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STRATEGIC WEALTH MANAGEMENT

BUDGET SUMMARY 2015:

# The Election Budget

## INTRODUCTION AND POLITICAL BACKGROUND


As the Chancellor stood up to speak on Wednesday March 18th there were less than 50 days to go until the General Election on May 7th. The opinion polls – and the bookmakers – still had the Conservatives marginally ahead, with David Cameron expected to remain in 10 Downing Street after the Election. But no one expected the Conservative party to have a clear majority and, as many commentators remarked, the 'campaign' so far had done nothing to capture the public imagination.

So there was all to play for as George Osborne delivered his speech – the Budget was clearly a chance to break the 'logjam' in the opinion polls. While the pundits were divided about the result of the Election, they were as one in their expectations of the Chancellor's speech. Irrespective of the Election, this would be a 'no gimmicks, no giveaways' Budget, with George Osborne determined to cement his reputation as the man who had guided Britain's recovery and, in his words, "cleared up the mess" he had inherited.

All of the well-trailed measures were certainly there. There was help for savers, even more flexibility for those with pensions and the expected help for the North Sea oil and gas industry. But there was more – there was another shake up of the ISA rules and there was also the introduction of a new 'Help to Buy' ISA which will see the Government top up the savings of first time buyers who are saving for their first deposit.

So much for those who thought the Conservative strategists had decided older voters were the key to another five years of Government. Here was the Chancellor very firmly making a pitch for the younger voter – and using his speech to make plenty of jokes at Ed Miliband's expense. No one could doubt that a General Election was just around the corner.

## THE NUMBERS

There was good news for the Chancellor on the morning of the Budget as the Office for National Statistics released figures showing that UK unemployment had fallen by 102,000 to 1.86 million in the three months to January. The unemployment rate remains at 5.7% but the number in work is at an all-time high, while the number of people claiming Jobseeker's Allowance is at its lowest level since 1975.

In his Autumn Statement, the Chancellor had been keen to accentuate the positive, pointing out that the UK was (at the time) growing faster than any other major economy. Growth would be consistently above 2% and, by the tax year 2019/20, the UK would be back in the black, with a forecast surplus of £23bn.

BUDGET SUMMARY 2015:

# The Election Budget (continued)

## THE NUMBERS - CONTINUED

Little more than three months later and as the Chancellor stood up to deliver his Budget the Office for Budget Responsibility had revised these figures even further upwards. All were now higher than in the Autumn Statement, with growth of 2.5% forecast in 2015, followed by 2.3% for 2016-18 and then 2.4% in 2019.

There had been further good news for the Chancellor between the Autumn Statement and the Budget. Inflation has fallen – lower fuel and food prices saw it fall to a record low of 0.3% in January – and this means that the rise in many inflation-linked benefits will be lower than anticipated. Interest payable on the National Debt (which is estimated to be £1.6tn by the end of next year) will also fall.

The Chancellor opened his speech with a barrage of statistics: he rattled off the growth figures and then confirmed that inflation for this year was expected to be 0.2% (compared to a prediction of 1.2% in December).

Turning to Government debt and borrowing, the Chancellor said that he would be taking advantage of the current low interest rates to pay off much of the UK's historic debt – but the lower borrowing costs would not signal a giveaway, rather a determination to pay down debt.

Debt as a percentage of GDP would fall in 2015/16 for the first time since 2001. It will be 80.2% of GDP in 2015/16, falling to 71.6% by the tax year 2019/20.

The falling interest rates also allowed public borrowing forecasts to be revised down, from £91.3bn to £90.2bn in the current year, with the UK now having a surplus of £5.2bn in 2018-19; a year earlier than the Chancellor had anticipated in the Autumn Statement.

The Chancellor promised spending cuts of £30bn by 2017-18, with £13bn due to come from Government departments, £12bn from welfare savings and £5bn by clamping down on tax evasion and avoidance.

And then, having dealt with the numbers, he turned to his more specific measures…

## PENSIONS & SAVINGS

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| **What** | Existing annuities can be 'cashed in' |
| **When** | April 2016 |
| **Comment** | The Chancellor intends to give the estimated 5 million pensioners who already own annuities the same flexibility that has been given to other savers with pension policies. Pensioners with existing annuities will be able to 'sell' their remaining annuities to a third party in return for a cash lump sum to use however they wish or in order to organise a drawdown arrangement. Income taken will be taxed at the individual's marginal rate of income tax, mirroring the new pension freedoms. This move was well-trailed in the press and is broadly welcomed by commentators, as many pensioners currently have 'annuities they do not want and did not want to buy.' |

BUDGET SUMMARY 2015:

# The Election Budget (continued)

## PENSIONS & SAVINGS - CONTINUED

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| **What** | ISA annual savings limit increased to £15,240… and 'fully flexible' ISAs introduced |
| **When** | April 6th 2015 and Autumn 2015 |
| **Comment** | The increase in the savings limit for ISAs had already been announced but what wasn't expected from the Chancellor was the move to 'fully flexible' ISAs. Previously, if you had contributed your annual limit to an ISA and then made a withdrawal you couldn't contribute any more to your ISA in the same tax year. This restriction has now been removed so that money can now be withdrawn from an ISA and put back later in the same year without losing any of the tax-free allowance. The increased ISA limit will come into force in April, with the 'fully flexible' ISA delayed until autumn so that Government can consult with providers. |

