FOCUS

Focus 1810-2
October 2018

BUDGET 2018 – GOOD NEWS FOR PENSION SAVERS?

- No change to pension tax relief basis
- Annual Allowance remains at £40,000 for most savers
- Increase to the Lifetime Allowance from £1m to £1.055m
- Personal Allowance increases to £12,500 from April 2019
- Increase to the basic tax rate earnings band to £37,500 from April 2019
- CPI basis for public sector scheme increases to include housing costs – to be phased in
- Commitment to fund R&D into the pensions dashboard
- Regulations to ban pensions cold-calling expected by end of the year

Monday 29th October 2018 saw the Chancellor, Philip Hammond give his annual budget speech to the House of Commons. Earlier than usual so that it did not clash with or impact on the Brexit negotiations taking place in November and held on a Monday rather than the usual Wednesday (to avoid Halloween perhaps?), did the budget deliver good news or bad for pension savers and sponsors?

Actually, in a budget speech that was positive about the ending of austerity, very little was said which impacts on pension savings – the key highlights are below.

Taxation

Widely seen as an easy target for a 'quick-win' revenue driver, the chancellor again left the issue of pension tax-relief alone, with no changes to the tax-relief bases and a small but welcome inflationary increase to the Lifetime Allowance (up to £1.055m).

He also brought forward the uplift to the Personal Allowance, meaning that this will now be set at £12,500 from April 2019 (and remain at this level for the 2020/21 tax year). At the same time, the basic rate income tax band has increased so individuals will not start to pay higher rate tax until their income exceeds £50,000. Tucked away in the speech detail was also confirmation that the upper earnings threshold for national insurance contributions will also rise to £50,000, meaning that the tax saving is effectively halved.

However, no changes were made to the income threshold for automatic enrolment into workplace pensions, so the increased personal allowance will potentially see even more workers lose out on even more 'free tax relief'. Although HMRC has separately said that it will be looking at this issue, did the chancellor miss an opportunity to announce plans to address the 'net pay' / 'relief at source' tax anomaly? See our Focus 1810-1 for more information on this.

Sticking with the taxation theme, no changes were made to the Annual Allowance for pension saving which remains at £40,000 for most savers and no changes were made to the amount that can be invested in an ISA – this remains at £20,000. The allowances for Child ISAs and Child Trust Funds were increased in line with inflation to £4,368. The tax-free band for savings income remains at £5,000.

Other points

Mr Hammond also made a few other announcements concerning pensions:

- Support (through the British Business Bank) will be given for pension funds wishing to invest in growing UK businesses and the government has asked the FCA to look at how pension funds can best access and invest in a range of so-called 'patient capital' assets.
- The Department for Work and Pensions is to consult in 2019 on the function of the workplace pensions charge cap under auto-enrolment, to ensure that the cap does not restrict the ability of providers to charge performance-related fees.
- The government is supporting the development of the pensions dashboard and is committed to including state benefits on this. An amount of £5m will be set aside to help drive this.
- The inflationary increase index used (primarily) by public sector schemes (the Consumer Prices Index – CPI) will be amended to include housing costs.
- Draft Regulations are expected to be issued before the end of 2018 to enable a ban on pension cold-calling where there is no existing client relationship. Consideration is also being give to widen this ban to stop companies buying leads for the purposes of cold-calling.

Need help? If you would like to discuss how the Budget may affect your workplace pension or how we can support you with ongoing governance and communication of your pension arrangement, please contact us for more information and to learn more about our fixed fee, cost-effective solutions.

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