

Budget Briefing

highlights and analysis





introduction

Chancellor Philip Hammond delivered his first Autumn Budget to the House of Commons at lunchtime today, following a decision made last year to move it from the Spring.

After a tough year for this government, and with Brexit talks seemingly stalled, all eyes were on Hammond to deliver a confident and bold Budget.

The Budget was heavy on vision and light on detail, with the exception of stamp duty changes to aid first time buyers.

Within this briefing note we have described the main Budget announcements as they relate to personal financial planning.

As with every Budget and Autumn Statement, the devil is often in the detail. As more details come to light, we will add blogs on specific planning topics to our website at www.icfp.co.uk.

Do call us on 01483 274566, email hello@icfp.co.uk, or follow us on Twitter @informedchoice if you would like to discuss your own investment, pension or Financial Planning as a result of the Budget or any of the contents within this document.

economic environment

The independent Office for Budget Responsibility slashed its forecasts for UK economic growth, revising these down to 1.5% this year, 1.4% next year and 1.3% in 2019 and 2020, before recovering to 1.5% in 2021 and 1.6% in 2022.

Despite this gloomy assessment, they expect the UK economy to create an additional 600,000 more jobs by 2022 and say national debt has peaked this year at 86.5% of GDP.

On price inflation, the OBR believes it has peaked this quarter at 3% and is expected to fall back to the Bank of England's 2% target at some point next year.

The inflation forecast could mean any further interest rates are modest and limited in number, although much will depend on the impact of Brexit negotiations on the value of pound sterling, which could result in higher imported price inflation.

Hammond was quick to point out that the British economy continues to grow and create new jobs.

He set the scene for Brexit negotiations, explaining these were reaching a critical phase in the coming weeks, but setting out a vision for the future with a new relationship with our European neighbours and the chance to embrace the opportunities that arise, as well as deal with the inevitable challenges.

Much was made of the technological revolution underway and how the economy can be best positioned to deal with this. Hammond claimed that Britain is at the forefront of this revolution and invested money to improve the skills of the workforce.

On debt, he explained that the structural deficit is forecast to be 1.3% of GDP in 2021, with borrowing forecast lower than during the Spring Budget earlier this year.

retirement

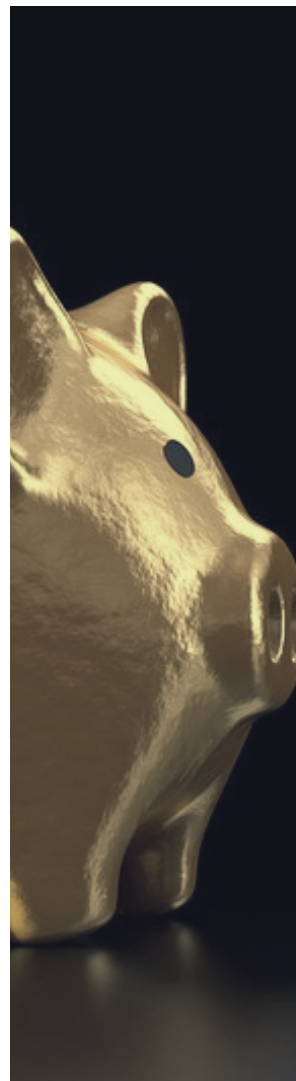
This Budget contained very little about pensions. With only 26 mentions of the word 'pension' in the Budget document, this might be the lowest key Budget ever for retirement planning.

A regular theme in the approach to Budget statements is individuals rushing to make pension contributions to benefit from higher rate tax relief, or withdrawing tax-free cash in fear it will be abolished. Once again, these fears were unfounded.

Within the accompanying documents, it was confirmed that the lifetime allowance for tax privileged pension savings will increase to £1,030,000 for the 2018/19 tax year. This is an increase in line with CPI price inflation.

Many commentators had expected the Chancellor to tackle the thorny issue of pension tax relief, perhaps introducing a flat-rate relief to replace the current tiered system. We still expect this change to happen in the future, although for now the government perhaps lacks the political strength to implement such a fundamental reform.

