

Chancellor Philip Hammond's Autumn Budget

He announced a raft of new measures to stimulate new house building, particularly in urban areas, with the promise to build 300,000 new homes a year by the end of this Parliament in 2022. The big personal taxation angle on the housing theme was the abolition of stamp duty for first time buyers.

Abolition of stamp duty for first time buyers in England, Wales and Northern Ireland

Devolution means that some announcements in the Budget no longer apply to the whole of the UK. We'll make clear where this applies where throughout this Budget Update.

So, in England, Wales and Northern Ireland, stamp duty will be permanently abolished for first time buyers - meaning that this change applies equally to those saving up to buy their first new home many years from now as it does to those who are ready to buy today.

The zero rate of stamp duty will apply up to a purchase price of £300,000. Those buying their first home at a purchase price of between £300,000 and £500,000 will also pay less stamp duty than before the Budget, with no change for those whose first home costs more than £500,000. The following table sets out how the changes will work:

Value of property purchased	Before the Autumn Budget	From 22 nd November 2017
£200,000	£1,500	£0
£300,000	£5,000	£0
£400,000	£10,000	£5,000
£500,000	£15,000	£10,000
£500,001+	Stamp duty unchanged on purchases above £500,000	

It should be noted that stamp duty policy in Wales will be devolved to the Welsh Government (to be called Land Transaction Tax) from April 2018, so the decision whether to continue to apply relief for first time buyers from that date will be up to them.

Stamp Duty has been devolved to Scotland since April 2015 where it is called Land and Buildings Transaction Tax.

Land and Buildings Transaction Tax – Scotland only

In Scotland, the following rates of tax apply to the purchase of new homes:

Value of property purchased	Rate of Land and Buildings Transaction Tax payable
Up to £145,000	0%
Above £145,000 up to £250,000	2%
Above £250,000 up to £325,000	5%
Above £325,000 up to £750,000	10%
Above £750,000	12%

The rates in the table above apply equally to all residential purchases (for main home) regardless of whether the purchaser is a first time buyer or not.

The Scottish Government will publish their Draft Budget on 14 December, so we will have to wait until then to see whether the Scottish Government will match (or better!) the UK Government's changes for first time buyers.

Income tax changes from April 2018 – England, Wales and Northern Ireland

- The personal allowance – the first part of your taxable income on which the tax rate is 0% - will increase from £11,500 to £11,850. The personal allowance is gradually withdrawn for those with taxable income of more than £100,000, and those with taxable income above £123,700 (2018/19) won't get any personal allowance. Personal allowance may also be adjusted

to take into account tax owed or due to the taxpayer or to reflect taxable benefits received.

- The basic rate tax band in England, Wales and Northern Ireland will increase from £33,500 to £34,500. This is the next part of your taxable income on which 20% income tax is paid. Coupled with the change in the personal allowance, this means you will need to have taxable income of £46,350 or more in 2018/19 before you pay higher rate tax.
- Higher rate tax will be payable on taxable income between £46,350 and £150,000, with additional rate tax applying to income above £150,000.

Income tax - Scotland

Scotland now has its own ability to set the rates of some, but not all taxes. Notable exclusions include National Insurance and VAT.

One of the first deviations from UK tax policy was replacement of stamp duty with a new land and buildings transactions tax in April 2015 (see above).

From April 2017, Scotland has the ability to vary both the rate of income tax (a power which it has held, at least to some extent, since 1999) and the thresholds from which the various rates of income tax are payable.

The Scottish Parliament was not slow in using this new power, mandating a taxable income threshold of £43,000 for 2017/18 above which income is taxed at the higher rate of 40%. In the rest of the UK, the limit for 2017/18 is £45,000. This means that Scottish taxpayers who have taxable income of £45,000 or more, will pay £400 a year more income tax than a comparable person elsewhere in the UK in tax year 2017/18.

On 2 November 2017, the Scottish Government published a consultation paper examining possible ways in which the system could be reformed – maintaining the current system of three taxable bands or increasing the number of bands to four, five or six. The consultation paper sets a number of tests such as maintaining public services, whether the tax system becomes more or less progressive, the level of complexity and that low earners are protected from tax increases.

The Scottish Draft Budget will be published on 14 December, and whilst further income tax changes for 2018/19 are far from guaranteed, higher earners appear most likely to bear the brunt of any changes that are announced.

Employees National Insurance Contributions – applies to all UK taxpayers

- The primary National Insurance threshold – the amount of income employees need before they start paying National Insurance rises from £157pw to £162 per week.
- The Upper Earnings Limit – the limit for the higher 12% rate of National Insurance - rises from £866 of earnings per week to £892 per week.
- The rate of National Insurance for employees is 2% above £892 of earnings per week.

