

First Briefing, October 2018

Budget 2018

Introduction

The Chancellor of the Exchequer presented his Budget on 29 October 2018. The Budget contains little that affects pensions and other employer-provided benefits. This Briefing sets out some of the key points that may be of interest to employers and trustees.

Occupational pension schemes

Pensions tax

No changes were announced to the pensions taxation system. The lifetime allowance (LTA) for pension savings will increase in line with the Consumer Prices Index (CPI). This means the LTA will be £1,055,000 for the 2019/20 tax year.

The annual allowance and money purchase annual allowance will remain unchanged at £40,000 and £4,000 respectively.

Banning cold calling on pensions

The government has published its response to its consultation alongside the Budget stating that it will implement a ban on pensions cold calling by making it illegal.

However, calls will still be permitted from trustees or managers of pension schemes where the recipient:

- consents to such calls being made; or
- has an existing relationship with the caller and the relationship is such that the recipient might reasonably envisage receiving pensions cold calls.

Pensions dashboard

The Department for Work and Pensions (DWP) is pushing ahead with the pensions dashboard and will consult later this year on the detailed design. Extra funding has been provided for this project.

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Income tax

With effect from 6 April 2019, the personal allowance (for income tax purposes) will rise to £12,500 and the higher rate income tax threshold will rise to £50,000. Both the personal allowance and higher rate threshold will remain at this level for the 2020/21 tax year. Thereafter, they will increase in line with CPI.

National living wage

With effect from 6 April 2019, the national living wage will increase from its current level of £7.83 per hour to £8.21 per hour.

Savings

ISAs

The ISA annual subscription limit for the 2019/20 tax year will remain unchanged at £20,000. The annual subscription limit for Junior ISAs and Child Trust Funds for 2019/20 will be increased in line with CPI to £4,368.

Starting rate for savings

The band of savings income that is subject to the 0% starting rate will remain unchanged at £5,000 for the 2019/20 tax year.

Use of inflation indices

The government's objective is that CPI including owner occupiers' housing costs (that is CPIH) will become its headline measure of inflation over time. It will also reduce the use of the Retail Prices Index (RPI) when and where practicable.

Index-linked gilts

The government is concerned about the risk of inflation on UK finances. To manage this risk, it plans to issue fewer index-linked gilts in the medium term. This is because the government has to pay higher amounts of interest on index-linked gilts when inflation is higher.

The demand for long dated index-linked gilts from pension schemes and other institutions is already much greater than the supply of these assets. This makes index-linked gilts expensive. A reduction in the issuance of index-linked gilts will exacerbate this problem.

Alongside this change, the government also stated that it will keep the option of issuing index-linked gilts not linked to RPI under review.