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| **What** | The Help to Buy ISA |
| **When** | Autumn 2015 |
| **Comment** | A move that no one had expected and one that was clearly targeted at young people. George Osborne announced that for every £200 saved in a Help to Buy ISA, the Government would contribute an additional £50, up to a maximum contribution of £3,000. For those saving towards the Government's upper limit, this would see a £12,000 deposit boosted to £15,000. Accounts are one per person, rather than one per home, meaning couples purchasing together can receive an extra boost. |

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| **What** | The Government will extend the range of ISA eligible investments in 2015-16 |
| **When** | During 2015/2016 |
| **Comment** | Widening the scope of permitted investments supports the Chancellor's theme of a Budget for savers. In addition to the already announced new types of investment, the Government will explore further extending the list to include investment via crowd funding platforms during Summer 2015. |

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| **What** | The pension lifetime allowance is to be reduced to £1m |
| **When** | From April 2016 |
| **Comment** | Currently, the limit stands at £1.25m and it is estimated that the £250,000 reduction will save £600m annually by targeting the top 4% of retirees. However, the Chancellor did announce that the new figure of £1m would be index-linked from 2018. |

## PERSONAL TAXATION

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| **What** | The personal tax allowance will be raised to £10,600 in 2015/16 and then to £10,800 and £11,000 |
| **When** | From April 6th |
| **Comment** | The Chancellor reminded us all that when the coalition came to power the personal tax allowance was £6,500. Now the commitment to raise it to £10,000 in the life of a parliament had been achieved and exceeded. He also announced that the higher rate tax threshold would rise (at a rate above inflation) to £43,300 in 2017-18. The transferable tax allowance for married couples is also to rise, to £1,100. All in all, the Chancellor said, this amounted "to a tax cut for 27 million people". |

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BUDGET SUMMARY 2015:

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## PERSONAL TAXATION - CONTINUED

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| **What** | The first £1,000 of savings interest is to be tax free for basic rate taxpayers and the first £500 for higher rate taxpayers |
| **When** | From April 2016 |
| **Comment** | It had been expected that the Chancellor might abolish the 20% tax rate on savings altogether. In the event, he opted to make the first £1,000 of savings interest tax free, with higher rate taxpayers benefiting from the same tax free rate on the first £500 of savings interest. This followed last year's announcement that the 10% tax on savings for people on low incomes will be abolished from next month. |

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| **What** | Tougher sanctions for tax evaders |
| **When** | Between 2016 and 2017 |
| **Comment** | Tax evasion remains a contentious topic and the Chancellor will not be doing any harm in clamping down further, as trailed at numerous points prior to the Budget. A tougher 'last chance' disclosure facility will be offered between 2016 and mid-2017, with penalties of at least 30% on top of tax owed and interest, and with no immunity from criminal prosecutions in appropriate cases. |

## BUSINESS AND BUSINESS TAXATION

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| **What** | The so-called 'Google Tax', or Diverted Profits Tax |
| **When** | From 1st April 2015 |
| **Comment** | There has been plenty of comment over the past few years on the low amount of tax paid by companies like Google, Amazon and Starbucks. The Chancellor has finally come up with the Diverted Profits Tax which will seek to tax profits made in this country (but diverted abroad) at 25%. |

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| **What** | The main rate of corporation tax will be cut to 20% |
| **When** | April 2015 |
| **Comment** | The Budget notes that this is the joint lowest corporation tax in the G20, filing the announcement as part of the Government's long-term economic plan for corporate growth. The small profits rate remains at 20%. |

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| **What** | Help for the North Sea oil industry |
| **When** | Immediately |
| **Comment** | As expected, the Chancellor announced a raft of measures to help the North Sea oil industry. Petroleum Revenue Tax would be cut from 50% to 35% to help continued production in older fields. The existing supplementary charge for oil companies will also be cut from 30% to 20%, backdated to January.The OBR assessment was that the measures – worth a combined £1.3bn – would boost production in the North Sea by 15% by the end of the decade. The Chancellor also gave a commitment to invest in new seismic surveys of under-explored areas of the UK Continental Shelf. |

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| **What** | The annual bank levy will rise to 0.21% |
| **When** | 1st April 2015 |
| **Comment** | Having been helped when they were in trouble, the banks must now contribute to the national recovery, declared the Chancellor. This move is expected to raise a further £900m for the Exchequer. |

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**BUDGET SUMMARY 2015:**

# The Election Budget (continued)

## BUSINESS AND BUSINESS TAXATION - CONTINUED

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| **What** | Adult, youth and apprentice minimum wage rates to rise |
| **When** | October 2015 |
| **Comment** | The minimum wage will increase by 20p to £6.70. The apprentice rate will increase by 57p to £3.30 an hour. |

