SR Lynn & Co

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The Autumn Budget – taxed and spent

After already increasing taxes by £42 billion a year in 2021, the main focus of Chancellor Rishi Sunak's Autumn Budget was on spending.

The first Autumn Budget in three years – and Mr Sunak's third in less than 20 months – featured no significant increases in tax. The task of raising extra revenue had already been dealt with earlier in the year, with a range of measures, including allowance freezes and increased corporation tax.

The Budget's main highlights on the personal front were:

- There were no changes to inheritance tax and only one technical administrative change to capital gains tax. Both capital taxes had been the subject of extensive reports from the Office for Tax Simplification, so the Chancellor may have abandoned ideas of reform for the short term.
- A change to pension tax relief was announced, but not the one some had feared. It involved a potential increase in relief for low earners from 2024/25.
- The increases to National Insurance Contributions and dividend tax, announced alongside the NHS/Social Care package in September, were confirmed and will start to take effect from April 2022.
- The income tax personal allowance and higher rate threshold (outside Scotland) were left frozen, despite higher inflation effectively making the freeze a greater tax increase.
- The main ISA contribution limit was frozen at the £20,000 level originally set in April 2017.
- The increase to the new and old state pension will be in line with inflation to September 2021 (3.1%) rather than the Triple Lock, saving the Treasury (and costing current and future pensioners) over £5 billion a year.

Although the Chancellor said in his speech, "My goal is to reduce taxes", this will not happen next year. It is not too early to start thinking how you might start cutting tax through year-end tax planning.

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Placing a cost on retirement

How much income do you need for a comfortable retirement? New research has put a post-pandemic price on the answer.

One traditional way to answer the question of how much income you will need in retirement is to fix the amount as a percentage of pay. For example, when final salary pension schemes were more common, their target was often around two thirds of earnings. While this approach produces an easy to calculate number, it is arbitrary. For low earners it may produce too low a number, while at the opposite end of the scale the result may be too high.

An alternative is to focus on retirement living standards, an option that has been supported in the UK by the Pension and Lifetime Savings Association (PLSA) and is mirrored by approaches used in other countries. The PLSA sets three levels of post-pandemic retirement:

	MINIMUM	**MODERATE**	**COMFORTABLE**
What standard of living could you have?	Covers all your needs, with some left over for fun.	More financial security and flexibility.	More financial freedom and some luxuries.
House	DIY maintenance and decorating one room a year.	Some help with maintenance and decorating each year.	Replace kitchen and bathroom every 10/15 years.
Food and drink	A £41 weekly food shop.	A £47 weekly food shop.	A £59 weekly food shop.
Transport	No car.	3-year-old car replaced every 10 years.	2-year-old car replaced every 5 years.
Holidays and leisure	One week in the UK and a long weekend in the UK every year.	2 weeks in Europe and a long weekend in the UK every year.	3 weeks in Europe every year.
Clothing and personal	£410 for clothing and footwear each year.	£730 for clothing and footwear each year.	£1,200 for clothing and footwear each year.
Helping others	£10 for each birthday present.	£30 for each birthday present.	£50 for each birthday present.

Where would you want to be on those scales? It's likely that most of us would veer towards 'Comfortable'.

Now for the annual cost in terms of after-tax income:

	MINIMUM		**MODERATE**		**COMFORTABLE**	
	London	**Elsewhere**	**London**	**Elsewhere**	**London**	**Elsewhere**
Single	£13,200	£10,900	£24,500	£20,800	£36,700	£33,600
Couple	£21,100	£16,700	£36,200	£30,600	£51,500	£49,700

If the numbers surprise you, then it is probably time to start checking that your retirement funding will meet the standard of living that you want.

