

TAX RULE CHANGES IN APRIL 2018

McPhersons Chartered Accountants

We all know the government's task is to generate even more revenue, so what are the tax rules changes affecting investors in 2018? Here we look at the important changes for investors before they come into effect on 6 April this year.

Personal Allowance

The amount you can earn before paying tax rises from £11,500 to £11,850. It's the latest step in a planned rise to £12,500 by 2020.

Higher rate tax allowance

The threshold at which you start paying 40% tax will rise from £45,000 to £46,350. The government plans to raise this to £50,000 by 2020.

Marriage Allowance

This allowance will increase from £1,150 to £1,185, allowing married couples to transfer this portion of their personal allowance from the lower earner to the higher earner, in order to save tax.

To qualify for the scheme, the lower earner must have an income below the personal allowance and the higher earner must be a basic rate taxpayer.

State Pension Increase

The state pension will increase in line with last September's inflation figure of 3%. For those on the full 'flat rate' pension this will add £4.80 a week, or £249.60 a year. For those who reached State Pension age before April 2016, the full Basic State Pension will rise to £125.95 a week.

Pensions Lifetime Allowance

Since 2010, the pension lifetime allowance has been gradually reduced by the government from £1.8 million to £1 million. In April 2018 it will rise in line with inflation to £1.03 million.

Junior ISA Allowance Increase

The Junior ISA allowance will rise with inflation from £4,128 to £4,260. The JISA has been in place since 2011, and the allowance has risen annually since then from £3,600 to £4,260. It's an increasingly popular way to save for children, because savings and investments can grow free from UK income tax and capital gains tax.

LISA Rule Changes

As of 6 April 2018, the rules regarding transfers from Help to Buy ISAs to Lifetime ISAs will change. Currently, you can transfer anything built up in the Help to Buy ISA before April 2017 into a LISA, along with any interest accrued since 6 April 2017, without using any of your 2017/18 allowance. You can then transfer anything subscribed since then using your 2017/18 allowance, top it up to £4,000 to get the government's 25% bonus on the full amount. From the next tax year, all transfers will use up that year's allowance. Any money withdrawn from a LISA other than for an eligible house purchase or after age 60 is normally subject to a 25% government withdrawal charge, which means you could get back less than you put in.

Dividend Allowance

The dividend allowance is being cut from £5,000 to £2,000.

Basic rate taxpayers who receive dividends above this allowance will pay 7.5% tax, with higher rate tax payers paying 32.5% and additional rate payers paying 38.1%. This will affect and hurt anyone paid through a tax-efficient combination of salary and dividends. It will also hit investors with substantial share portfolios held outside of their ISA, and will make it very important to make full use of their ISA allowance.

Auto Enrolment Contribution Increases

Presently the minimum contributions are set at 2% of your qualifying earnings and a minimum of 1% from your employer, but from 6 April 2018 they will rise to 5% and a minimum of 2% coming from your employer. This is actually the first of two increases, because in April 2019, they will go up to 8% (with at least 3% from your employer).

As you can see tax rules can and do change, any benefits will depend on your circumstances. This article is not personal advice, so if you are at all unsure of the suitability of any investment please seek advice. The value of investments will rise and fall, so you could get back less than you put in.

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