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AUTUMN

2018

Budget Overview

Introduction

A Budget for "Strivers, Grafters and Carers"

Budgets, as we all know, take place on Wednesdays. After the excitement of Prime Minister's Questions, the Deputy Speaker calls 'the Chancellor of the Exchequer' and he – so far we have not had a female Chancellor – bounds to his feet, delivering an upbeat message about the nation's finances and pouring scorn on Her Majesty's Opposition in equal measure.

Most people had been expecting this year's Budget to be in November: for a long time, Wednesday 19th or 26th looked the likely dates. But the Budget has been brought forward to avoid being enmeshed in the latest rounds of Brexit negotiations in late November. So why not Wednesday, October 31st? The newspapers are convinced that Philip Hammond did not want to give their headline writers an open goal by presenting a Budget on Hallowe'en and so Monday it was.

The Economic and Political Background

When he was Chancellor, George Osborne constantly repeated the mantra that whatever he did as Chancellor, far bigger forces were acting on the UK economy. We can see that all too plainly at the moment with the continuing trade war between the US and China which – with both Donald Trump and Xi Jinping seemingly holding entrenched positions – shows no sign of ending soon.

Closer to home, a stand-off is developing between the EU and the Italian government over Italy's budget. In simple terms, the Italian government want to kickstart the economy – which has barely grown for ten years – with a programme of public spending. The EU has vetoed the plan and, with some of the Italian banks still in a parlous state, any further deterioration in the situation could have 'ripple' effects across the continent.

At home, the news for the UK economy has been reasonably good over the last three months. True, the retail sector is shrouded in almost daily gloom, but unemployment continues to fall. Inflation, as measured by CPI, has just come down to 2.4% and recent figures showed UK wages increasing at their fastest rate in a decade, meaning that people may finally feel better off in real terms.

And, of course, this will be the last Budget before the UK is due to leave the European Union on March, 29th next year, although no deal with the EU has yet been reached. The Treasury has been at pains to stress that all spending commitments contained in the Budget are 'already funded' irrespective of whether the UK leaves the EU with or without a deal – although the Chancellor had previously warned that leaving without a deal may mean another Budget. Just when you thought he'd finally sorted out his Spring Statements and his Autumn Budgets…

The Speech

Normally, the Budget speech starts at around 12:30 – but given that the speech was on a Monday, consideration obviously had to be given to MPs making the journey back to Westminster from their constituencies.

The Chancellor therefore got to his feet at 3:33pm and immediately ticked the “hard working families” box. If he said “the hard work of the British people” once in his speech, he said it a dozen times. He was determined to repay the trust of the British people and deliver a Budget for “strivers, grafters and carers.”

He was also quick to assert that “austerity was coming to an end” – in truth, Theresa May’s speech at the Conservative Conference had given him little alternative.

Hammond commented on eight straight years of growth in the economy and that 3.3m more people were now in jobs since the Conservatives had come to office. There was the ritual taunting of the Opposition and – delivering his last Budget before Brexit - the Chancellor seemed to be relishing the ‘dividend’ it would give him.

He was confident of a successful deal being reached with the EU but was nevertheless preparing for “every eventuality” with an extra £500m going into Brexit preparations, whilst retaining what he termed “fire power”, should the economy need it post-March next year. He also made clear that, if necessary, next year’s Spring Statement could become a “full fiscal event.” Or in simple terms, ‘no deal might mean another Budget.’

The preliminary skirmishes over, he launched into what you suspect is his favourite part of the speech: the numbers.

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The Speech continued

The Numbers and the Forecasts

The 'numbers' come from the forecasts of the Office for Budget Responsibility (OBR) and the figures and forecasts were all, in the main, better than those the Chancellor had forecast in the Spring of this year. Inflation is forecast to average 2% next year which means that most people should see real growth in their wages.

There was also a prediction of 800,000 more jobs to be created in the economy over the next five years (as a comparator to that figure, the UK economy added 338,000 full time jobs last year) and the OBR forecasting real wage growth in each of the next five years.

Growth for next year was forecast to be 1.6% (compared to the 1.3% forecast in the Spring) followed by two years at 1.4% then 1.5% in 2022 and 1.6% in 2023. Given that the OBR has been 0.3% out over the course of the last six months, you have to take those figures with a pinch of salt and – as we commented above – events in the wider world have the potential to play havoc with the predictions.