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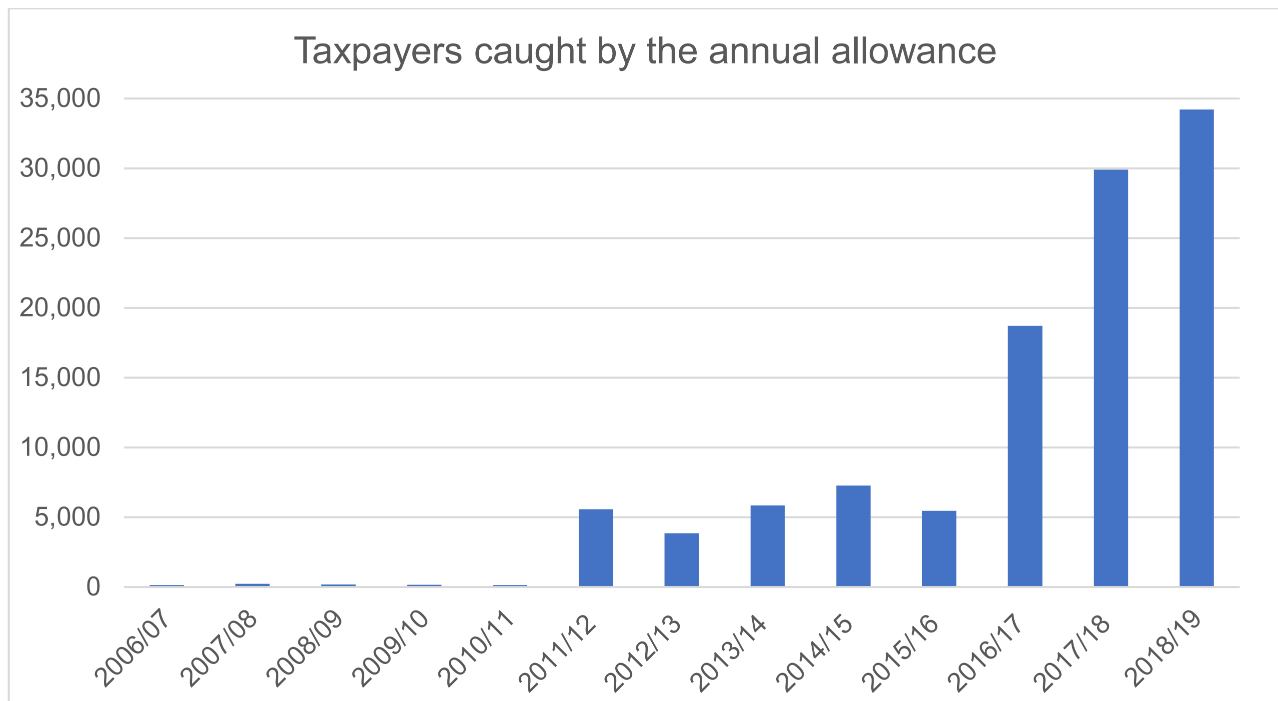
The pension annual allowance trap

Latest HMRC figures show that the annual allowance continues to help fill its depleted coffers.



Source: HMRC.

The annual allowance is an important number in the pension world. It sets the maximum tax-efficient amount of total contributions in a tax year – from any source – that can be made to pension schemes for your benefit. If the allowance is exceeded, then any tax relief you receive on the excess is effectively clawed back by the annual allowance charge. However, the tax status of the benefits bought with the unrelieved contributions remains unchanged, meaning potentially that 75% is taxable when withdrawn.

Until 2011, the annual allowance was set at a level that made it a somewhat academic topic – in 2010/11 it stood at £255,000. Then, in 2011/12, it was reduced to £50,000 – a cut of about 80%. The Chancellor's aim was to lower the cost of tax relief at a time when the top rate of income tax was 50%. Three years later, from 2014/15, there was another reduction, this time to £40,000. In 2016/17 the axe fell for a third time, but on this occasion, it was more a salami-slicing than a chop. The main allowance remained at £40,000, but it became subject to a taper that could bring it down to as little as £10,000 for high-income earners.

The effects of these changes are visible in the graph. In 2010/11, only 140 people reported a liability for the annual allowance charge on their tax returns. That jumped to 5,570 the following year and 18,870 in 2016/17. At last count – three tax years ago – over 34,000 people were caught with total excess contributions of £817 million. The vast bulk of that excess would have been taxed at 40% or 45%, netting perhaps £350 million for the Treasury.

The Chancellor was forced to relax the rules for tapering in the 2020 Budget because potential tax bills were prompting NHS consultants and other senior public sector staff to take early retirement or limit their working hours. While the change should have reduced those paying

the annual allowance charge in 2020/21, the problems it causes have not disappeared. That means you should always take advice on contribution levels, particularly if you are lucky enough to still be a member of a final salary pension scheme.

