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Adviser Update

Spring Budget 2020

Rishi Sunak's first Budget was always going to be memorable. After only four weeks in the job as Chancellor, his original brief was to deliver a Budget that met the new Conservative Government's desire to invest in the UK's infrastructure and bring parity to the regions. But a new agenda soon took over – one to tackle the economic turmoil a threatening coronavirus pandemic brings.

For retirement and savings, despite the endless rumours of changes to pensions tax relief, the Budget was a relatively quiet affair. However, Sunak made significant changes to the tapered annual allowance, as well as more than doubling the Junior ISA subscription levels to £9,000 for the 2020/21 tax year.

After waiting 500 days since the last Budget, we won't have to wait too long until the next one. The Autumn Budget will hopefully be delivered in less chaotic times and may, therefore, include more radical proposals for pensions and savings.

Changes to the tapered annual allowance

The Budget makes the widely-anticipated changes to the tapered annual allowance. But this goes beyond mere tinkering, increasing the two income thresholds by £90,000 and releasing many higher earners from its grasp. This will hopefully pacify the British Medical Association (BMA), which has been campaigning for the taper to be scrapped for NHS scheme members. It will certainly help reduce or eliminate shock pension tax bills for private sector pension savers as well.

In a quid pro quo, however, the minimum tapered annual allowance fell to £4,000 for those earning above £300,000.

The tapered annual allowance rules will change from the 2020/21 tax year. Both the adjusted income and threshold income levels will be raised by £90,000 to:

- for adjusted income (broadly, taxable income plus employer pension contributions): £240,000
- for threshold income (broadly, taxable income less personal contributions): £200,000

If an individual's income is above these two thresholds, then their annual allowance will be reduced from £40,000 by £1 for every £2 their adjusted income exceeds £240,000. Anyone whose adjusted income is over £300,000 will have a tapered annual allowance of less than £10,000. And the tapered annual allowance for those with an adjusted income of £312,000 or more will be £4,000.

Adjusted income	Tapered annual allowance
£240,000	£40,000
£250,000	£35,000
£260,000	£30,000
£270,000	£25,000
£280,000	£20,000
£290,000	£15,000
£300,000	£10,000
£310,000	£5,000
£312,000 and above	£4,000

This measure will cost the Treasury £180 million in the 2020/21 tax year, rising to £670 million by 2024/25.

Whilst raising the thresholds will help those struggling with the taper, it is just a sticking plaster solution. We would rather have seen the Treasury scrap the taper as part of a wider simplification agenda designed to make the system of tax rules governing people's retirement savings easier to navigate.

Pension savers won't see the effect of the changes for at least a year, as they apply from next tax year. This leaves higher earners still grappling with the lower limits and facing high tax bills over the next few months when paying any annual allowance charge. Arguably, it would have been better had the changes been effective from the current tax year.

The standard annual allowance and the money purchase annual allowance (MPAA) remain at £40,000 and £4,000 respectively.

The 'net pay problem'

Sunak was less impressive on the Conservative manifesto promise to help lower earners who save within a pension scheme that operates 'net pay' tax relief. Despite this being a long-standing problem, he only promised to publish a call for evidence on pensions tax relief administration, rather than announcing measures to give lower earners the tax relief they would have got had they contributed to a 'relief at source' scheme instead.

It's estimated that not giving those earning £12,500 in net pay schemes pensions tax relief saves the Treasury £111 million each year.

Entrepreneur's relief

As expected, entrepreneur's relief was cut to apply to lifetime gains of £1 million. (Before 11 March, a lower rate of 10% Capital Gains Tax applied to lifetime gains of up to £10 million.)

Those using entrepreneur's relief will still save £100,000 on Capital Gains Tax, but some at the higher end of the range face paying £900,000 more in tax. Those wanting to use this relief as a way of saving for retirement will have to review their plans.

These changes apply to qualifying disposals made on or after 11 March 2020, and to certain disposals made before 11 March 2020.

Junior ISA

In a surprising move, the subscription limit for Junior ISAs will more than double to £9,000 from the 2020/21 tax year.

Junior ISAs have been around since 2011, but the average subscription to them has been steadily falling, and in 2017/18 it was only £994 (down from a high of £1,623 in 2011/12). Hopefully this increase will lead to bigger birthday and Christmas presents for some children.

This could mean someone born later this year could build up a tax-free pot of more than £240,000 by the time they are 18. (Assuming they pay in the maximum subscription each year and that the fund grows by 4% each year after charges.)

Review of UK funds industry

The Government has also announced plans to review how to make the UK more attractive as a place for asset managers to set up business and base their funds. The review will take place this year and look at aspects like changing the tax regime, regulation and VAT treatment of funds in order to make sure the UK doesn't lose out to its European neighbours post-Brexit as a place to base funds.

Separately, it was confirmed that reviews into the VAT position of fund management services and wider financial services will also be launched.

Limits and allowances for 2020/21

The Finance Bill confirms several limits and allowances for the new tax year 2020/21:

- Lifetime allowance – increases to £1,073,100
- ISA subscription allowance – remains at £20,000
- Junior ISA subscription allowance – increases to £9,000
- Capital gains allowance – increases to £12,300
- National Insurance primary threshold – increases to £9,500

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