For now though, the Chancellor is optimistic, with debt and borrowing both forecast to fall steadily. Debt will fall to just under 1.4% as a percentage of Gross Domestic Product next year, and then to 0.8% of GDP by 2023-24. Government borrowing was forecast to fall to £31.8bn in 2019/20, to £26.7bn in 20/21 and then to £23.8bn in 21/22. These reductions would, Hammond said, allow him to spend significant sums on public services, as "sound finances are not an end in themselves."

The Money for Public Services

The Chancellor devoted a good deal of his speech to detailing the money that was now available for the public services which would, he said, see public investment growing to its highest sustained level for 40 years. The measures included:

- A commitment to spend £84bn on the NHS over the next five years. The NHS, said the Chancellor, remained "the number one priority for the British people."
- There would be additional money for the local government's social care budgets: £650m in grant funding plus £45m for care of the disabled and £84m for children in social care.
- In what was seen as a big win for Defence Secretary Gavin Williamson, an extra £1bn was allocated to the armed forces to help with 'immediate pressure' – especially in cyber security and anti-submarine capabilities.
- There was no new money for the police force – that buck was passed to the Home Secretary's upcoming review of police funding – although an extra £160m was allocated to counter-terrorism policing over the next two years.
- The Chancellor also announced that having "far less borrowing than expected" would allow the Treasury to make a donation of £10m to the Armed Forces Covenant Fund Trust to help veterans with mental health needs. There would also be a fund of £1.7m for educational programmes regarding the liberation of Belsen, as the 75th anniversary of the end of the Second World War approaches.
- He also announced an additional £400m for schools – amounting to £10,000 per primary school and £50,000 per secondary school – to allow the schools to buy the "little extras" that the normal school budget did not stretch to.
- And finally – as had been widely trailed – he came to potholes, with the decision to give £420m to local councils to tackle the growing number of potholes on local roads, which is on top of an existing fund of £300m.

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Personal Taxation and Allowances

What The personal allowance will rise to £12,500 per year (up from the current £11,850) and higher rate tax will now start at £50,000 per year (up from the current £46,350). The rates for Scotland will be announced on 12th December.

When From April 2019

Comment The Chancellor made reference quite early in his speech to the fact that "every Chancellor likes to have a rabbit or two in his hat" and, as he reached the very end of his Budget, this appeared to be one of his.

A commitment in the Conservative's manifesto was that these allowances would come in by April 2020. The changes – which will benefit 32m people according to the Chancellor – will now be introduced a year early.

This allowed the Chancellor to repeat his opening remarks that "the hard work of the British people" through the austerity years was paying off and that he was putting "hard cash in their pockets."

What Tightening the rules on Entrepreneurs' Relief.

When From April 2019

Comment There had been suggestions that the Chancellor would scrap the Entrepreneurs' Relief but, with the Chancellor wanting the UK to be a leading player in global technology, he has instead decided to extend the qualification period from 12 months to two years.

Pensions and Savings

What Lifetime allowance for pensions.

When From April 2019

Comment Whilst the Chancellor's speech was thin on the ground when it came to pensions, there were some small nuggets within the full Budget publication.

The lifetime allowance for pensions benefitted from a rise, if only a minor one. The allowance will increase in line with CPI in April 2019 to the new amount of £1,055,000, from the current £1,030,000.

What Pensions for the self-employed.

When Paper to be published in Winter 2018

Comment This is a case of a review, following a review, which will, we assume, eventually lead to new policy.

The Budget publication announces that, later this year, we will see the results of the Department for Work and Pensions paper on 'increasing pension participation and savings persistency among the self-employed'. This follows the 2017 review into automatic enrolment and how the self-employed could be encouraged to further consider their arrangements for retirement.

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Pensions and Savings continued

What	The Pensions Dashboard.
When	Extra funding in 2019-2020
Comment	The forthcoming Pensions Dashboard promises a vision by the government to allow all of us to view all our pension savings in one place, including both personal and state pensions. The dashboard again features in the Budget, with a further £5m available during the next tax year to find out 'how an industry-led approach could harness innovation while protecting consumers'. With that being the sole announcement regarding the dashboard, however, it feels as though the final product could still be some way from making it onto our computer screens.

What	ISA and Junior ISA limits.
When	From April 2019
Comment	The adult ISA allowance for 2019/20 was frozen at £20,000 but the Chancellor opted to increase the Junior ISA allowance in line with CPI to £4,368.