## TAX RETURNS

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| **What** | An end to filling in an annual tax return |
| **When** | By 2020 |
| **Comment** | As had been widely trailed, the Chancellor announced plans to switch to online tax returns by 2020. This will mean an end to filling in a paper tax return every year and will see the creation of digital tax accounts for over 50 million individuals and small businesses. The Government will publish a roadmap later in 2015 covering the details for the switch and will then work towards implementation for 5 million small businesses and the first 10 million individuals by as early as 2016. |

## FUEL AND CONSUMER TAXES

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| **What** | Some duties reduced; others frozen |
| **When** | Immediately |
| **Comment** | The main news here was that September's planned increase in fuel duty was scrapped. Having clearly employed a tabloid sub-editor, the Chancellor proudly boasted, "Save a tenner on a tank with the Tories." More prosaically, another penny was taken off the price of a pint and tobacco duties were unchanged. The duty on cider and whisky was cut, as the Chancellor sought to build on the success of his last Budget which, he claimed, had protected pubs and saved or created 16,000 jobs in the hospitality industry. |

## HOUSEBUILDING AND INFRASTRUCTURE

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| **What** | New Housing Zones |
| **When** | Immediately |
| **Comment** | Benefitting various locations across the UK, these housing zone initiatives will receive additional Government support. Aiming to 'keep Britain building' they could support up to 45,000 new homes. |

## OTHER MEASURES AND ANNOUNCEMENTS

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| **What** | The 'threepenny bit pound' |
| **When** | From 2017 |
| **Comment** | The new £1 coin was announced as forthcoming in last year's Budget and what's claimed to be the most secure coin in circulation in the world will start appearing in our change in 2017. It was designed by David Pearce, a 15 year old schoolboy from Walsall, and will feature a rose, a leek, a shamrock and a thistle. |

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Other measures announced by the Chancellor that may be of interest to you were:

- Previously announced 65+ bond extension. The extension of the availability of 65+ bonds through National Savings and Investments (NS&I) until 15 May 2015 is estimated to generate £3.2bn of additional sales.
- Premium Bond investment limit. The planned increase to the NS&I Premium Bond investment limit, to £50,000, provided further support for savers. The increase will come into force on 1 June 2015.
- A package of measures to improve the accessibility of R&D tax credits for smaller businesses will be introduced over the next 2 years.
- The National Insurance upper earnings and upper profits limits will increase to stay in line with the higher rate threshold.
- The closing of more tax loopholes will raise an extra £3.1bn of revenue.
- The Chancellor set aside £25m to support army veterans, including nuclear test veterans.
- A further £75m of LIBOR fines are to go to charities for regiments which fought in Afghanistan.
- On survivors' pensions, the Government announced that it will ensure that all widows, widowers and civil partners of police officers and firefighters who are killed on duty, will no longer lose their survivor benefits if they remarry, cohabit, or form a civil partnership.
- Farmers are to be allowed to average their incomes over 5 years, helping to limit the financial impact of seasonal harvesting.
- As announced during last year's Autumn Statement, the Government will increase the blind person's allowance, married couple's allowance and the income limit by amounts equivalent to the Retail Prices Index (RPI).
- In 2019-20, the company car tax rates for Ultra Low Emission Vehicles will be increased at a slower rate than had previously been announced.
- There will be consultations on tax relief for local newspapers.
- To ensure compliance with new EU rules, the Government will make amendments to the Seed Enterprise Investment Scheme (SEIS), Enterprise Investment Scheme (EIS), and Venture Capital Trusts (VCTs).
- The Mayor of London is to have new powers over skills and planning and Greater Manchester councils are to be allowed to keep 100% of the growth in business rates, with the Chancellor 'open' to extending this concession to other areas.
- The Government has doubled the maximum amount that parents of disabled children will be able to receive to help to pay for their childcare costs, from £2,000 to £4,000 per disabled child per year.
- There will be a new rail franchise for the South West of England.
- The Category 2 tolls (for small goods vehicles and small buses) for the Severn river crossings are to be abolished from 2018 in a bid to reduce business costs.
- Consultations will begin on a new £1bn 'tidal lagoon' in Swansea Bay to generate green energy.
- And finally, the Chancellor sought divine approval for his Budget. The £15m fund for the repair of church roofs is to be trebled…

## CONCLUSIONS

Whatever he had said before the Budget, no-one could deny that George Osborne delivered a Budget with at least half an eye on 7th May. He constantly punctuated his speech with jibes at the Labour front bench and positive reminders that, "Britain is walking tall again." Given the choice between a return to a previous administration or his Brave New World, the Chancellor emphatically declared that, "We choose the future."

His Budget, he declared, was one for a "truly national recovery", with the same message repeated several times: "We set out a plan and that plan is working. Do we return to the chaos of the past or keep to a plan that is working for you?"

The polls – and the financial markets – will give their verdict in due course. But for today, George Osborne managed to both stick to his principles and also pull a few rabbits from the hat. Britain, he announced, is "the comeback country." We do not have to wait very long to find out if the Budget has delivered a comeback Government.