New tax year 2019: begins April 6 2019

The changes coming into effect from income allowance to buy-to-let relief

The new tax year starts 6 April and in general taxpayers will have more money in their pocket after increases to allowances come into force. Those selling shares or buy-to-let properties, however, will be hit hard. Increases to the tax-free personal allowance announced in last year's Budget come into effect, alongside a wealth of other proposals designed to allow us to keep more of our hard-earned cash. But there are also a range of "stealth" increases that could catch out unsuspecting taxpayers.

Income tax

The good news is that the tax thresholds are on the move again, meaning we will all pay a little less tax from today. The tax-free personal allowance will increase from £11,850 to £12,500 and the higher-rate allowance will increase from £46,350 to £50,000. This means that basic-rate taxpayers will save £130 a year, while higher-rate taxpayers will save up to £860.

This is part of the Conservative Party's long-held commitment to lift more people out of paying income tax altogether, a pledge that dates back to George Osborne's days as Chancellor of the Exchequer. Patricia Mock, of consultancy Deloitte, said: "Taxpayers will make a saving, but this is a costly move for the Exchequer – estimated to cost £2.8bn in 2019-20."

However, Chancellor Philip Hammond was criticised at the time of the announcement for sneaking through a parallel change to National Insurance thresholds. These are lower than the personal allowance and effectively wipe out almost half the saving for wealthy taxpayers, costing them £340. Scotland and Wales will also see similar changes to income tax thresholds.

Inheritance tax

The amount dying homeowners can pass on to their descendants is also set to increase with a boost to the "residence nil-rate band" on inheritance tax (IHT). The basic amount anyone can pass on tax-free is £325,000, but the additional rate applying to property passed to a direct descendant will increase from £125,000 to £150,000, taking the tax-free allowance to £475,000.

Passing on assets to a spouse is tax-free and that spouse can then make use of both allowances, meaning the amount which can be passed on by a married couple will be £950,000. A further increase next year will bring this amount to £1m.

Nimesh Shah, of accountants Blick Rothenberg, pointed out that while the new allowances are welcome, the main allowance has not increased in a decade. That fact, combined with soaring house prices, means more estates than ever are being drawn into the IHT net. The Treasury's take from death duty is expected to exceed £7bn by 2023.

Pensions

The lifetime allowance on pension contributions will increase from £1.03m to £1.05m. This is the limit on the amount retirees can amass in a pension without incurring additional taxes. Anything above this level can be taxed at a rate of 55% upon withdrawal. The allowance increases each year in line with inflation, but was drastically cut throughout George Osborne's time of office from its previous high of £1.8m. These cuts are leading more than a million public sector workers into the lifetime allowance net.

Tax relief | How the Government tops up your pension

The amount you get depends on your income tax bracket - so higher income taxpayers receive more than a basic ratepayer from the Government for every £1 they save into a pension.

- For a basic ratepayer to put £100 into their pension, they only need to make an £80 contribution.
- A higher ratepayer - those earning between £45,000 and £150,000 a year - only need to pay £60 to achieve the same £100 of pension savings. The same applies for additional ratepayers.
- Even people who don't earn enough to pay any income tax can receive tax relief at the basic rate. These nil ratepayer can make up to £3,600 of pension contributions a year.

The way tax relief is claimed depends on the type of pension you are saving into. Workplace pension schemes operate on either a "net pay" or "relief at source" basis.

- Under net pay arrangements the scheme automatically claims back tax relief at the member's highest rate of income tax.
- With relief at source, only basic relief is claimed automatically but higher and additional ratepayers must write to HMRC to receive the extra relief due to them.

However, if your scheme uses net pay - the majority of occupational plans - you might be missing out on tax relief if you earn over £10,000 (the threshold for being automatically enrolled into a scheme) but below the starting rate of income tax, currently £11,850.

People in this position are due tax relief at the basic rate but this won't be added automatically by providers using the net pay model.

The end of pensions tax relief as we know it?