Self-employed National Insurance Contributions – applies to all UK taxpayers

In 2018/19 Class 2 National Insurance contributions will be payable above a Small Profits Threshold of £6,205 (up from £6,025 in 2017/18). The rate of Class 2 contributions above the Small Profits Threshold also increases from £2.85 to £2.95 per week.

In 2018/19 Class 4 National Insurance contributions are payable at a rate of 9% between a Lower Profit Limit of £8,424 (2017/18

£8,164) and an Upper Profit Limit of £46,350 (2017/18 £45,000), and at 2% above this upper limit.

Pensions – applies to all UK taxpayers

The pensions Lifetime Allowance will increase from £1,000,000 (2017/18) to £1,030,000 for those taking their pension benefits on or after 6 April 2018.

Annual ISA Allowance – applies to all UK taxpayers

The annual ISA allowance will remain unchanged at £20,000 for the tax year 2018/19. Anyone aged 16 or over can save in a cash ISA, but stocks-and-shares or an innovative finance ISAs are only available to investors aged 18 or over.

Lifetime Individual Savings Accounts (LISA)

A new type of ISA was launched on 6 April 2017 - the Lifetime Individual Savings Account, or LISA for short.

LISAs are available to savers and investors aged 18 to 40, who can put away up to £4,000 a year. For every £1 paid into a LISA, the government will add a bonus of 25 pence. For example, if you put in £3,000, you will get a bonus of £750, making a grand total of £3,750. The bonus is available on contributions paid in until your 50th birthday (but you would have had to open the LISA before turning 40).

Money paid into a LISA also counts towards your normal ISA allowance. For example, if you pay in the maximum of £4,000, you'll only be able to pay in £16,000 to your other ISAs.

The LISA can be used tax efficiently to purchase a first home or for retirement from age 60 onwards.

Money taken out of a LISA other than for the purchase of a first home or for retirement, will suffer a 25% penalty of the total

amount. This means that if you do take money out for another purpose – say, to fund a holiday or wedding - you will get back less than you put in. For example, if you put in £2,000 and get a £500 bonus you would have a total of £2,500 in your account. If you take the whole £2,500 back out to pay for a holiday, a penalty of £625 will apply (25% of £2,500) leaving you with just £1,875.

Dividend Tax Allowance – previously announced changes taking effect from 6th April 2018 – applies to all UK taxpayers

It was announced in the March 2017 Budget that the £5,000 Dividend Tax Allowance would reduce to £2,000 from 6th April 2018. The £5,000 allowance will remain in force until April 2018. However, from April 2018, investors should be aware that dividend income above £2,000 will be taxed at 7.5% (basic rate taxpayers), 32.5% (higher rate taxpayers) and 38.1% (additional rate taxpayers.) Assuming a dividend yield of 3.5% (roughly the current dividend yield on the FTSE All Share index) an investor can still hold more than £50,000 in shares, investment trusts, OEICs or unit trusts without paying tax on the dividends received.

This change will impact two main groups of people:

1. Investors with larger investments. Investors with more modest amounts will find their needs fully met by ISAs and pensions, which are both tax-exempt from additional tax on dividend income. However, people who exceed their pension and ISA limits and who:
 - a. invest directly in shares and investment trusts
 - b. invest in share-based open-ended investment companies and unit trusts.will be affected by these changes.
2. Small business owners. Small business owners can pay less tax and National Insurance by taking income from their business

as dividends instead. This will make the benefits of paying remuneration in this way more questionable.

Capital Gains tax – applies to all UK taxpayers

The annual exempt amount for individuals and their personal representatives will increase from £11,300 in 2017/18 to £11,700 in 2018/19. For most trusts, the annual exempt amount will increase from £5,650 in 2017/18 to £5,850 in 2018/19.

Inheritance Tax – applies to all UK taxpayers

No changes were announced to Inheritance Tax rates or allowances for 2018/19 in the Autumn Budget, however previously announced changes continue to take effect.

6th April 2017 saw the introduction of the Residence Nil-rate Band (RNRB). This is an extra allowance on top of the standard Nil-rate band of £325,000, which is the first part of an individual's estate on which no inheritance tax is paid. The RNRB applies if the:

- individual dies on or after 6 April 2017;
- individual owns a home, or a share of one, so that it's included in their estate;
- individual's direct descendants such as children or grandchildren inherit the home, or a share of it; and
- value of the estate isn't more than £2 million

For deaths in the following tax years the RNRB will be:

- £100,000 in 2017/18
- £125,000 in 2018/19
- £150,000 in 2019/20
- £175,000 in 2020/2021

This means that couples who qualify will be entitled to a combined nil-rate band of £900,000 (£450,000 each) in 2018/19 rising to £1 million (£500,000 each) in 2020/21.

Above the nil-rate band, inheritance tax is payable at a rate of 40%.