individual's circumstances change so that one or more of the above conditions does apply. For example, the individual moves to the country in which the QROPS is established.

Payments out of funds that have been transferred to a QROPS on or after 6 April 2017 will be subject to UK tax rules for five tax years after the date of transfer, regardless of where the individual is resident.

All existing QROPS will need to submit a revised undertaking to HMRC by 13 April 2017 if they want to continue to be a QROPS.

HMRC has published draft guidance setting out how the new tax charge will work and the new obligations for UK scheme administrators, QROPS scheme managers and members.

Master trust tax registration

The government announced that it will include legislation in the Finance Bill 2017-18 in relation to the tax registration process for master trusts. The legislation will amend the process to align with the Pensions Regulator's new authorisation and supervision regime. This change will take effect for all master trust pension schemes from October 2018.

The Pensions Regulator's authorisation and supervision regime is set out in the Pensions Schemes Bill.

The change is designed to improved compliance and increase consumer protection.

Other

Dividend allowance

In April 2016 a £5,000 tax free dividend allowance was introduced for individuals, meaning that the first £5,000 of dividend income they receive in the tax year, whether from their investments or from the shares they own in their limited company, is free from income tax. Any dividend income received in excess of the tax free dividend allowance is taxed at 7.5%, 32.5% or 38.1% depending on the individual's marginal rate of income tax. This dividend tax free allowance is going to be reduced to £2,000 from April 2018.

National Insurance for the self-employed

Class 2 national insurance contributions are to be abolished from April 2018. The main rate of class 4 national insurance contributions is to rise from 9% to 10% in April 2018 and then by a further 1% in April 2019.

Review of remuneration

As part of a review into narrowing the tax differential between the self-employed and those operating their own limited companies, the government is going to take a closer look at an three areas in particular:

- the tax treatment of benefits in kind. There will be a call for evidence in relation to exemptions and the valuation methodology used to calculate income tax and employer national insurance contributions.
- accommodation benefits. There will be a consultation published with the aim of updating the rules relating to employer provided accommodation and board and lodgings.
- the income tax relief that can be claimed in relation to employee expenses.

Social care funding

There will be a green paper published later this year setting out the government's view on some of the options that could be considered to help to meet the long term challenges of funding the social care system. The chancellor ruled out the option of a death tax.

Rectification on part surrenders and part assignments from investment bonds

The draft legislation published at the Autumn Statement 2016 will be updated clarifying who can apply for rectification, when they can apply and how the recalculation will work. This will be included in the Finance Bill 2017 and will have effect from Royal Assent.

Insurance premium tax

The proposed 2% increase will go head from June 2017. The current anti-forestalling legislation is being replaced by new anti-forestalling legislation which will take effect from 8 March 2017.

2017 Allowances and rates

	Tax year 2016/17	Tax year 2017/18
Income tax – allowances		
Personal Allowance	£11,000	£11,500
Income limit for personal allowance	£100,000	£100,000
Marriage allowance	£1,100	£1,150
Dividend allowance	£5,000	£5,000
Personal savings allowance- basic rate taxpayers	£1,000	£1,000
Personal savings allowance – higher rate taxpayers	£500	£500
Income Tax – rates		
Main rates		
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
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		
Dividends – basic rate	7.5%	7.5%
Dividends – higher rate	32.5%	32.5%
Dividends – additional rate	38.1%	38.1%
Income tax bands		
Basic rate	£1-£32,000	£1-£33,500
Higher rate	£32,001-£150,000	£33,501-£150,000*
Additional rate threshold	£150,001 and over	£150,001 and over
*the Scottish higher rate threshold for non-savings and non-dividend income is different, namely £31,500		
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 Relief		
Lifetime allowance	£1,000,000	£1,000,000
Annual allowance	£40,000	£40,000
Money purchase annual allowance	£10,000	£4,000

	Tax year 2016/17	Tax year 2017/18
Capital gains tax		
Annual exemption – individuals	£11,100	£11,300
Annual exemption – trustees	£5,550	£5,650
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		
Nil rate band	£325,000	£325,000
Main residence nil rate band		£100,000
ISA thresholds		
Individual savings account	£15,240	£20,000
Junior ISAs	£4,080	£4,128
National insurance		
Weekly lower earnings limit (LEL)	£112	£113
Weekly primary threshold (PT)	£155	£157
Weekly secondary threshold (ST)	£156	£157
Upper earnings limit (UEL)	£827	£866
Employees class 1 contribution rates		
Below LEL	0%	0%
Between LEL – PT	0%	0%
Between PT – UEL	12%	12%
Above UEL	2%	2%
Employers class 1 contributions		
Below ST	0%	0%
Above ST	13.8%	13.8%

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