Over the last five years successive Governments have slashed the generosity of the annual and lifetime allowances on pension contributions.

But there is also a growing feeling politicians will reform the entire tax relief model. Former Chancellor George Osborne launched a consultation looking at alternatives to the current model, described above.

The state pays out billions a year in pension tax relief and much of this goes on wealthier savers and companies sponsoring generous "defined benefit" style pensions. Scrapping the system would therefore not only save the Government money but (in theory) redistribute relief to lower earners who are most likely to be under saving.

Mr Osborne appeared to favour introducing a system more akin to Isas - binning no upfront tax relief but making withdrawals tax free. However the Government pulled back from the controversial plans ahead of the Brexit vote.

The pension industry has mainly backed a "flat rate" model, where everyone gets tax relief at 25 or 30p c regardless of income. It is thought the current or future Government will return to this idea because of the vast savings that could be made.

Meanwhile, the amount employees will pay into their pensions will increase to a total of 8% under the Government's auto-enrolment scheme. The increase means employers must now pay in 3% of a saver's salary while the individual must pay in 5%. The Government claims this has created an additional eight million pension savers.

Buy-to-let landlords

Mr Osborne may have started the crackdown on buy-to-let investors but Mr Hammond appears to have picked up the baton with aplomb.

On April 6 the next stage of the phased removal of mortgage interest relief will come into effect. Landlords used to be able to claim the interest paid on their mortgages as a business expense to reduce their tax bill. Now they will only be able to claim a quarter of this amount as tax deductible ahead of the complete removal of the relief next year.

About | Buy to let tax changes

In 2015 former Chancellor George Osborne unveiled a shock tax change that removed landlords' ability to deduct the cost of their mortgage interest from their rental income when they calculate the profit on which to pay tax.

The changes were phased in from 2017 and will be fully implemented by 2020. In the 2018/19 tax year, only 50pc of mortgage interest can be deducted against rental income to calculate profits. This decreases by 25pc each year until none can be accounted for in the 2020-21 tax year.

Tax is due on turnover, rather than profit. If mortgage rates rise, but rents don't, landlords are quickly left out of pocket. For some, tax rates will exceed 100pc: landlords will have to pay all of their profit in tax, and then pay more tax still.

Any higher-rate taxpayer landlord whose mortgage interest is 75pc or more of their rental income, net of other expenses, will see all of their returns wiped out by 2020.

For additional-rate (45pc) taxpayers, the threshold at which their investment returns are wiped out by the tax is when mortgage costs reach 68pc of rental income.

But some basic-rate taxpayers will also pay more tax – because the change has pushed them into the higher-rate bracket.

Mr Hammond is also cracking down on Airbnb-style holiday lets. Previously, those letting out a property via a room-sharing service were able to claim an annual income of £7,000 under rent-a-room relief.

This loophole is being removed with the relief only applying on spare rooms which are rented out while the owner still lives in the property.

Investors

Although capital gains tax (CGT) allowances are on the move in the right direction – increasing from £11,700 to £12,000 – the Treasury has cast its eye on a relief popular among investors.

Entrepeneur's Relief gives a CGT break to those who sell shares in an unlisted company, provided they own at least 5% of the shares and up to a lifetime value of £10m. Ms Mock said the £2.7bn cost to the Treasury could have prompted the changes due to come into force next week.

The holding period to qualify for the relief is being raised from 12 months to 24. Ms Mock warned this could mean some lose the tax break or can only access it up to certain levels of investment.

This will also be the first tax year that claims can be made for investors' relief which, in a similar way, gives CGT breaks to those who sell shares in unlisted firms. However, while the former is aimed at company directors, the latter is geared to encourage outside investment in firms.

There is no minimum shareholding to be eligible but investors must have held the shares for at least three years. As the relief was introduced in 2016, this is the first tax year when it can be used.

Finally, the Junior Isa limit will increase from £4,260 to £4,368. All other Isa limits stay the same.

Source : **https://uk.yahoo.com/finance/news/tax-2019-changes-coming-effect-095907542.html**