The basic state pension will be increased next April by 3%, with the state pension 'triple lock' continuing to apply. This means an increase of £3.65 a week for those in receipt of the full basic state pension.



taxation

The personal allowance for income tax will rise from £11,500 to £11,850 in April. This means that in 2018/19, a typical basic rate taxpayer will pay £1,075 less income tax than in 2010/11.

The Budget also confirmed an increase to the higher rate income tax threshold for 2018/19, rising to £46,350.

Perhaps the biggest announcement in this Budget was the abolition of stamp duty for first time buyers, effective immediately.

This stamp duty abolition will apply from today for first time buyers who are purchasing property valued up to £300,000.

When buying property for the first time in more expensive parts of the country, including London and the South East, the stamp duty abolition is extended to values up to £500,000, with the first £300,000 exempted.

Tobacco duty will increase by 2% above price inflation as measured by the Retail Price Index (RPI), with hand rolled tobacco duty rising by more.

Duty on beer, wine, spirits and most ciders was frozen in the Budget, along with the planned fuel duty rise for petrol and diesel cars planned for April 2018.

Drivers of electric vehicles will be pleased to learn that charging their cars at work will no longer be subject to a benefit in kind tax charge from next year.

In order to deal with growing concerns about air pollution, an extra 1% will be added to company car tax for vehicles which don't comply with the latest emission standards.

savings

Although the Bank of England recently increased rates, back to their post-global financial crisis low of 0.5%, savers will still be disappointed with the absence of Budget measures designed for them.

The Individual Savings Account (ISA) limit for 2018/19 has been held at £20,000. This is still a generous ISA limit compared to previous levels, but savers and investors would have welcomed a modest increase.

For younger savers and their parents, the Junior ISA limit is being increased to £4,260 for 2018/19.



business

Ahead of the Budget there was a lot of speculation about a lowering of the VAT registration threshold. Small business owners will be relieved to learn this is remaining unchanged at £85,000 for a further two years. The Treasury will however look at whether this cliff edge threshold discourages business growth.

The Chancellor highlighted the important role of Britain's 5.5 million small businesses, which contribute half of all private sector employment.

On business rates, the Chancellor announced plans to bring forward a planned switch from RPI to CPI inflation linking to April 2018.

Smaller pubs will welcome the extension of a £1,000 discount for their rates (where their rateable value is less than £100,000) to March 2019.

With business increasingly taking place in a digital world, the Chancellor announced plans to tax royalties paid to low tax jurisdictions where these were generated from sales taking place in the UK. He admitted it was a small change, projected to raise around £200 million a year, but said it sends a clear message.

There will also be measures to tackle online VAT fraud, with online merchants becoming jointly liable with sellers to ensure VAT is paid when due.



miscellaneous

Hammond set aside a further £3bn over next two years to prepare the UK economy for possible outcomes as a result of leaving the EU.

Shortcomings in the delivery of Universal Credits were addressed with a £1.5bn package of measures, which include scrapping the current 7 day waiting period for new claims.

Various investment promises were made, including £500m for 5G mobile networks and £540m to support the growth of electric cars.

On education, Hammond promised a new £40 million teacher training fund for underperforming schools in England.

Additional funding of £2.8bn for the NHS in England was promised, with £350 million available immediately to tackle pressures this winter.

The Chancellor promised to freeze short-haul air passenger duty rates and long-haul economy rates, with this paid for by an increase on premium-class tickets and on private jet travel.



about the author

Martin Bamford is managing director of Informed Choice. He is a Chartered Financial Planner, Chartered Wealth Manager and SOLLA accredited later life adviser.

Martin is proud to be a Certified Financial Planner (CFP) professional; this is the only globally recognised mark of excellence in Financial Planning. He is also a Fellow of the Personal Finance Society.

In addition to his work with elderly clients and trustees, Martin is responsible for the day to day running of Informed Choice, managing the investment management research and all aspects of marketing.

He is host of the popular Informed Choice Radio podcast.

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