# CLIENT NEWSLETTER - NOVEMBER 2019

## AN EARLY START TO YEAR-END TAX PLANNING

By the time 2019 ends, it is almost certain to be an unusual year from a tax viewpoint: there will have been no Budget. That contrasts with recent times when, on occasions there have been what felt like three Budgets: one pre-Election, one post-Election plus a third quasi-Budget masquerading as an Autumn Statement.

The 2019 Autumn Budget was due on 6 November, but the announcement of the General Election meant that it had to be postponed. The gap between the 12 December Election date and Christmas means that the Treasury looks set to extend 'Autumn' well into January.

**The first Budget after the Election…**

If you were a newly (re-)installed Chancellor, when would you choose to introduce any tax changes most likely to provoke controversy (and probably not explicitly mentioned in your party's recent manifesto)? The obvious answer is in your first post-Election Budget when you are, by definition, furthest away from your next visit to the polls. Research by the Institute for Fiscal Studies ahead of the 2015 Election noted that "there is a tendency for elections to be followed by substantial tax increases: every general election since 1992 has been followed within 12 months by an announcement of more than £5 billion (in 2015/16 terms) of net tax rises".

**…so, start planning now**

Philips Hammond's move to Autumn Budgets largely broke the link between tax-year end-planning and Budget date. For what might be one year only, the connection has been restored. There is a familiar year-end list to consider, although, as usual, it is not identical to the previous year's because of in-year changes and announcements of possible future reforms:

- *ISAs*

  There are four important tax benefits which are common across the different types of ISA:

  - Interest earned on cash or fixed interest securities is free of UK income tax.
  - Dividends are also free of UK income tax.
  - Capital gains are free of UK capital gains tax (CGT).
  - There is nothing to report on your tax return.

  Those tax freedoms could become more valuable after 12 December. If you have not yet made your 2019/20 ISA contribution (overall maximum £20,000), now could be a good time to do so. Remember, a few years ago, the Treasury researched placing a cap on the total investment in ISAs. Income tax relief on ISAs now costs £3.3bn a year, nearly a third more than five years ago, making it a tempting target.

  If you – or your (grand)children – are potential first-time buyers, and opened a Help to Buy ISA before the end of November, although, from 1 December they will no longer be available, remember that contributions can continue to existing accounts.

- *Pensions*

  No tax year end or pre-Budget planning would be complete without a review of pension contributions. Over the last decade the screws have been turned on pension tax relief, but it remains one of the largest drains on the Exchequer. Net income tax relief will amount to over £21bn this tax year, to which can be added £18.7bn of relief for employer national insurance contributions.

  The current pension tax system is starting to create serious problems in parts of the public sector – notably among NHS consultants facing unexpected tax bills – so some Budget action is more likely this time around.

- *Inheritance tax*

  Last Summer's report from the Office of Tax Simplification on inheritance tax (IHT) had been expected to feed through into the Autumn Budget. It may still do so in the forthcoming Budget, although how much will depend on the colour(s) of the governing party(ies). A radical restructuring of IHT is possible.

While potential action is awaited, you should consider using the three main annual exemptions:

1. *The Annual Exemption* Each tax year you can give away £3,000 free of IHT. If you do not use all of the exemption in one year, you can carry forward the unused element, but only to the following tax year, when it can only be used *after* that year's exemption has been exhausted.

2. *The Small Gifts Exemption* You can give up to £250 outright per tax year free of IHT to as many people as you wish, so long as they do not receive any part of the £3,000 exemption.

3. *The Normal Expenditure Exemption* The normal expenditure exemption is potentially the most valuable of the yearly IHT exemptions and the one most likely to be reformed, regardless of Election result. *Currently*, any gift is exempt from IHT provided that:

   *a.* you make it regularly;
   *b.* it is made out of income (including ISA income); and
   *c.* it does not reduce your standard of living.

