Budget Briefing

highlights and analysis

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INDEPENDENT FINANCIAL PLANNING

introduction

Chancellor Philip Hammond delivered his Autumn Budget to the House of Commons this afternoon, the first time it has taken place on a Monday since 1962.

With Brexit negotiations yet to be settled ahead of the UK's departure from the EU in March, this Budget needed to strike the right balance between spending and saving.

But with the deficit coming down and the government getting better at collecting tax, there was some room for maneuver.

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

As with every Budget and Spring 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 Chancellor claimed the period of austerity is coming to an end, saying that the tough decisions of the past eight years had not been driven by ideology.

Quoting the independent Office for Budget Responsibility forecasts, he reported the UK economic growth forecast for this year has been upgraded from 1.3% to 1.6%.

Economic growth is then forecast at 1.4%, 1.4%, 1.5% and 1.6% in the four subsequent years.

There has been a net increase in the number of people in work, rising by 3.3 million since 2010.

The Chancellor had more room for maneuver in this Budget by virtue of the improved state of public finances, with the Treasury getting better at collecting taxes.

Public borrowing in 2018 is forecast to be £11.6bn lower than it was forecast at the time of the Spring Statement in March.

This level of public borrowing represents 1.2% of GDP.

Public borrowing is forecast to fall in subsequent years to £31.8bn, £26.7bn. £23.8bn, £20.8bn and £19.8bn.

Debt as share of GDP is forecast to fall from 85.2% in 2016/17 to 83.7% in 2018, before falling again to 74.1% by 2023/24.

Rather than spending all of this windfall, the Chancellor is retaining his firepower in order to address economic uncertainties arising from Brexit.

He also said he would take whatever action is necessary to keep these economic forecasts on track, including upgrading the Spring Statement next March to a 'full fiscal event', which could mean we see two Budgets in 2019.

retirement

After waiting for well over an hour, pension commentators were disappointed and relieved in equal measures by the absence of pension reform.

Hidden in the detail of Budget documents was confirmation that the Lifetime Allowance for pension savings will increase in April 2019 in line with the CPI measure of price inflation, to £1,055,000.

Despite much speculation ahead of the Budget, there were no changes to the Annual Allowance for pension savings or indeed to levels of tax relief available on pension contributions.

There was however renewed commitment to the pensions dashboard, including state pension data.

The Chancellor has also renewed his commitment to enrolling self-employed in workplace pensions and and introducing a cold calling ban in respect of pensions.

taxation

Saving one of the most significant announcements to the end of his speech, Philip Hammond revealed that the personal allowance for income tax will increase from £11,850 to £12,500 in April 2019.

This is a year earlier than the original Conservative manifesto pledge to increase the personal allowance to £12,500 by April 2020.

The higher rate threshold for income tax will also be increasing in April 2019, again a year earlier than originally pledged.

From next April, this higher rate threshold goes from £46,350 to £50,000.

Both the personal allowance and higher rate threshold will in the future increase in line with CPI inflation.

The band of savings income that is subject to the 0% starting rate will be kept at its current level of £5,000 for 2019/20.

The higher personal allowance and higher rate threshold will reportedly result in a tax cut for 32 million people and save an average of £130 for basic rate taxpayers.

Also on taxation, the Chancellor announced that all shared equity property purchases of up to £500,000 will be exempt from stamp duty.

This measure is being introduced retrospectively, with those buying shared equity property since the Spring Statement in March becoming eligible for a stamp duty refund.

savings

The adult Individual Savings Account (ISA) annual subscription limit for 2019/20 will remain unchanged at £20,000.

For Junior ISAs, the annual subscription limit will rise in line with CPI inflation, to become £4,368 in April 2019.

The government will be publishing a consultation on new draft regulations for maturing Child Trust Fund accounts.

The annual subscription limit for Child Trust Funds will also increase to £4,368, rising in line with CPI inflation.

There were several future enhancements to Premium Bonds, designed to encourage a stronger savings habit and boost the opportunity for young people to save.

These future enhancements include the minimum investment for Premium Bonds being reduced from £100 to £25, people other than parents and grandparents being able to purchase Premium Bonds for children under 16, and NS&I launching new app to make saving easier.

business

There were several announcements for businesses within this Budget, including a temporary two year increase in the annual investment allowance from £200,000 to £1m.

The move follows a long-standing request from the British Chambers of Commerce.

This £1m annual investment allowance will be available from 1st January 2019 to 31st December 2020, with the aim of stimulating business investment.

Already leaked before the Budget was news of a cut to the rates bills of companies with a rateable value of £51,000 or less, who will see their bills cut by a third over two years.

This cut to rates is expected to save £8,000 for 90% of independent companies.

There was also an announcement of £900m in business rates relief for small businesses.

Small firms who pay the apprenticeship levy will see their contribution fall from 10% to 5%.

Large companies will experience a change to IR35 rules, changing how self-employed workers are taxed, applying the same approach as used in the public sector. This change will be introduced in 2020.

Finally, a new digital services tax will be introduced from April 2020. This will apply to digital companies with global sales exceeding £500m

miscellaneous

The promise of £20.5bn of additional funding for the NHS was confirmed.

Hammond also announced £2bn a year of funding for mental health services and an extra £700m a year for local authorities to pay towards care for the elderly and those with disabilities.

Schools are set to receive a one-off £400m bonus, equivalent to £10,000 for each primary school.

The Chancellor did not bring forward plans for a new tax on non-recycled plastic packaging, but threatened businesses with a new tax on takeaway coffee cups if they don't make enough progress with recycling.

There was an extra £1bn in funding for armed forces, to pay for cyber-capabilities and the UK's new nuclear submarine programme.

£500m was pledged for the Housing Infrastructure Fund, which is designed to enable a further 650,000 homes to be built across the UK.

An extra £500m was set aside to help with government preparations to leave the European Union.

about the author

Martin Bamford is managing director of Informed Choice.

He is a Chartered Financial Planner, Fellow of the Personal Finance Society and published personal finance author.

Martin is responsible for the day to day running of Informed Choice, managing the investment management research and all aspects of marketing.

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Informed Choice helps people just like you find the answers to the big financial questions, making sure you can live a meaningful life as a result.

As an award-winning firm of Chartered Financial Planners working in Cranleigh since 1994, we know a thing or two about Independent Financial Planning.

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