What	Rates on National Savings & Investments' index-linked savings certificates.
When	From May 2019
Comment	NS&I's index-linked savings continue to be popular, with just over 500,000 customers investing £19.9 billion in the certificates. In line with successive government's policies, savers will see their interest linked to the CPI, instead of the usually higher RPI figure, for certificates entering a new term from May 2019. The move is designed by the government to 'reduce its inflation exposure'. CPI currently stands at 2.4% and RPI at 3.3%.

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Business Investment and Business Taxation

What A new digital services tax.

When From April 2020

Comment Philip Hammond has spoken of creating 'a level playing field' between the high street and online retailers in previous Budgets and speeches and there were early rumours that he would impose a 'digital services tax' on companies like Amazon and Facebook.

The Chancellor stated that the UK was working towards a global agreement to make sure that such companies pay their fair share of tax, but that progress was "painfully slow." He therefore announced that the UK would "go it alone," introducing a digital services tax levied on companies with more than £500m in global revenues.

It was not, he again stressed, "an online sales tax" and he expected the tax to generate £400m per year.

What A reduction in business rates.

When From April 2019, for two years

Comment The Chancellor appears to have opted for a package of reliefs to the high street, with a £1.5bn boost going to small retail businesses – those with a rateable value of less than £51,000.

Part of this pot will go to a "Future High Streets Fund" for councils to plan for transforming town centres. The headline though is that there is around £900m of savings in business rates relief for nearly 500,000 small businesses, with the Chancellor cutting business rates by a third for the next two years.

The move would, the Chancellor said, see annual savings of up to £8,000 for 90% of small businesses. In widely-trailed examples, a pub in Sheffield with a rateable value of £37,750 will save £6,178 in business rates next year: a newsagent in Birmingham with a rateable value of £14,250 will save £1,749.

There were some fairly immediate questions about whether this was the measure the high street had asked for. Clearly, shops like Boots, Debenhams, M&S and WH Smiths are under huge pressure at the moment: but they have larger premises and appear unlikely to benefit from these changes.

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Business Investment and Business Taxation continued

What	Off payroll working in the private sector (IR35).
When	From April 2020
Comment	Again, the move to “clamp down on the fake self-employed” and bring the private sector in line with the public sector had been widely trailed, with the Chancellor declaring that there was “widespread abuse in the private sector.” But any potential change was delayed until April 2020 and it would then, in any case, only apply to “large and medium sized companies.” This change places responsibility for operating the off-payroll working rules on the organisation rather than the individual contractor.

What	Annual Investment Allowance (AIA) increased to £1 million.
When	For investments between 1st January 2019 and 31st December 2020.
Comment	The AIA currently stands at £200,000: an increase is welcome news for businesses. It’s assumed that this aims to stimulate business investment during a period of Brexit uncertainty.

What	Introduction of a new structures and buildings allowance.
When	Immediately
Comment	Any contracts entered into for construction on non-residential structures and buildings will be eligible for a 2% capital allowance. This move comes into play immediately and so will apply to any project where all the contracts for work began on or after 29th October 2018.

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Business Investment and Business Taxation continued

What	Capital allowances special rate reduction.
When	From April 2019
Comment	The capital allowances special rate for qualifying plant and machinery assets will be reduced from 8% to 6% to more closely match average accounts depreciation.

Tax Avoidance and Evasion

The Chancellor declared that since 2010, measures against tax avoidance and evasion had secured £185bn in "money that would otherwise have been lost." He then quietly slipped in that HMRC would now become a preferential creditor in company insolvencies. The proof of this pudding will be in the eating, but could this be a move which sees the Revenue more willing to push companies into liquidation?

Investment in the Economy

As George Osborne had done so often in his speeches, Philip Hammond sought to 'solve the productivity challenge' – why the UK's productivity lags so far behind that of other leading industrialised nations. He announced £1.6bn of new investment in the government's industrial strategy and £150m for fellowships to attract the "brightest and best" to the UK. He also said that over the next five years, public investment would rise by 30% as the Government invested in the UK's "roads, railways, research and digital infrastructure."

"The engine of growth is enterprise," said the Chancellor, as the UK looked to build the 'high wage, high skill' economy of the future. Not for the first time, a Chancellor announced that "Britain is open for business" – specifically that e-passport gates would now be open to visitors from the USA, Canada and Australia, described on the BBC as 'an interesting gesture to post-Brexit Britain.'

There would be £200m extra funding for the British Business Bank (to replace access to the European Investment Fund, should it be needed, post-Brexit) and more money for benefits claimants who wanted to start their own business.

