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Independent Financial Advice and Planning

Budget Statement

March 2016 overview

Introduction

It was famously said that ‘all roads lead to Rome.’ In British politics, all speeches currently lead to the EU Referendum. George Osborne’s Budget speech, delivered on Wednesday March 16th, was no exception.

More than ever, the Chancellor was seeking to balance politics and economics as he rose to speak. On the politics front, there were a good many restive backbenchers behind him who had already put paid (at least for now) to the Chancellor’s widely-trailed intentions to reform tax relief on pension contributions. There was also an electorate to convince – and the Chancellor’s own political ambitions. Make no mistake, if the ‘Leave’ camp wins the EU referendum, George Osborne’s chances of succeeding David Cameron in the inevitable leadership battle are almost non-existent.

So the political background to the speech was tricky: but not quite as tricky as the economic background.

The Chancellor has not only made his economic commitments public, he’s also passed them into legislation. The fiscal charter commits him to doing three things:

- Returning the Budget to surplus within four years and to spend less than his income. He has to do this unless the OBR allow him to suspend the fiscal charter, due to GDP either being less than (or forecast to be less than) 1% on a rolling four quarter on four quarter basis.
- He has also promised to see debt fall as a percentage of the economy in this financial year, and in every financial year through to 2020. This may mean selling some state assets – such as the shares in RBS and Lloyds – but this remains the Chancellor’s intention.
- Finally, he also promised to keep welfare spending within strict limits.

These commitments would have been fine if the world economy was powering ahead, but a shaky start to 2016 has seen the global economic picture clouded with doubt. The slowdown in China continues, the ECB has just announced yet more measures to stimulate the Eurozone, and at home, the British Chambers of Commerce (BCC) has just downgraded its UK growth forecast for the next two years, cutting the expected growth for this year from 2.5% to 2.2%.

The Chancellor’s commitment on welfare spending has already been breached, and on the morning of the Budget the Financial Times headline was, ‘Osborne to break second promise in Budget of fiscal claustrophobia.’

So, in the short term, the Chancellor faced a very difficult speech; in the longer term he faced an increasingly uncertain political future.

The Economy and the Numbers

Confident, as ever, the Chancellor bounced to his feet at 12:34pm and began reeling off the numbers, courtesy of the Office for Budget Responsibility (OBR).

'Britain,' he declared, was 'set to grow faster than any other major economy in the world.' (It may be news to the Chinese that the Chancellor still classes them as an 'emerging economy.') Nevertheless, the country faced a 'dangerous cocktail of risks' which naturally prompted a flood of self-congratulation from the Chancellor for all that attention he'd previously paid to the roof. Perhaps his most telling statistic in this passage was that when he'd come to office, Britain had been borrowing £1 in every £4 that it spent: next year it will be £1 in every £14.

But despite Britain having moved from being one of the worst prepared countries to face global uncertainty to one of the best, the OBR had still been forced to revise growth estimates downward in the face of the world economic slowdown. Growth for this year would be 2% (lower than many commentators had expected, and lower than the estimate from the BCC), before rising to 2.2% in 2017 and then steadying at 2.1% for the following three years.

These forecasts, the Chancellor was not slow to point out, were based on the UK remaining within the EU. Leaving, according to the OBR, 'could usher in a prolonged period of uncertainty.'

Turning to the labour market, the Chancellor said that 'since the Autumn Statement just four months ago, the businesses in our economy have created over 150,000 more jobs than the OBR expected.' The unemployment figures published that morning had confirmed that UK unemployment had fallen to 1.68m for the period November to January, with the employment rate at 74.1% - the highest since records began in 1971.

The OBR forecast that inflation would be 0.7% this year, rising to 1.6% in 2017; the Chancellor confirmed that he would be writing to the Monetary Policy Committee to confirm that the target rate for inflation remained at 2%.

The Deficit and Debt Forecast

'Britain is living within its means,' declared the Chancellor, as he announced that government spending as a share of GDP would fall to 36.9% by 2020/21, having been 45% when he came to office.

