Close Brothers
Asset Management

2019 Spring Statement update

Important information

This summary has been prepared very rapidly and is for general information only. You are recommended to seek competent professional advice before taking or refraining from taking action on the basis of the contents of this publication. The guide represents our understanding of the law and HM Revenue & Customs practice as at 13 March 2019, which are subject to change.

Introduction

The Chancellor found himself presenting his second Spring Statement sandwiched between a series of crucial Brexit votes. His speech was interspersed with references to the need to achieve a smooth exit from the EU. Beyond that, Mr Hammond chose to keep the Statement a low-key affair.

The Spring Statement presented no new tax proposals and indeed deferred any extension of Making Tax Digital (MTD). However, the Chancellor did introduce various consultations, early-stage discussion papers and calls for evidence. These covered a wide range of topics, stretching from a forthcoming review of the National Living Wage to the development of a low carbon Future Homes Strategy. One notable absentee from the Chancellor's consultation list was the second part of the Office of Tax Simplification's review of inheritance tax, which had been promised for Spring 2019.

The Statement was formally a response to the latest Economic and Financial Outlook from the Office for Budget Responsibility (OBR). This between-Budgets review contained mostly good news for the Chancellor, with forecasts of improved tax revenues and only a minor overall reduction to growth prospects.

In theory, the Chancellor now has about seven months to prepare for his Autumn Budget and issue many of his promised papers. In practice, it seems likely that the Brexit 'cloud of uncertainty' could constrain his actions again.

Economic update

Mr Hammond is used to facing down calls to loosen the purse strings whenever he makes a formal statement to parliament. On this occasion, the Treasury had pre-empted the more-money pleas to some extent by stating "… there will now only be one major fiscal event each year" - the Autumn Budget.

The Chancellor had some other useful defences against spending demands. A Spending Review is due imminently, which we now know will cover three years (from 2020) rather than the more usual five years. There is also the matter of Brexit, which Mr Hammond assumed would end with an agreed deal "in the next few weeks".

If Mr Hammond's assumption about the Brexit outcome proves correct, the state of government finances suggests that there will be scope for extra spending. Last October, the OBR projected a government deficit of £25.5 billion for 2018/19, £16.4 billion (39%) lower than in 2016/17. A little under five months later, the OBR now thinks that the deficit will be a more modest £22.8 billion. The £2.7 billion drop is primarily due to higher than expected tax receipts. In particular, the all-important month of January produced a bumper £14.9 billion government surplus, helped by record self-assessment tax receipts of £21.4 billion.

This tax bounty has prompted the OBR to build assumptions of higher government revenue into its forecasts for the next five years, providing the Chancellor with some extra room to manoeuvre. However, the OBR's overall economic outlook has changed little since October, when the forecast was for 1.6% growth in 2019, followed by 1.4% in each of the next two years. The OBR has now revised those growth figures to 1.2% in 2019, 1.4% in 2020 and 1.6% in 2021 – slightly more pessimistic than the Bank of England's latest forecast.

The Bank's number-crunching, like the OBR's, assumes "a smooth adjustment to new trading arrangements with the EU". As at 13 March, that was by no means a certainty after the previous day's 'Meaningful Vote' (mark II). It is little wonder Mr Hammond chose to keep the Spring Statement as close as possible to a fiscal non-event.

Announcements

The Chancellor announced several changes, including:

Making Tax Digital (MTD)

The government confirmed a light touch approach to penalties in the first year of MTD's implementation. MTD will not be extended to any new taxes or businesses in 2020.

Publications

The government published two documents outlining its existing approach to tax avoidance and related issues: Tackling tax avoidance, evasion and other forms of non-compliance and offshore tax compliance strategy, No Safe Havens 2019.

In the coming months, government publications will include:

- **Review of time limits** – a report on the time limits for the recovery of lost tax involving an offshore matter, comparing them with other time limits. It will set out the rationale for the charge on disguised remuneration loans and will be laid by 30 March 2019.
- **Child Trust Funds (CTF)** – a consultation on maturing CTFs and the regulations to ensure that they can retain their tax-free status after maturity.
- **Social investment tax relief (SITR)** – a call for evidence on the scheme, including why it has been used less than expected and its impact on finance for social enterprises.
- **Enterprise investment scheme (EIS) approved funds guidelines** – draft guidelines and draft legislation, with proposed HMRC policy and practice for approving EIS funds.
- **CGT private residence relief** – a consultation on the capital gains tax (CGT) changes announced in the 2018 Budget to lettings relief and the final period exemption.

Summaries of responses will be published to various consultations.

- **Stamp taxes on shares consideration rules** – the consultation was about the introduction of a general market value rule for transfers between connected persons, aligning the consideration rules for stamp duty and stamp duty reserve tax.
- **Digital services tax** – the consultation was on the digital services tax that will take effect from 1 April 2020.
- **Amendments to tax returns** – there has been call for evidence on simplifying the process of amending a tax return.

