A Budget Day… at last

In early January Chancellor announced a new Budget date: 11 March 2020.

This could be a significant Budget. Traditionally, the first Budget of a new Parliament is when the Chancellor delivers the medicine of tax increases and/or unpopular reforms. To borrow from Macbeth: ‘If it were done when ‘tis done, then ‘twere well it were done quickly’…that way the electorate has over four years to forget.

If you’re struggling to remember what happened in Budget 2019, you haven’t forgotten. Unusually, in 2019 there was no Budget. There was a Spring Statement in March 2019 from Philip Hammond, but the general election call forced his successor, Sajid Javid, to abandon the planned Autumn Budget set for 6 November. During the election campaign the Conservative party said that the Budget would be revealed in February, but this date shifted again in the new year when the Chancellor announced a date of 11 March.

We already know a good proportion of what the Chancellor will announce, as draft legislation was published eight months ago in anticipation of the cancelled Autumn 2019 Budget. The contents will almost certainly include controversial legislation to strengthen the operation of off-payroll working rules (IR35) in the private sector, possibly with some amendments following the government’s last minute review, as well as tighter rules on the capital gains tax treatment of main residences. Both are due to take effect from 6 April 2020.

Ahead of the Budget, the government confirmed at the end of January a ‘tax cut’ mentioned in the Conservative party manifesto, of an increase in the starting point for national insurance contributions (NICs) from the current £8,632 to £9,500 a year – a maximum saving of £2 a week.

The Budget unknowns include what the Chancellor might do about pensions tax relief. He already faces a growing problem with the impact of the annual allowance on NHS senior staff, which has been fixed temporarily, but only until April. There are already calls for the Chancellor to overhaul the system, something he could do while simultaneously raising more revenue.

One consequence of the Budget date is that any year end tax planning – especially on the pension front – now potentially has a deadline date of 10 March.
Last call for 2016/17 on your annual allowance…

The clock is ticking on using up your pension annual allowance

The allowance effectively sets the maximum pension contributions from all sources (including your employer) on which you may be able to claim income tax relief. In recent times it has been the subject of much controversy because of the way the allowance is tapered from the ‘standard’ £40,000 to as little as £10,000 for high earners.

One reason why the taper rules have come to the fore is another aspect of the annual allowance which has received far less press coverage: the carry forward rules. These allow you to mop up unused annual allowance from up to three tax years ago – i.e. from 2016/17 onwards during the 2019/20 tax year. In theory this could mean that, before 6 April 2020, tax-relievable pension contributions of up to £160,000 could be made (£40,000 a year for 2016/17 – 2019/20 inclusive).

As you might expect, there is some complex legislation setting out how carry forward operates. For example:

- You must have been a member of a registered pension scheme in the tax year from which any unused annual allowance is carried forward. However, you (or your employer) do not have to have paid any contributions or accrued any benefit during those years, nor do any carried forward contributions have to be made to that scheme.
- You must have covered an effective ‘entry fee’ of contributions equalling your annual allowance for the current year, i.e. £40,000, if you are not caught by the taper regime.
- The carry back goes to the oldest tax year first and then works forward.
- All tax relief is given in the current tax year, not the year to which the unused allowance relates.
- Carry forward is not available if, at any time, you have taken advantage of the 2015 pension flexibilities to draw from any pension arrangement.

Calculating how much can be carried forward is sometimes a difficult exercise, requiring detailed contribution records, so if you want to beat the deadline for using up your remaining allowance from 2016/17, start seeking advice now.
National Living Wage set to outpace new state pension

The National Living Wage (NLW) rises by over 6% in April.

The 6.2% increase to £8.72 an hour equates to £15,870 a year based on a 35-hour week. The substantial rise is not down to inflation – which ended 2019 at only 1.3% – but due to a policy of George Osborne’s. When he made the surprise announcement of the NLW in his 2015 Summer Budget, Osborne set a goal for it to match 60% of median earnings by 2020. Sajid Javid, the new Chancellor, has set a revised target of the NLW reaching two thirds of median earnings by 2024.

Pushing up minimum earnings is a double-edged sword for the Treasury. It ought to mean a reduced government outlay on in-work benefits and increased tax and NICs income, but it also adds to the government’s costs as an employer, placing pressure on all wages, not just those at the minimum level. What it has not done so far is impact on the cost of state pensions.