His forecast for debt as a percentage of GDP was revised upwards – although he described this as an 'anomaly.' It would be 82.6% in 2016/17, and fall in subsequent years to 81.3%, 79.9%, 77.2% and then to 74.7%.

Despite the percentages going up, debt would be £9bn lower in 2015/16 'in cash terms' and is forecast to be £14bn lower in 2016/17. The pot of gold at the end of the rainbow – a government surplus – is still forecast to arrive in the financial year 2019/20 with a surplus of £10.4bn, all thanks 'to the decisive action we've taken today.'

Personal Taxation and Allowances

It took the Chancellor an hour of talking and a journey round the business tax system, the national infrastructure and the future of education before he answered the question everyone wanted answering: ‘how much tax will I pay?’ He announced the following specific measures:

What	The tax free personal allowance will increase to £11,500 from £11,000.
When	From April 2017
Comment	The Chancellor’s declared aim is to have a tax-free personal allowance of £12,500 by the end of this parliament. This was a significant step in that direction: with the Budget of 2020 coming a few months before the next General Election, you wouldn’t bet against him actually exceeding that figure.

What	The higher 40% rate threshold will increase to £45,000. The Upper Earnings Limit will also increase to remain aligned with the higher rate threshold.
When	From April 2017
Comment	‘Far too many people have been caught in the higher rate tax band,’ said the Chancellor, announcing an increase from the current level of £42,385. The measure would, he said, take 500,000 people out of higher rate tax, in another move designed to ‘back working people.’

What	Off-payroll engagement in the public sector.
When	From April 2017
Comment	This was a move trailed about a week ago when a headline declared that the Chancellor would ‘crack down on TV show hosts and NHS bosses.’ He is specifically targeting the use of personal service companies in the public sector, which is believed to be costing the taxpayer around £440m per year.

Pensions and Savings

As we've reported in the introduction, the Chancellor didn't – or wasn't able – to introduce a wide-ranging reform of pensions taxation. However, he pulled one significant rabbit out of the hat with the 'Lifetime ISA,' declaring that young people would no longer need to make a choice between 'saving to buy a home and saving for retirement.'

What The Lifetime ISA, available to any adult under 40.

When From April 2017

Comment This will allow any adult under 40 to save up to £4,000 a year with the government adding £1 for every £4 saved. Whilst the Chancellor still has some consultations to do (largely on cash withdrawals), this savings scheme should be attractive to young people. The '£1 for every £4' bonus applies up to the age of 50, with all the money in the Lifetime ISA being available tax-free from age 60, or at point of use if the savings are put towards purchasing a first home at any point from 12 months after opening the account.

What The ISA limit will be increased to £20,000 from its current level of £15,240.

When From April 2017

Comment It seems like another age when the ISA limit was £6,000, but they have been a core part of the Chancellor's attempts to get people saving more and this increase shows that they remain a core part of the strategy.

What Help to Save accounts.

When Accounts will be available no later than April 2018

Comment In another move designed to encourage saving, individuals in low income working households will be able to save up to £50 a month into a Help to Save account and receive a 50% government bonus after two years. The scheme will be open to all adults in receipt of Universal Credit, with minimum weekly household earnings equivalent to 16 hours at the National Living Wage or those in receipt of Working Tax Credits.

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Pensions and Savings continued

What	Launch of a Pension Dashboard.
When	By 2019
Comment	The government will ensure that industry designs, funds and launches a digital interface where an individual can view all their retirement savings in one place. It could be a challenge for pension providers to support this, but on the surface at least it appears an admirable initiative.

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Business and Business Taxation

The Chancellor had plenty to say on business taxation as he sought to create a ‘level playing field’ between, on the one hand, British businesses and, on the other, both the multinationals he was keen to target and the increasing number of foreign companies selling through Amazon and eBay and avoiding UK VAT. The various measures, he said, ‘better reflects the reality of the global economy’ and raise £9bn in tax.

What Corporation tax will be cut to 17%.

When From 2020

Comment Corporation tax is currently 20%, but this will see the UK with ‘one of the most competitive business tax regimes anywhere,’ said the Chancellor. His hope is that the lower rate of corporation tax will attract foreign companies and investment to the UK.