2019/20 Changes already announced

From 6 April 2019, a raft of tax and other changes take effect, most of which date back to last October's 2018 Budget. There are further important changes down the line in 2020. The Chancellor did not introduce any new tax measures in his Spring Statement, although he did announce a number of new consultations.

Income tax: UK

The personal allowance for 2019/20 will rise by 5.5% to £12,500 and the basic rate band will increase by 8.7% to £37,500 (outside Scotland), making the higher rate threshold (the sum of the two) £50,000. These increases are significantly higher than inflation.

Income tax: Scotland

The same personal allowance as in the rest of the UK will apply, but in Scotland a different set of rates and bands will again apply to non-savings, non-dividend income – primarily earnings.

Scottish taxpayers will continue to have five tax bands with the tax rates for 2019/20, as for 2018/19, ranging from 19% to 46%. The threshold for the higher rate of income tax (at 41%, not 40%) will remain unchanged at £43,430, which is £6,570 below the rest of the UK. Someone with earnings of £50,000 a year will have an extra income tax charge of £1,544 a year for being resident north of the border.

Income tax: Wales

The National Assembly for Wales now has the power to vary income tax rates (not bands), but for 2019/20 it has decided not to make any changes from the rates of the rest of the UK (excluding Scotland).

National insurance contributions

The national insurance contribution (NIC) thresholds will be increased by 7.9%. The upper earnings limit (for employees) and upper profits limit (for the self-employed) will rise to £50,000, matching the UK higher rate income tax threshold outside Scotland.

Class 2 NICs, which were due to cease in April, will survive until at least the end of the current parliament. The Class 2 rate for 2019/20 will be £3.00 per week.

Inheritance tax (IHT)

The residence nil rate band, which was introduced in 2017/18, will rise by £25,000 to £150,000 in 2019/20. The main nil rate band will remain at £325,000 – the level set in 2009.

In 2020/21, the residence nil rate band will reach £175,000.

Pensions – the lifetime allowance

The lifetime allowance, which sets the effective maximum tax-efficient value of pension benefits, will rise in line with inflation from £1.03 million to £1.055 million for 2019/20. There is no corresponding increase to the annual allowance, which remains at a maximum of £40,000, subject to the taper and money purchase annual allowance rules.

Entrepreneurs' relief

From 6 April 2019 entrepreneurs' relief will change as follows:

- The minimum period throughout which the qualifying conditions for the relief must be met will increase from 12 to 24 months; and
- Individuals can qualify for the relief where their shareholding is diluted below the 5% qualifying threshold by the raising of new shares for commercial purposes after 5 April 2019.

Capital gains tax (CGT) – residential properties

From 6 April 2020 there will be the following changes to CGT on residential property:

- UK residents making a chargeable disposal of residential property must deliver a return to HMRC, and pay the tax, within 30 days following completion;
- The estimated CGT due must be paid by the same date;
- Lettings relief of up to £40,000 will only be available where the owner of the property is in shared occupancy with the tenant; and
- The final period principal private residence exemption will be reduced from 18 months to nine months. The 36-month final period exemption will remain for disabled individuals or those in a care home.

Venture capital trusts

The Finance Act 2018 made a range of revisions to the venture capital trust (VCT) legislation, not all of which took immediate effect. From 6 April 2019:

- The proportion of VCT funds that must be held in 'qualifying holdings' will increase from 70% to 80%; and
- The period for reinvestment of gains on disposal of 'qualifying holdings' will increase from six to 12 months.

2019/20 Tax data

Main income tax allowances

Main personal allowances and reliefs		2019/20	2018/19
Personal allowance[1]		£12,500	£11,850
Married couples' / civil partner's transferable allowance		£1,250	£1,190
Married couples'/ civil partners' allowance at 10%[2]	maximum	£8,915	£8,695
(if at least one born before 6/4/35)	minimum	£3,450	£3,360
Blind person's allowance		£2,450	£2,390
Rent-a-room tax-free income		£7,500	£7,500
Property allowance		£1,000	£1,000
Trading allowance		£1,000	£1,000

1. Personal allowance reduced by £1 for every £2 of adjusted net income over £100,000.
2. Reduced by £1 for every £2 of adjusted net income over £29,600 (£28,900 for 2018/19), until the minimum is reached.

High Income Child Benefit Charge: 1% of benefit per £100 of income between £50,000 and £60,000.

