FINANCE UPDATES

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AWA | WEALTH MANAGEMENT

WHAT DOES THE SPRING BUDGET MEAN FOR YOU?

How will the measures affect your finances?

More than usual seemed to be at stake for last month's Budget: we waited with trepidation for further news on the eye-watering economic costs of the pandemic, while still coming to terms with the human cost.

Chancellor Rishi Sunak shared his latest insight into the severity of the economic impact, and laid out plans as to how the runaway spending would be accounted for. He also confirmed a number of measures aimed at supporting companies and individuals through the crisis in 2021/22.

Here's a rundown of the state of the UK's finances and what the latest Budget means for you and your financial outlook this year.

DAMAGE TO THE UK ECONOMY

When it comes to the impact COVID-19 has had on the UK economy, the numbers are stark: overall economic output shrank by 10% – the biggest contraction since 1709. The UK will also borrow around £355 billion this year – a peacetime record.

Since the pandemic began, 700,000 people have lost their jobs and unemployment is set to peak at 6.5% next year. However, this is considerably lower than the 11.9% previously predicted.

And to continue the not-so-bad news, the UK economy is predicted to grow by 4% in 2021 and 7.3% in 2022.

Tax rises were all but inevitable, but those Sunak introduced were balanced with a range of support measures aimed at keeping the UK economy afloat and then returning to growth.

So what were the key announcements relevant to you?

NEW HOUSING MEASURES

If the stamp duty tax holiday in England and Northern Ireland prompted you or your family into moving home, you might feel relief that the holiday has been extended by three months.

Due to a surge in activity, many transactions are taking longer than expected to complete and the fear was that purchasers may be penalised by missing the original 31 March 2021 deadline and numerous deals would fall through.

Now, the scheme will stay open for properties worth up to £500,000 until 30 June 2021. After that it will taper down, remaining open for property purchases of up to £250,000 until 30 September 2021.

This will take the cliff-edge risk out of many deals. For some it will prevent the unwelcome need to pay a hefty stamp duty bill they had been expecting to avoid.

However, given the pressures in the property market, if completion of your deal is still some way off it may be wise to start factoring in the tapered reduction and budgeting for it.

The news on housing didn't stop there.

A 95% mortgage guarantee scheme was announced, applicable to properties worth up to £600,000, and several high street banks will start offering these mortgages this month.

It is another option on the table to help your adult children get on the property ladder if they, like so many of their generation, are struggling to accumulate the necessary deposit.

PERSONAL TAXATION

At face value, there was good news on the personal taxation front. There was no headline rise in income tax, while capital gains tax and inheritance tax were left alone.

Reflecting on these latter two taxes for a moment, it is worth highlighting that the ability to crystallise some of your capital gains tax-free and gift money out of the scope of inheritance tax are valuable tools for building and preserving family wealth. If you are not using them at the moment, do book in a financial review with us to see if they can help you.

Capital gains and inheritance are often touted as areas where the Chancellor could raise funds by restricting the current rules.

The fact Sunak avoided that temptation this spring is to be welcomed, but that's not to say that he won't do so in the future.

STEALTH TAXES

There were, however, two indirect tax rises of which to be aware – often referred to as stealth taxes.

The first, and the one that will affect most people, was the freezing after 2021/22 of the personal income tax allowance until 2026. This sees the bands at which you start paying tax, and at which higher-rate tax kicks in, stay the same for the following five years starting on 6 April 2022.

It is predicted that this will introduce a million taxpayers to the joy of paying 40% tax. If you will be one of them, be sure to budget for it in your take-home pay or tax return.

Around 1.3m people will also start paying income tax as basic-rate taxpayers. Again, something to be aware of if your spouse or another family member is on a low income.

The second stealth tax relates to pensions, and sees the lifetime allowance frozen at £1,073,100 – again until 2026.

It was due to rise by inflation – as measured by the Consumer Prices Index (CPI) – which would have been 0.5% or £5,800.

The lifetime allowance is the total amount you can accumulate in pension pots before hefty additional tax charges are levied.

Don't let the relative obscurity of this stealth tax disarm you as the Chancellor is counting on it raising £250 million.

We can help you optimise your level of pension contributions for your retirement without breaching the lifetime allowance.

THE IMPACT ON COMPANY DIRECTORS

For many, the biggest change announced in the Budget will be that relating to corporation tax as from April 2023, the headline rate will rise from 19% to 25%.

This will impact the level of profits after tax and spark personal reviews to calculate how dividends and salaries are best drawn from companies.

While it is clear that such a large hike in tax will do much of the work in repairing the UK's balance sheet, there is significant nuance beneath the headlines.

The first is that companies with profits lower than £50,000 will retain the current rate of 19%, so it might be that this change does not actually affect you at all.

Then there will be tapering for businesses generating up to £250,000, so it is only above this figure that the full 25% rate will apply.

This tax rise will be tempered by a 130% super-deduction for costs associated with businesses making capital investment. Businesses will effectively be paid to invest in growth, which is hoped will boost our economic recovery.

BUDGET-PROOFING YOUR FINANCES

Carefully planned pension and ISA contributions remain a good way to build up your portfolio tax-efficiently and with a strong bounce back predicted in the UK economy, there is bound to be opportunity in the investment markets.

If you are a company director, you might want to talk to us to ensure you are drawing money from your business in the most tax-efficient manner.

If you're crystallising capital gains, gifting money or are involved in residential property transactions, you will want to ensure you are making the most of current exemptions and holidays.

Contact us to book an appointment.

IMPORTANT INFORMATION

The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to future change.

The information in this article is based on our understanding of the Spring Budget 2021, in respect of which specific implementation details may change when the final legislation and supporting documentation are published.

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