What The higher rate of Capital Gains Tax will be cut from 28% to 20% and the basic rate from 18% to 10%.

When From April 2016

Comment There will be an 8 percentage point surcharge on these new rates for carried interest and for gains on residential property. Private Residence Relief will continue to ensure that an individual’s main home is not subject to CGT. Clearly this is a move designed to encourage investment in companies: ‘investors investing’ the Chancellor said.

What The threshold for small business rate relief is changing. Businesses with a property with a rateable value of £12,000 and below will receive 100% relief. Businesses with a property with a rateable value between £12,000 and £15,000 will receive tapered relief. The threshold for the higher rate will increase to £51,000.

When From April 2017

Comment The Chancellor received some of his most enthusiastic cheers for this measure, and he toured the country listing small businesses that would no longer pay business rates. He said that 600,000 small businesses would pay no business rates from April next year and that the administration of business rates would also be simplified. From 2020, business rates will be linked to the CPI, which has historically been lower than the RPI. The Chancellor declared he had, ‘got rid of the loopholes for multinationals and got rid of the tax for small businesses.’

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Business and Business Taxation continued

What	Class 2 National Insurance contributions for the self-employed will be abolished.
When	From April 2018
Comment	Class 2 NI contributions don't currently cost a lot – the figure for 2015/16 is £2.80 per week, assuming profits are above the small profits threshold. Nevertheless, it is a welcome boost for the self-employed. The government will publish its response to the recent consultation on benefit entitlement for the self-employed in due course. This will set out details of how the self-employed will access contributory benefits after Class 2 is abolished.

What	The Sugar Levy.
When	From April 2018
Comment	The Chancellor introduced this measure in his section on education, outlining the need to improve both the education and the health of the UK's children. Obesity currently costs the UK economy approximately £27bn a year and this measure – based on the sugar content of soft drinks – will raise £520m in the first year. Part of the money raised will be used to fund sport in schools. The introduction of the levy resulted in widespread jubilation on Twitter from Jamie Oliver and other advocates of the tax.

What	Tax on North Sea oil is again being cut.
When	The measure is backdated to January 1st 2016
Comment	Once again the Chancellor was at pains to help the North Sea oil industry, with several recent reports being decidedly gloomy about its future. He also announced the 'effective abolition' of petroleum revenue tax.

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Business and Business Taxation continued

What	Commercial stamp duty is to be revised. It will now be zero on purchases up to £150,000: 2% on the next £100,000 and with a top rate of 5% above £250,000. There will be a new 2% rate for high-value leases with a value in excess of £5m.
When	From 17th March 2016, with transitional arrangements for transactions where contracts are exchanged but completion has not yet taken place
Comment	Following the revision of the rules on domestic stamp duty last year, the Chancellor has – on the recommendation of the IMF – taken the same action with commercial stamp duty. The move will raise £500m a year, but will see 90% of all transactions incur less stamp duty.

What	Debt interest payments used by larger firms to cut corporation tax bills will be capped at 30% of taxable earnings in the UK.
When	To be confirmed
Comment	This was another part of the Chancellor’s drive to create a level playing field. It is a move specifically directed against firms who borrow heavily in the UK to fund operations overseas, and then set that debt against profits. You suspect that ‘taxing multinationals fairly’ will be a recurring theme of several future Budgets.

What	Reforms to the treatment of losses within corporation tax.
When	From April 2017
Comment	A further tightening and modernisation of the tax system from the Chancellor, meaning that companies making substantial profits in a year will no longer be able to avoid tax by offsetting it against previous losses. From April 2017, businesses will only be able to offset 50% of profits against losses carried forward, although the rule only applies to businesses making profits of over £5m. On the other hand, this also represents a positive move for businesses as there is now increased flexibility, with previous restrictions being lifted on losses carried forward. Companies will now be able to use losses from one income stream or company from within the same group against profits from other income streams or from other companies within the same group.