Income tax rates and bands			
UK excluding Scottish taxpayers' non-savings income		**2019/20**	**2018/19**
20% basic rate on income up to		£37,500	£34,500
40% higher rate on income over		£37,500	£34,500
45% additional rate on income over		£150,000	£150,000
All UK taxpayers			
Starting rate at 0% on savings income up to[3]		£5,000	£5,000
Savings allowance at 0% tax:	basic rate taxpayers	£1,000	£1,000
	higher rate taxpayers	£500	£500
	additional rate taxpayers	£0	£0
Dividend allowance at 0% tax – all individuals		£2,000	£2,000
Tax rates on dividend income:	basic rate taxpayers	7.5%	7.5%
	higher rate taxpayers	32.5%	32.5%
	additional rate taxpayers	38.1%	38.1%
Trusts: Standard rate band generally		£1,000	£1,000
Rate applicable to trusts:	dividends	38.1%	38.1%
	other income	45%	45%

3. Not available if taxable non-savings income exceeds the starting rate band.

Non-domicile remittance basis charge after UK residence in at least	2019/20	2018/19
7 of the last 9 tax years	£30,000	£30,000
12 of the last 14 tax years	£60,000	£60,000

Scottish income tax rates and bands

Scottish taxpayers' non-dividend, non-savings income	2019/20	2018/19
19% starter rate on income up to	£2,000	£30,000
20% basic rate on next slice of income up to	£12,150	£60,000
21% intermediate rate on next slice up to	£31,580	£60,000
41% higher rate on next slice up to	£150,000	£60,000
46% top rate on income over	£150,000	£60,000

Registered pensions

	2019/20	2018/19
Lifetime allowance	£1,055,000	£1,030,000
Money purchase annual allowance	£4,000	£4,000
Annual allowance*	£40,000	£40,000
Annual allowance charge on excess	Applicable tax rate on earnings	
Lifetime allowance charge if excess is drawn	As cash 55%; as income 25%	
Max. pension commencement lump sum	25% of pension benefit value	

* Reduced by £1 for every £2 of adjusted income over £150,000, until the minimum £10,000 is reached.

Property taxes

Property transaction taxes use different rates and names depending on where in the UK a purchase takes place.

Stamp Duty and SDRT: Stocks and marketable securities	0.5%
Second residential and all corporate residential properties £40,000 or more – add 3% to relevant SDLT/LTT rate(s) and 4% to LBTT rate(s)	

England & N Ireland – Stamp Duty Land Tax (SDLT) on slices of value			
Residential property	**%**	**Commercial property**	**%**
Up to £125,000	0	Up to £150,000	0
£125,001 – £250,000	2	£150,001 – £250,000	2
£250,001 – £925,000	5	Over £250,000	5
£925,001 – £1,500,000	10		
Over £1,500,000	12		
First-time buyers: 0% on first £300,000 for properties up to £500,000			
Residential properties bought by companies etc. over £500,000: 15% of total consideration, subject to certain exemptions			

Scotland – Land and Buildings Transaction Tax (LBTT) on slices of value			
Residential property	**%**	**Commercial property**	**%**
Up to £145,000	0	Up to £150,000	0
£145,001 – £250,000	2	£150,001 – £250,000	1
£250,001 – £325,000	5	Over £250,000	5
£325,001 – £750,000	10		
Over £750,000	12		
First-time buyers: 0% on first £175,000			

Wales – Land Transaction Tax (LTT) on slices of value			
Residential property	**%**	**Commercial property**	**%**
Up to £180,000	0	Up to £150,000	0
£180,001 – £250,000	3.5	£150,001 – £250,000	1
£250,001 – £400,000	5	£250,001 – £1,000,000	5
£400,001 – £750,000	7.5	Over £1,000,000	6
£750,001 – £1,500,000	10		
Over £1,500,000	12		

National Insurance Contributions

Class 1 (Employees)	2019/20		2018/19	
	Employee	**Employer**	**Employee**	**Employer**
NIC rate	12%	13.8%	12%	13.8%
No NICs for younger employees[1] on the first	£166 pw	£962 pw	£162 pw	£892 pw
No NICs for employees generally on the first	£166 pw	£166 pw	£162 pw	£162 pw
NICs rate charged up to	£962 pw	No limit	£892 pw	No limit
2% NICs on earnings over	£962 pw	N/A	£892 pw	N/A
Certain married women	5.85%	13.8%	5.85%	13.8%

1. Employees generally under 21 years and apprentices under 25 years.

Employment allowance	2019/20	2018/19
Per business	£2,000	£30,000
Not available if the sole employee is a director.		

Earnings limits or thresholds	2019/20		2018/19	
	Weekly	**Annual**	**Weekly**	**Annual**
Lower earnings limit	£118	£6,136	£116	£6,032
Primary earnings limit	£166	£8,632	£162	£8,424
Secondary earnings threshold	£166	£8,632	£162	£8,424
Upper earnings limit and Upper secondary earnings threshold (under 21)[2]	£962	£50,000	£892	£46,350

2. Employees generally under 21 years and apprentices under 25 years.

Class 1A (Employers)	2019/20	2018/19
Most taxable employee benefits	13.8%	£30,000

Class 2 (Self-Employed)	2019/20	2018/19
Flat rate	£3.00 pw £156.00 pa	£2.95 pw £153.40pa
Small profits threshold:	£6,365 pa	£6,205 pa

Class 4 (Self-Employed)	2019/20		2018/19	
On profits	£8,632 – £50,000 pa	9%	£8,424 – £46,350 pa	9%
	Over £50,000 pa	2%	Over £46,350 pa	2%

Voluntary	2019/20	2018/19
Class 3 flat rate	£15.00 pw £780.00 pa	£14.65 pw £761.80 pa