nucleus

Autumn budget 2017

In the autumn budget, Philip Hammond, the Chancellor, was facing pressure from all sides. Being part way through complex Brexit negotiations, having no outright parliamentary majority, and no money in the public purse meant he had to walk a fine line.

In the end, this budget was almost unprecedented for being quiet on pensions. We often call for no changes to pensions – and it looks like this time the chancellor was listening to our wishes, with none of the rumoured announcements on pensions tax relief or annual allowances surfacing.

And although he announced the expected cut to stamp duty for first time buyers, the Treasury has resisted the urge to raid pensions to pay for the cost.

This factsheet outlines the few changes for pensions and savings.

Pensions lifetime allowance

The only mention of pensions tax was the welcome confirmation the pensions lifetime allowance would go up to £1,030,000 from next April. Although this is a small change on paper, it could have big tax-saving implications for clients, and delaying taking benefits until after April 2018 may save some clients paying larger lifetime allowance charge bills.

Example

Tommy has benefits of £1,100,000. Unfortunately, he has no protection. If he took his benefits in November 2017 then he would have £100,000 excess over the LTA, and if he withdrew his excess fund as a lump sum, he would pay a tax of 55% - £55,000.

However, if he took his benefits in April 2018 when the LTA is £1,030,000, then he would have an excess of £70,000, and pay tax of £38,500 (55%). This saves him £16,500 tax.

Theoretically, this increase shouldn't be a one off. The lifetime allowance should now increase every year in line with CPI. However, it's far from certain these increases will happen. And whether the lifetime allowance will increase again in April 2019 is a battle for another day.

Pension funds and long-term investments

Phillip Hammond announced in his speech that pension funds would have better access to investments with long-term investment horizons. The government will give pension funds confidence they can invest in assets supporting innovative firms. However, we now await guidance from the pensions regulator to clarify exactly which investments can be considered.

The Treasury no doubt hope this could provide more capital stimulus for innovative firms. However, trustees will still need to decide whether this is the best investment for the profile of their membership.

Life assurance and overseas pension schemes

In a relatively obscure change, from April 2019, the rules for gaining tax relief on employer premiums paid into life assurance products or certain overseas pension schemes will be modernised. These premiums will now gain tax relief when an employee nominates an individual or registered charity to be their beneficiary. This will bring these bequests in line with other pension legacy planning.

Master trust tax registration

The final pensions snippet is confirmation that the government will give HMRC powers to register and de-register master trust pension schemes for dormant companies. This will be included in the next Finance Bill, and the changes will be brought in from April 2018.

nucleus

Autumn budget 2017

EIS and VCTs

The budget papers announced measures which form part of the government's response to the Patient Capital Review consultation.

Some changes are intended to ensure VCTs invest more funds in higher-risk companies more quickly. This will require a number of VCTs to make changes to their investment models to meet the new rules. Relief under the schemes will be focused on companies where there is genuine risk to the capital being invested, excluding companies intended to provide 'capital preservation'.

While this measure comes as no surprise, other measures were. Most notable is a doubling of the limit on the amount an individual may invest under the EIS in a tax year up to £2 million, provided any amount over £1 million is invested in one or more knowledge-intensive companies. This potentially increases the relief to £600,000.

This is an unexpected move: instead of cutting the tax benefits, as was hinted at before the Budget, this offers a very generous tax advantage to a relatively small group of individuals.

Taxation of trusts

Finally, the government will publish a consultation in 2018 on how to make the taxation of trusts simpler, fairer, and more transparent. This has to be a welcome move as the current rules can be convoluted and confusing, and this clarification has been a long time coming.

We now await the consultation from HMRC to see exactly how these changes will affect advisers and their clients.

If you only read one thing

- There were no major changes for pensions tax rules. The only announcement was confirmation of the increase in the lifetime allowance to £1,030,000 from April 2018.
- The government will give pension funds confidence they can invest in assets supporting innovative firms. Guidance from the pensions regulator will clarify exactly which investments can be considered.
- Changes will make sure VCTs invest more funds in higher-risk companies more quickly. Relief under the schemes will be focused on companies where there is genuine risk to the capital being invested, excluding companies intended to provide 'capital preservation'.
- The limit on the amount an individual may invest under the EIS in a tax year will be doubled to £2 million, provided any amount over £1 million is invested in one or more knowledge-intensive companies.
- The government will publish a consultation in 2018 on how to make the taxation of trusts simpler, fairer, and more transparent.

producttech@nucleusfinancial.com @nucleuswrap www.nucleusfinancial.com