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Business and Business Taxation continued

What	A boost for the ‘Airbnb and eBay economy’.
When	From April 2017
Comment	In what he announced as a boost for ‘micro entrepreneurs,’ the Chancellor stated that online merchants and short-term landlords won’t have to declare or pay tax on the first £1,000 of income.

What	Further changes to the previously announced stamp duty on additional properties.
When	From April 2016
Comment	From April 2016, an extra 3% levy will be put on all stamp duty rates when the property is not intended to be the purchaser’s main home. When this measure was originally announced, the government stated that there would be an exemption for ‘corporate investors’, but this has now been removed. There has, however, been an extension in the time available to apply for a refund, due to ‘a period of overlap or a gap in ownership of a main residence.’ This limit is now 36 months, up from the previously announced 18 months.

What	Extension of entrepreneurs’ relief (ER) to external investors in unlisted trading companies.
When	The new rules will apply to newly issued shares purchased on or after 17 March 2016, providing they are held for a minimum of 3 years from 6 April 2016, and subject to a separate lifetime limit of £10 million of gains
Comment	A positive move, this could enable individuals to finance a business and obtain the 10% entrepreneurs’ rate without having to work in the business.

What	Benefits for businesses, the self-employed and landlords who are keeping records digitally.
When	From 2018
Comment	Those who keep records digitally and are providing regular digital updates to HMRC will be able to adopt pay-as-you-go tax payments. This will enable them to choose payment patterns that suit them and better manage their cash flow.

Other measures

The UK's Infrastructure

As expected, the Chancellor announced a wide variety of infrastructure projects.

- The government committed itself to HS3, improving the rail link between Leeds and Manchester.
- The Chancellor also confirmed that Crossrail 2 would go ahead, linking north and south London.
- Insurance Premium Tax will rise by 0.5% to 10%, paying for an additional £700m for flood defences.
- There will be road improvements in the 'Northern Powerhouse' including a four lane M62 and upgrades to the M69 and A66.
- £20m will be spent on the country's cathedrals. 'After all,' smiled the Chancellor, 'the Conservative Party is a broad church.'
- There will be an introduction of museums and galleries tax relief from April 1st 2017 following a consultation over summer 2016.
- The delivery of 13,000 affordable homes two years early by bringing forward £250 million of capital spending to 2017-18 and 2018-19.

Excise Duties

There was little to report in the 'beer, petrol and cigs' department, but the Chancellor did give the usual updates during his address:

- The Chancellor froze fuel duty for the sixth year in a row.
- Tobacco duty will increase by 2% above inflation from 6pm on March 16th 2016.
- The duty on beer and cider is again frozen from 1st April 2016.
- The duty on Scotch whisky is frozen.
- All other duties will increase in line with inflation.

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Other measures continued

Education

As expected, the Chancellor announced that this parliament would see ‘schools set free.’ His aim is to improve education to ultimately boost the nation’s productivity, but with China opening roughly one new university a week, he has some catching up to do. Every primary and secondary school will become – or be on target to become – an academy by 2020, with particular emphasis being placed on falling standards in the North. ‘We are,’ he declared, ‘doing the right thing for the next generation.’ There is also an expected investment of up to £285 million a year to give 25% of secondary schools increased opportunity to extend their school day.

Devolution

There were also a number of announcements regarding devolution, with extra powers for Scotland, Wales and many English regions. And in what was widely seen as a boost for Zac Goldsmith’s chances of succeeding Boris Johnson as Mayor of London, the Chancellor announced the devolution of business rates to the Greater London Authority from April 2017, and a new commission to look at growth in the Thames Estuary.

Conclusions

After being on his feet for more than an hour, the Chancellor sat down to cheers from his backbenchers, a pat on the back from his next door neighbour and a few scowls from the Eurosceptics. In truth, this was a standard George Osborne performance; plenty of soundbites and a theme which ran through the whole speech. This time it was 'putting the next generation first' in a Budget which would see, 'investors investing, savers saving and businesses doing business.'

To an extent, the Chancellor is right: Britain is doing better than virtually all the world's other major economies. But the success of this Budget – and with it the Chancellor's own political prospects – is at least as reliant on events over which he has no control as it is on the actions he took today.

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