FINANCIAL SERVICES NEWSLETTER SIFA March 2019

Warner Goodman

Preparing for a New Tax Year

The end of the 2018/19 tax year is now less than one month away.

While there may still be time to act on certain measures to optimise the use of HMRC-approved tax breaks and reduce personal tax liabilities for 2018/19, this article looks ahead to the position for the new 2019/20 tax year.

We have been aware of the intended 2019/20 tax allowances and rates since the 29th October 2018 budget.

It is beneficial to be aware of potential opportunities at the start of the tax year, rather than trying to correct matters at the end. The ways in which these allowances and tax bands may affect people individually is best discussed with a trusted Independent Financial Adviser and, where appropriate, an accountant and/or solicitor.

Personal Allowances and Savings

The increase in the personal allowance to £12,500, as well as the widening of the income band charged at basic rate tax by £3,000, means that higher rate tax is now not charged until taxable income reaches £50,000 (note that rates for Scotland differ slightly).

Whilst the basic rate tax band has been widened by £3,000, the higher rate tax band has been cut by the same amount, meaning that the additional tax rate of 45% still kicks in for taxable earnings over £150,000.

Savings income continues to attract an additional £1,000 tax-free band for basic rate taxpayers, £500 for higher rate taxpayers and nothing for additional tax payers. In addition, there is a £5,000 nil rate band for low earners that decreases on a one-for-one basis as income exceeds the £12,500 personal allowance.

The tax-free dividend allowance remains at £2,000, with the tax rate remaining at 7.5% for basic, 32.5% for higher and 38.1% for additional rate taxpayers, although the tax bands have of course changed. This clearly has an impact on investments outside of ISAs; if dividend income was a relatively healthy 5%, the equity investment would need to be worth more than £40,000 before tax becomes due.

Pensions

The annual pension contribution remains at £40,000. For those earning in excess of £150,000, this allowance is tapered when their income (excluding pension contributions) is in excess of £110,000. Other factors, such as lifetime allowance, also need to be considered.

If the individual has already benefited from flexible drawdown, then the annual allowance figure is reduced to £4,000.

£100,000 of income still remains a key figure. Earnings above this figure will result in the gradual reduction and eventual loss of the personal tax-free allowance. For incomes over £125,000, the individual will not receive a personal tax-free allowance, as it is lost at a rate of £1 for every £2 of income in excess of £100,000. The result is that individuals earning between £100,000 and £125,000 are subject to a marginal tax rate of 60%, higher than the additional rate paid for earnings over £150,000. Pension contributions and gift aid may be considered as ways of reducing income in order to retain part or all of an individual's tax-free allowance, depending upon their circumstances.

ISAs

Even though they do not of course attract tax relief on contributions, ISAs are still popular. The maximum ISA contribution remains unchanged at £20,000. This could be directed solely into a cash, investment or innovative finance ISA, or split across them. The last of these has been available since 2016, and we are now seeing an increase in providers offering this option.

For adults aged between 18 and 39, up to £4,000 of the £20,000 annual allowance could be directed into a lifetime ISA. The government will add £1 for every £4 saved up to a maximum of £1,000 pa until the age of 50, as long as the proceeds are used to purchase the saver's first ever property or are put towards retirement.

Help to Buy ISAs also offer government bonuses. The Help to Buy ISA is due to be withdrawn in November 2019, although ISAs that have already been opened will be able to continue. Here, the maximum contribution is £3,400 in the first year and £2,400 thereafter. The bonus is again £1 for every £4 saved, with a minimum bonus of £400 becoming available once the individual has saved at least £1,600 into the ISA. The maximum available bonus is £3,000. This bonus is paid through the solicitor to form part of the purchase transaction. Parents or guardians wishing to assist their children to buy their first property should note that these are only available for individuals aged 16 years and over.

It is possible to hold both a Lifetime ISA and a Help to Buy ISA; however, the government will only pay a bonus on one ISA per individual.

Parents or guardians may wish to contribute up to £4,368 into a junior ISA for children born after 3 January 2011 or before 31 August 2002. Money placed into one of these ISAs can be accessed at the age of 18, when it will become a full ISA subject to the adult threshold of £20,000.

Making contributions against the annual ISA allowance at the start of the tax year as opposed to the end means that individuals will potentially have an additional 12 months to profit from the investment and its tax benefits.

The 2019/20 tax year, excepting the withdrawal of the Help to Buy ISA, sees matters continuing as they were in 2018/19 and provides the opportunity to either continue on the path of any financial planning already in place, or to take stock and start putting the most appropriate strategy in place.

Revisiting Interest-Only Mortgages

Interest-only mortgages have been used for some time to give clients a way of affording properties that are more appropriate for the requirements of themselves and their families. However, as has always been the case, due consideration should be given to the intended method of mortgage repayment.

The consideration of an individual's ability to repay a mortgage was tightened five years ago in 2014 as part of the FCA Mortgage Market Review.

However, *Which?* has reported that work carried out by Experian for the then FSA (now FCA) in 2013 indicated that there would be 81,400 interest-only mortgages (worth £9.2bn) maturing in 2019 and 82,100 (worth £9.7bn) in 2020, with further expected peaks in 2027-28 and 2032.

Although the market is seeing the greater use of equity release and the introduction of products such as retirement interest-only mortgages, these are unlikely to be suitable for everyone. They will still carry understandable lending restrictions, meaning that some clients will be unable to escape the need to sell their homes.

Interest-only mortgage clients who are still five years or – better – 10 years from the maturity of their mortgages, may be able to find a way of overcoming this issue. However, this is very likely to substantially increase their monthly savings commitments.

The media is reporting increasing cases of eviction being brought by leading lenders, and it is therefore important for clients to have a clear exit plan if they currently have an interest-only mortgage.