State pension equivalence?

As a result of the Conservative party election win, we know that the ‘Triple Lock’ will continue to apply to the new state pension, with annual increases which are the greatest of:

- Consumer Price Index (CPI) price inflation;
- average earnings growth; or
- 2.5%.

The NLW will have to rise faster than earnings to move from 60% to 66\(\frac{2}{3}\)% of median earnings over the next four years. It’s therefore quite likely that, as in the past four years, the NLW’s growth will outpace earnings.

A corollary is that the new state pension looks set to continue shrinking as a proportion of the weekly equivalent of the NLW. From April, the new state pension will be only about 57% of the NLW (and thus little more than one third of median earnings). When the NLW and new state pension first came into being in 2016, the pension was nearly 62% of the NLW.

Those numbers are a reminder that the new state pension is far from generous, even for those with minimum earnings. If you want a comfortable retirement, then the new state pension needs topping up.
Look back in curiosity: what can we learn from the 2010s?

What do you remember about the 2010s?

A decade is a long time and a lot happens, but important details can be lost in the big headline moments. The one that has just ended makes the point. The 2010s started with Gordon Brown as prime minister and, four elections and two referendums later, closed with Boris Johnson in 10 Downing Street and the UK out of the EU. Over the entire period, the Bank of England’s base rate deviated no more than 0.25% either side of the 0.50% at which it began the decade.

Inflation, as measured by the CPI, rose from 0.7% in January 2010 to peak at 5.1% in September 2011, but from 2012 onwards never breached 4%. It ended the decade at 1.3%. Across the decade, CPI inflation averaged 2.1%, just 0.1% above the Bank of England’s central target.

House prices, as measured by the Nationwide House Price Index (NHPI), beat inflation across the decade, but not significantly. As the graph shows, for most of the first five years house price rises underperformed, then took the lead as inflation subdued. Over the entire decade, the NHPI rose by 32.8%, equivalent to an annual increase of 2.9%. It may come as a surprise that the NHPI fell short of inflation, as measured by the Retail Price Index (RPI), which rose by 33.9% over the 2010s (3.0% annually).

The UK stock market, as measured by the FTSE All-Share Index, produced capital growth of over 50% in the 2010s, despite all the political traumas. That is equivalent to 4.3% annually, more than double the inflation rate. The progress was not smooth – the grey line on the graph does gyrate about somewhat – but neither was it an unnerving roller coaster.
Unfortunately we can't project a similar graph for the 2020s. The new decade has started with falling inflation, interest rates set to stay at ultra-low levels, and both housing and share markets that appear to be experiencing a post-election bounce. In the absence of a decade-deep crystal ball, the wisest investment advice for the 2020s will be, as for every other decade, not to put all your eggs in one basket.
Intestacy rule change favours spouses

The intestacy rules for England and Wales have been amended.

The intestacy rules automatically apply to the distribution of estates where there is no will. There are three different sets of rules in the UK: one for England and Wales, a similar set for Northern Ireland and a much more different set for Scotland.

The rules for England and Wales have just received a slight modification, with the change made highlighting an aspect of intestacy of which many people are unaware: a surviving spouse or civil partner does not always inherit all of their deceased husband, wife or civil partner’s estate.

Up until 5 February 2020, the English and Welsh rules said that if the husband, wife or civil partner of the deceased survives 28 days, and the deceased had issue (broadly, children and their lineal descendants), then:

- The surviving spouse would receive:
  - The personal chattels of the deceased (car, clothing, jewellery, etc);
  - £250,000 outright; and
  - One half of the residue of the estate.

- The issue would receive the other half of the residue.

From 6 February 2020, the £250,000 figure was increased…to £270,000.

Adding £20,000 to the outright inheritance does little to solve a problem that some families potentially face in dealing with the family home.

If the property is not owned in joint names (as joint tenants), then a survivor may not inherit the family home outright. In some cases, intestacy can even mean that there is an inheritance tax bill to meet on first death, something most estate planning aims to avoid.

One other important fact to note about intestacy is that it deals only with married spouses and civil partners and relations. If you live as a couple but are not married or in a civil partnership, intestacy could leave the survivor with nothing.

The message is clear: if you have not made a will, make one. And if you have made one, make sure you know where it is and that it is up to date.