  It could also be worth making large lifetime gifts – a bumper Christmas present? – before the next Budget. There have been suggestions in some quarters of basing a reformed IHT on gifts made (or received) throughout life. At present, outright gifts made more than seven years before death generally have no IHT consequences.

- *Capital gains tax*

  At the time of writing (mid-November), 2019 looks as if it will prove a good year for investors, particularly for those with holdings in US funds. Your portfolio is thus likely to show some capital gains.

  The current annual exemption for capital gains is £12,000 and the maximum tax rate chargeable above that is 20% for higher and additional rate taxpayers (28% for residential property and carried interest). A change of Government could see the annual exemption fall to a nominal amount, with any excess gains fully taxed as income. Using your annual exemption now could thus save you from a substantial future tax bill, as well as providing funds for reinvestment in ISAs and/or pensions.

***ACTION***

*The sooner you start planning ahead of that next Budget, the better. But don't let haste encourage you to skip the advice stage which remains vital, particularly in the complex area of pensions.*

***Forget the Christmas shopping just for now and call us today to arrange for a year-end tax planning review.***

## PROBATE FEES: ANOTHER CLIMBDOWN

Before a person's estate can be distributed under the terms of their Will, a grant of probate must be obtained from the courts. In turn, the courts will not act until IHT documentation has been completed and any tax due settled. If you have ever been involved as an executor applying for probate, you will know that it can involve a large volume of form filling and research.

About a year ago the Government proposed a restructuring of probate fees in England and Wales, moving from a flat fee (£155 via a solicitor, £215 otherwise) to a graduated scale which reached £6,000 for estates worth more than £2 million. Unsurprisingly, the idea produced a widespread outcry and was viewed by some experts as being more akin to a new tax than a mere fee increase.

**The (probate) law of unintended consequences**

Not long after the announcement – and oblivious to the protests – the Government started the legislative process with the aim to bring the new fees in from April 2019. This had the predictable effect of accelerating probate applications from executors and solicitors acting on their behalf. Unfortunately, the surge coincided with a change of administration systems at probate offices. The net result was that the time taken to obtain probate doubled to eight weeks or more. Just to exacerbate matters, the legislation stalled, so the impetus to submit applications as soon as possible continued beyond April and on into Summer.

**Prorogation probate rescue**

Eventually the delay in finalising the legislation ran into the prorogation of Parliament, which meant it had to be put on hold. Over a weekend in mid-October, with an Election looming into view, the Government announced that it would not revive the legislation and would instead make only "small adjustments to cover costs".

**The lessons**

This was the second time that the Government had tried to increase probate fees, only to abandon the plan in the face of an impending Election. This time it is to be hoped it has learned the lesson. However, the whole sad story was also a reminder of how slowly the cogs of estate administration can turn after someone has died.

Probate only applies when the deceased left a valid Will, otherwise a near identical process operates in obtaining letters of administration. Under a Will, the executors have to follow the deceased's wishes in distributing the estate. If no Will exists, the administrators are required to follow a statutory distribution framework, which can produce surprising (and unwelcome) results – a surviving spouse or civil partner may not automatically inherit everything.

If the probate fee saga has any upside, it is as a reminder that you need a Will and you need to keep it up to date. Dealing with an estate is rarely a quick process and a Will provides a key starting point.

***ACTION***

*Dig out your Will and make sure it still does what you want it to.*

***If you have not made a Will or want to change your existing Will, make sure you talk to us about the inheritance tax consequences before signing on the dotted line. Even if you are happy with the terms of your Will, if it pre-dates the 2017 arrival of the residence nil rate band, it may need review.***

## THE END OF THE BENEFIT FREEZE – STILL NOT WARM

In early November the Government announced that it would end the five-year freeze on most working-age benefits from April 2020, increasing them by 1.7% (in line with September 2019 CPI inflation). The move was welcomed by many lobby groups, but still leaves these benefits worth about 6% less than in 2015/16 in real (inflation- adjusted) terms.

