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Financial Planners

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Guide to

New Tax Year Planning 2018/19

The key changes to existing policies and newly introduced initiatives

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Guide to New Tax Year Planning 2018/19

The key changes to existing policies and newly introduced initiatives

Now that we've entered the 2018/19 tax year, a number of key changes have taken place to existing policies, along with some newly introduced initiatives. It's important to consider these tax implications when making financial decisions.

To help you navigate your way through the main changes that could have an impact on your financial situation, we've provided a summary of the main 2018/19 tax year changes that have come into force. The good news is that the overall tax burden is little changed for basic-rate taxpayers, but there are a number of areas that have changed that should be taken note of.

Taking action at the start of the 2018/19 tax year may give you the opportunity to take advantage of appropriate reliefs, allowances and exemptions, and consider whether there are any relevant decisions that you need to make sooner rather than later.

Here's what you need to know about the 2018/19 tax year changes and new initiatives.

Personal Allowance

The tax-free Personal Allowance is the amount of income you can earn before you have to start paying Income Tax. All individuals are entitled to the same Personal Allowance, regardless of their date of birth.

In the 2017/18 tax year, the Personal Allowance was £11,500, and it rises to £11,850 in the 2018/19 tax year. This means you can earn £350 more in the 2018/19 tax year than in the previous tax year before you start paying Income Tax.

However, bear in mind that the Personal Allowance is restricted by £1 for every £2 of an individual's adjusted net income above £100,000.

A spouse or registered civil partner who isn't liable to Income Tax above the basic rate may transfer £1,185 of their unused Personal Allowance in the 2018/19 tax year, compared to £1,150 in the 2017/18 tax year to their spouse or registered civil partner, as long as the recipient isn't liable to Income Tax above the basic rate.

Income Tax

The starting point for paying 20% basic-rate tax is £11,850, while 40% tax will start on earnings above £46,350 (up from £45,000).

Scotland

In Scotland, the first £2,000 of earnings after the Personal Allowance is taxed at 19% rather than 20%. After that, it's 20% tax until your earnings hit £24,000, when it rises to 21%, then above £43,430 the rate is 41%. Both have an upper rate above £150,000; in England it's 45%, in Scotland 46%.

Higher-rate threshold

The threshold for people paying the higher rate of Income Tax (which is 40%) increased from £45,000 to £46,350 in the 2018/19 tax year. This new figure also includes the increased Personal Allowance. The Government has already committed to raising the higher-rate threshold to £50,000 by 2020.

Dividend Allowance

The Chancellor of the Exchequer, Philip Hammond, announced in the Spring Budget 2017 that the Dividend Allowance would reduce from £5,000 to £2,000 from 5 April 2018.

Any dividend income that investors earn above the £2,000 allowance will attract tax at 7.5% for basic-rate taxpayers, while higher-rate taxpayers will be taxed at 32.5%, and additional-rate taxpayers at 38.1%.

This may impact on shareholders of private companies paying themselves in the form of dividends, for example, rather than salary. Investors with portfolios that produce an income in the form of dividends of more than £2,000 a year, which are held outside ISA or pensions, will also be affected by the reduction in the allowance.

National Insurance Contributions

Will be charged at 12% of income on earnings above £8,424, up from £8,164 until you are earning more than £46,350, after which the rate drops to 2%. It's the same in Scotland.

Auto enrolment contributions

Auto enrolment contribution rates have increased for employees and employers. In the previous 2017/18 tax year, the minimum pension contribution rate was 1% from the employee and 1% from the employer, which provides a 2% contribution. However, from 6 April 2018, the contribution rate increased to 3% for employees and 2% from the employer, totalling 5%.

Pension Lifetime Allowance

The Lifetime Allowance increased from £1 million to £1.03 million in the 2018/19 tax year. This is the maximum total amount you can hold within all your pension savings without having to pay extra tax when you withdraw money from them.

If the total value of your pension savings goes over the Lifetime Allowance, any excess will be taxed at a rate of 25% in addition to your marginal rate of Income Tax if drawn as income, or 55% if you take it as a lump sum.

State Pension

There has been a 3% rise for the old basic State Pension and the new flat-rate State Pension. If you're on the basic State Pension (previously £122.30 per week), this has increased to £125.95. The flat-rate State Pension has increased from £159.55 to £164.35 a week.

Inheritance Tax

The residence nil-rate band (RNRB) has risen from £100,000 to £125,000. The RNRB enables eligible people to pass on a property to direct descendants and potentially save on death duties.

Capital Gains Tax

Capital Gains Tax is charged on profits that are made when certain assets are either transferred or sold. There's no tax to pay if all gains made in a tax year fall within the annual Capital Gains Tax allowance. For the 2018/19 tax year, this is £11,700 (it was £11,300 for the 2017/18 tax year).

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Buy-to-let landlords

Changes mean that only 50% of mortgage interest will be able to be offset when calculating a tax bill, compared with 75% previously. ■

LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE, AND THEIR VALUE DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF THE INVESTOR.

Time to take a tax wealth check?

Timing is often the key ingredient in tax planning. Carrying out an annual review of your tax affairs could significantly reduce your own and your family's tax liabilities. To discuss your situation or for a review, please contact us for further information or to arrange a meeting.

Need help navigating the complex tax maze?

The UK tax system continues to grow ever more complex, with a greater responsibility being placed on the individual to get their tax right. To review your situation or discuss the options available.

Please contact us for further information – we look forward to hearing from you. or arrange a meeting.

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