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Business Investment and Business Taxation continued

No Future PFI and PF2 Schemes

He gave a commitment that – despite its enormous cost – the government would honour existing commitments to Private Finance Initiatives (PFI) and PF2 schemes but firmly committed to no further schemes. Instead, he said, the government would establish a 'centre of excellence' for managing such contracts, starting with the NHS.

"Our Future VAT Regime"

The veiled threat to reduce the VAT threshold remained, with the Chancellor saying that the Treasury "continued to work on it." He did, however, give a commitment that the threshold would stay at its current level of £85,000 for the next two years.

Other Measures

What	An increase in the National Living Wage (NLW) from £7.83 per hour to £8.21.
When	From April 2019
Comment	This is an increase well above the rate of inflation. Clearly it will be warmly welcomed by those on the NLW (as there will be proportionate increases for younger employees as well).

Green Measures

Would we get a coffee cup tax? No, we wouldn't. Clearly the Chancellor could see the 'Scrooge Hammond taxes your cappuccino' headlines all too clearly. Instead there would be up to £10m available to help clear up abandoned waste sites and a proposed new tax, subject to consultation, on the manufacture and import of plastic which is less than 30% recyclable.

Money for Cities

There were large amounts of money doled out to Scotland, Wales and Northern Ireland. Then again, given the pivotal position of the DUP, an extra £320m to Northern Ireland was hardly surprising. There was also a promise of an extra £950m for the Scottish Government by 2020/21 and £550m for the Welsh Government. There was an increase in the Transforming Cities Fund to £2.4bn, with additional money for the Universities Enterprise Fund, the Digital Catapult Schemes in the North East, South East and Northern Ireland and the Medicines Discovery Catapult in Cheshire.

There was also money to help the self-employed in Manchester and a new economic area in South Tees. In contrast, a mere £12m was offered to the UK fishing industry for investment in technology and safety.

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Other Measures continued

Duties

Theresa May declared at the Conservative conference that fuel duty would be frozen for a ninth consecutive year and thus it was written in the Chancellor's speech. Also frozen were the duties on beer, cider and spirits, with the tobacco duty increasing by the customary 2% above inflation.

Air Passenger Duty will increase in line with inflation from April 2020, although there will be no increase for short haul flights.

Universal Credit

This has been much in the news of late with complaints of delayed payments pushing recipients into poverty and to using food banks. Having already committed £3.5bn to the implementation of the scheme, the Chancellor announced a further £1bn over the next five years. He also raised the Universal Credit work allowances by £1,000 per year from April next year.

The Housing Market

Last year, the Chancellor removed stamp duty for first time buyers on purchases up to £300,000 and he now went further, abolishing stamp duty for all first time buyers on shared-ownership homes up to £500,000.

In total, he said that 121,500 first time buyers had benefited from the removal of stamp duty. There would also be a further £500m for the Housing Infrastructure Fund which would see a further 650,000 new homes built.

As expected, the 'rent a room' relief now only applies where tenants and owners are living in the same house. From April 2020, Lettings Relief will be limited to properties where the owner is in shared occupancy with the tenant, and the final period exemption will reduce from 18 months to 9 months.

Conclusion

Having delivered his ‘rabbit in the hat’ on the personal allowance and having spoken for more than an hour, the Chancellor ended his speech. “Austerity is coming to an end,” he repeated, “but discipline will remain.” The country, he said, was embracing change and “looking forwards not backwards.”

It was, in many ways, a typical Philip Hammond Budget. As the media likes to point out, he is a Chancellor who delights in the minutiae – sometimes he was rattling off minor points so quickly it was impossible for the television text writers to keep up with the on-screen commentary.

There was some level of feeling in the press commentary that it was a Budget delivered with one eye on the fact that everything could change depending on exactly what shape Brexit takes and, therefore, any major announcements were avoided. There cannot, for example, ever have been a Budget before where the Chancellor did not make a single comment about pensions, savings or personal investments, though there is some minor detail in the full HM Treasury Budget 2018 publication.

Nevertheless, it seems that it is after Brexit when the real work will start. Will it still be Philip Hammond delivering Theresa May’s lines? Only time will tell…

HK WEALTH
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HK Wealth Managers Ltd
Forsyth House
Lomond Court
Castle Business Park
Stirling
FK9 4TU

Tel: 01786 431760
getintouch@hkwealth.co.uk
www.hkwealth.co.uk

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