

## **Personal tax issues**

**(Lecture P1186 – 12.25 minutes)**

### **Tax rates and allowances**

There was no change to personal allowance as expected so it stays at £12,500. The married couples' allowance where available increases to £9,075 (from £8,915). The income limit before tapering increases to £30,200 (from £29,600) and the minimum entitlement increases to £3,510 (from £3,450).

Blind person's allowance is indexed to £2,500 for 2020/21 (from £2,450 in 2019/20).

There are no changes to tax bandings, nor personal tax rates in England, Wales and Northern Ireland.

### **Junior ISAs and Child Tax Funds (CTFs)**

The investment limit for JISAs and CTFs increased from £4,368 to £9,000 for 2020/21.

The main ISA subscription limit remains at £20,000 for 2020/21 and has not increased for 4 years.

### **Employees working from home**

From April 2020 the maximum flat rate income tax deduction to cover additional household expenses increases from £4 to £6 per week where working at home under homeworking arrangements, i.e. where the employee is required to work at home by the employer.

Larger amounts can be claimed but only if evidenced by invoices or proof of costs incurred.

### **Car and van benefits**

Car benefits are reduced by 2% in 2021/22 for cars registered from 6 April 2020. Electric cars secure the same 2% reduction even when registered before 6 April 2020.

Consequently, there are different benefits for hybrids, petrol or diesel cars depending on whether the car was registered before or after 5 April 2020.

Rates will rise by 1 percentage point in 2022/23 and by a further 1 percentage point in 2023/24 for electric cars and other cars registered from 6 April 2020. They will then be frozen until 2024/25.

The fuel benefit multiplier and van benefit increased by CPI of 1.7%

- The fuel multiplier £24,500 (2020/21: £24,100)
- Van benefit is £3,490 (2019/20: £3,430)
- Van fuel benefit £666 (2019/20: £655)

Zero-emission vans will have a benefit of £2,792 in 2020/21 (2019/20: £2,058). The benefit will be zero in 2021/22.

### **Top-slicing relief**

HMRC lost a case about interaction of personal allowances and income (life-insurance policy gains) eligible for TSR, having claimed that the entire gain was added to income in the year the policy was encashed in determining if the personal allowance is abated.

FB 2020 will legislate for how allowances and reliefs get set against such gains and will apply to life insurance policy gains from 11 March 2020.

This confirms that when assessing if any personal allowance is tapered, we take other income plus the annual equivalent life-insurance policy gain (not the whole gain).

Allowances and reliefs must be offset against all other income before reducing the policy gain.

### **Pensions**

#### *Annual Allowance tapering from 2020/21*

The annual allowance and money purchase annual allowance remain unchanged at £40,000 and £4,000 respectively

The threshold income limit (excludes employer's pension inputs) increases from £110,000 to £200,000 from 6 April 2020. The adjusted income limit also increases from £150,000 to £240,000. Tapering will however reduce the annual allowance down to a minimum of £4,000 (from £10,000). This will impact taxpayers with adjusted income of more than £300,000.

#### *Lifetime allowance limit*

The lifetime allowance increased by CPI from 6 April 2020 from £1,055,000 million to £1,073,100.

Pension contributions will continue to save tax at taxpayer's marginal rate.

### **Disguised remuneration and the loan charge review**

The Government has confirmed its response to Sir Amyas Morse's Independent Loan Charge Review. The recommendations will be legislated for in Finance Bill 2020.

### **NIC thresholds**

The NIC Class 1 primary threshold (but not the secondary threshold for employer NICs) is increased to £183 per week, equivalent to £9,500 per year.

The Class 4 lower profits limit is similarly increased to £9,500.

There is no change to the Class 1 upper limit or Class 4 upper profits limit.

## **Covid-19 sick pay**

SSP will be payable from day 1 for employees with the virus and those advised to self-isolate (and their carers).

There will be support for those unable to claim SSP (i.e. those paid below the NIC lower earnings limit and the self-employed) through ESA and Universal Credit.

The 'new style' ESA will be payable for people directly affected by COVID-19 or self-isolating according to government advice from day 1 of sickness, rather than day 8.

Sufferers can claim universal credit and access advance payments where directly affected by COVID-19 (or self-isolating), without the current requirement to attend a jobcentre.

For the duration of the outbreak, the minimum income floor in the universal credit rules will be temporarily relaxed for those directly affected by COVID-19 or self-isolating (to ensure the self-employed are compensated for loss of income).

## **Scottish social security benefits**

Legislation will be introduced to exempt from income tax three social security benefits, (Scottish Child Payment, Job Start, and Disability Assistance for Children and Young People) introduced by the Scottish government.

## **Capital Gains Tax rates and allowances**

The annual exemption will be £12,300 for 2020/21 (2019/20: £12,000).

The rates of CGT are unchanged remaining at

- 10%/20% on most assets (basic rate/higher rate)
- 18%/28% on residential property gains

## **Entrepreneurs' Relief**

The lifetime gains limit is reduced from £10 million to £1 million for disposals on or after 11 March 2020.

Rules will also be introduced that apply to forestalling arrangements entered into before Budget day.

In such cases the disposal will be subject to the £1,000,000 lifetime cap unless:

The parties to the contract demonstrate that they did not enter into the contract with a purpose of obtaining a tax advantage by reason of the timing rule in s.28 TCGA 1992, and

Where the parties to the contract are connected, that the contract was entered into for wholly commercial reasons.

In addition, where shares have been exchanged for those in another company on or after 6 April 2019 but before 11 March 2020, and

- both companies are owned or controlled by substantially the same persons, or
- persons who held shares in company A hold a greater percentage of shares in company B than they did in company A and, on 11 March 2020, the personal company test, the trading company and the employee/officer test are met in respect of company B,

Then if an election is made under section 169Q TCGA 1992 on or after 11 March 2020 to treat the exchange as a disposal for CGT purposes, the share disposal is to be treated as taking place at the time of the election for ER purposes, meaning that the new lifetime limit of £1,000,000 will apply.

### **Inheritance tax rates and thresholds**

Inheritance tax thresholds and rates are unchanged, except that (as already planned) the residence nil rate band increases from £150,000 to £175,000 for 2020/21.