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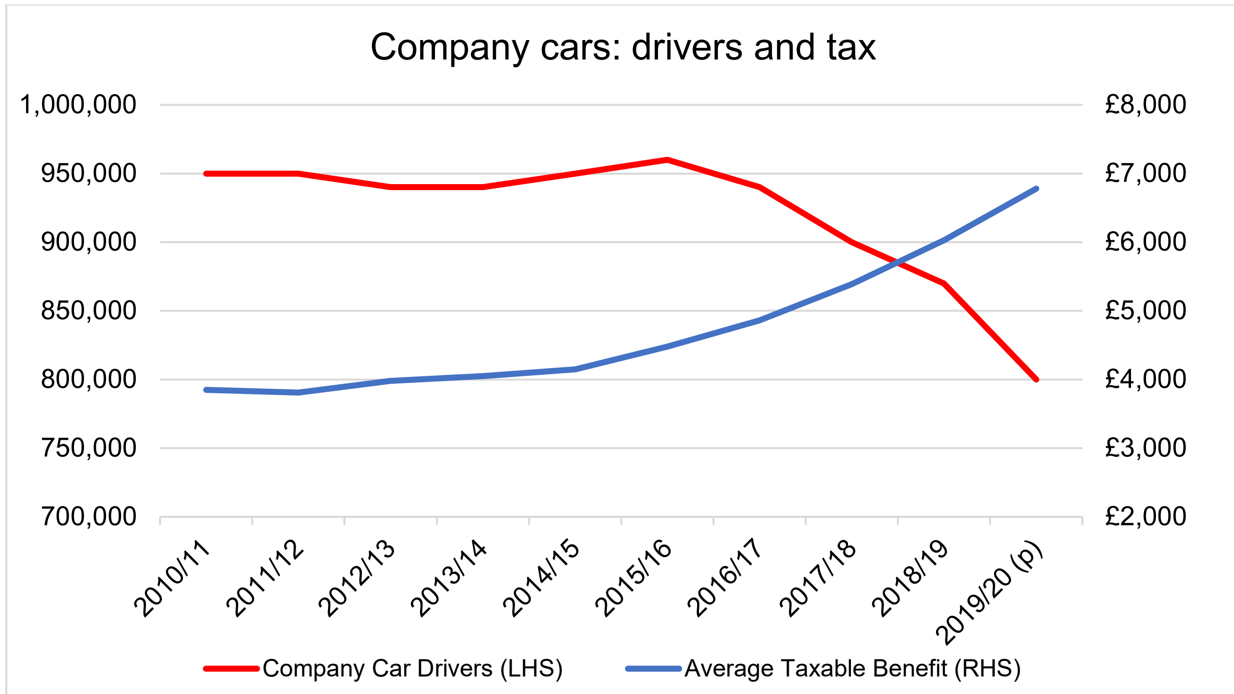
Company cars: heading downhill fast?

Recent data suggests the number of company car drivers continues to fall.



Source: HMRC.

Once upon a time, the aspiration of many an office worker was to climb the ladder to the height at which a company car became part of the remuneration package. The appeal of being liberated from the expenses of motoring – sometimes including 'free' fuel – was considerable.

As the graph shows, the latest data from HMRC suggests that the lure of the company car is fading. However, HMRC is uncertain about the accuracy of the data because a 2016 administrative change means that, in HMRC's view, "it appears there is still considerable underreporting" of company car ownership.

One factor that is not in doubt is that the tax on company cars has outpaced inflation. Between 2010/11 and 2019/20, the average taxable value of a company car rose by 76.1%, whereas consumer price index (CPI) inflation from April 2010 to April 2020 totalled 21.6%. The average taxable value of 'free' fuel has not risen as much, but the popularity of the perk has declined much faster than the company car's. In 2019/20, only about one in nine company car drivers also had 'free' fuel, probably because for most drivers it was cheaper to buy their own fuel than pay tax on a notional benefit averaging £5,250.

The HMRC data only runs to 2019/20 – and figures for that year are provisional. The picture in 2020/21 onwards could be different as there was a significant reduction in the tax on zero-emission cars – almost all electric vehicles – from 15% of value in 2019/20 to 0% in 2020/21. That rose to 1% for the current tax year and will rise again to 2% from April 2022, a level at which it will remain until April 2025. Anecdotally, the cut has prompted renewed interest in electric company cars and schemes that allow employees to sacrifice salary for a car.

If you have a company car, think carefully when it comes up for replacement. Choosing a 100% electric or plug-in hybrid car could save you tax next time around, but you might be better off side-stepping cars altogether and asking your employer to increase their pension contributions.