**The withdrawal of the State**

An extra 1.7% is not going to make much difference to an increasingly thin social security net. For example, from next April the Employment and Support Allowance (ESA), the main long-term benefit for those who cannot work because of illness or disability, will rise to about £74.35 for a single person and to about £116.80 for a couple. If you want anything more from the State, you will probably face means testing, with no benefits if your savings exceed an upper capital limit of just £16,000.

**And if it happened to you..?**

If illness or disability prevented you from working, could you – and your family – survive on ESA and any other benefits to which you might (eventually) be entitled? Your immediate answer is almost certainly no, but what would you live on? Without adequate income protection cover in place it may be a question of running down your savings until you reach that £16,000 capital threshold.

***ACTION***

*Make it a New Year resolution to have adequate income protection in place from 2020. If you already have cover, check that it is enough.*

***Talk to us about your options for financial protection in the event of ill-health.***

### Pension footnote

The basic State pension and the new (single tier) State pension will both rise by 3.9% from April 2020, as their increases are linked to earnings inflation. However, the same survivability issue still arises. The new weekly rates from April 2020 will be around £134.25 a week and £175.20 respectively – hardly enough for a comfortable retirement.

## DID YOUR INCOME GROW 7% IN THE LAST QUARTER?

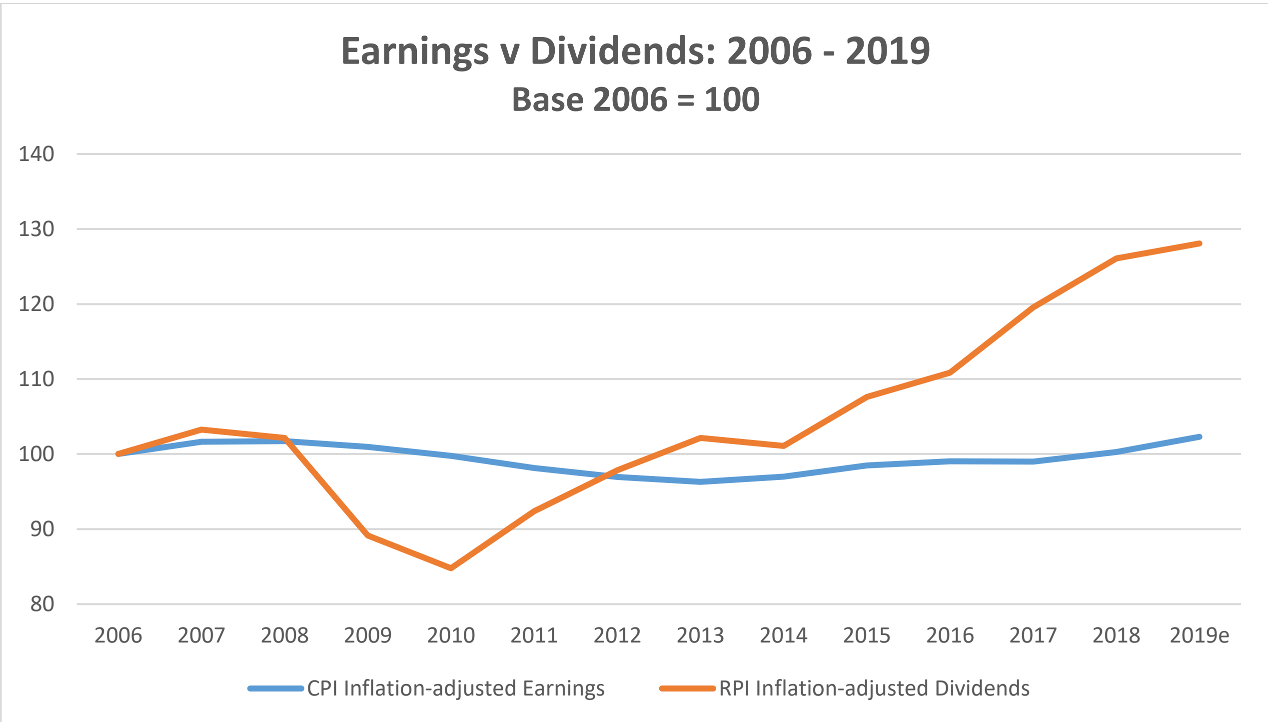
How much has your income increased over the last year?