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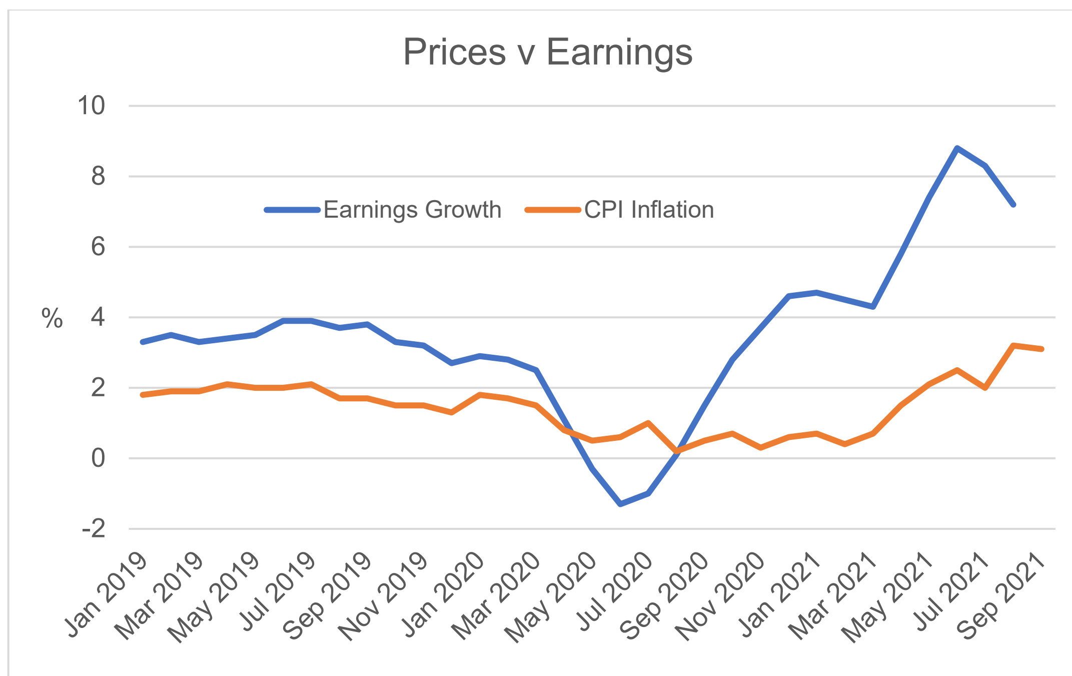
Triple Lock shifts to Double Lock in 2022

The temporary Triple Lock suspension has cost pensioners up to £9.35 a week.



Source: ONS.

Call it a good day for burying bad news. Within hours of the Prime Minister announcing his long-awaited plans for social care in England in early September, the Department for Work and Pensions revealed that the Triple Lock for the new and old state pensions would not apply next April. This broke a 2019 Conservative manifesto pledge, but by then it was the third pledge of the day to be dispensed with, following the increases to National Insurance Contributions and income tax on dividends.

As a reminder, from 2011 to 2021, the main state pension(s) have been increased by the greater of:

- the rise in earnings;
- Consumer Prices Index (CPI) inflation; and
- 2.5%.

For 2022 only, the earnings element will be dropped so that there is just a Double Lock. Some wriggle out of the Triple Lock had been expected ever since summer 2020, when several Think Tanks realised the potential consequences of earnings growth distortions caused by the pandemic. However, the Chancellor made no mention of any changes in his March 2021 Budget.

The September CPI figure was published in mid-October, meaning that we now know what the move from Triple Lock to Double Lock has cost pensioners (and saved the Treasury). The earnings growth figure that would have been used (for May to July 2021) was 8.3%, whereas the CPI was 3.1%. That gap of 5.3% is worth up to about £9.35 a week extra on the new state pension (paid to those who reached state pension age after April 2016) and £7.15 a week for recipients of the old (basic) state pension. The savings to the government are measured in

billions. Even though the government says the Triple Lock's suspension will only be for one year, the impact of this year's Double Lock will endure:

- From 2022 onwards, the pension for all current and future state pensioners will be 5% lower than it would have been under the Triple Lock.
- For the Treasury, each year it will be saving 5% of what would have been the Triple Lock cost.

The suspension of the Triple Lock is just the latest example of a government reducing the value of state pensions when they become too costly – the increase in state pension ages is another example. It is also reminder that you should not rely on the state alone to fund your retirement.

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