The latest data from the Office for National Statistics (ONS) shows average weekly earnings rising at an annual rate of 3.6%, about 2% above the rate of inflation. Nevertheless, the ONS says that, taking a longer term view, once inflation is taken into account average earnings are still virtually unchanged from before the 2008/09 recession. Those stories of a lost decade are more than an urban myth…

**Dividends are doing better…**

Shortly after the ONS earnings data were published Link Asset Services, the company registrars, issued its latest quarterly Dividend Monitor. This showed that companies listed on the London Stock Exchange paid out a record total of £35.5bn in dividends in the third quarter of 2019, 6.9% higher than for the corresponding period in 2018. The strong growth was helped by bumper special dividends of £3.2bn.

A longer term view of dividends growth, starting before the recession, shows regular dividends (i.e. total dividends *excluding* special dividends) have outpaced earnings. As the graph shows, inflation-adjusted dividends are estimated to be 28% above their 2010 level by the end of this year, having recovered from the effects of the recession.




*Source: ONS, Barclays Capital, Technical Connection estimates for 2019 full year*

### A message for income investors

That graph conveys an important message if you are investing for income: in the long term, dividends have more than kept pace with RPI inflation (which is generally higher than its CPI counterpart). There have been dips – witness 2007-2010 – but in the past these have always been recovered.

At present UK shares are offering an average dividend yield of around 4.2% which, to quote Link, means they "deliver far more income for every £1 invested than any other asset class".

***ACTION***

*If you are looking for income, make sure you consider funds investing in UK shares. Not only is the immediate level of income available higher than from many other investments, there is the prospect that it will keep pace with inflation.*

***Before investing, do talk to us about the fund choices in the market. As recent events have shown, just picking a well-known name is no guarantee of success.***

## BE PREPARED FOR COMPANY CAR TAX CHANGES

Do you know your NDEC from your WLTP?

If you drive a company car, you may well need to do so.

### Emissions, emissions…

For many years, company car tax scales have been based on $CO_2$ emission levels, with a supplement (currently 4%) for most diesels (although a handful of new diesels now escape this surcharge). The emissions were measured under the New European Driving Cycle (NDEC) test, which produced results increasingly at variance with the real world.

In response, a new testing regime has been developed, the World harmonised Light vehicles Test Procedure (WLTP). Unsurprisingly, this test reveals much higher emission levels than the NDEC – about 15%-20% more, with the greatest increase for cars with the smallest engines.

### Company car changes

For company cars registered from 6 April 2020, the WLTP $CO_2$ emission figure will be used in determining company car tax rates. However, for cars registered before that date, the old NDEC measure will continue to apply. As a result, from 2020/21 onwards there will be two sets of company car scales, one WLTP scale for cars registered on or after 6 April 2020 and the other NDEC-based scale for older cars. For any given level of emissions, in 2020/21 the WLTP percentage charge is 2% lower than the NDEC charge, although this difference will be phased out over the following two tax years.

## Electric and hybrid cars

6 April 2020 will also see a change to the tax treatment of electric and hybrid cars. The charge for all pure electric cars will drop to zero – good news for Tesla – while for hybrid cars with $CO_2$ emissions of 1-50g/km, the scale charge will be based on the vehicle's electric-only range. For hybrids there will be separate NDEC and WLTP scales, with both offering no discount if the hybrid cannot run at least 30 miles on battery power alone.

***ACTION***

*The company car tax regime has become much stricter over the years and there is some evidence that more employees are choosing cash rather than car where they have the option. You may want to join them.*

***If you are due to change your company car soon, make sure you understand the tax consequences of any choice you make. We can guide you through the tax maze on company cars and any other benefits your employer offers.***