



Star Financial Planning Ltd

Independent Financial Advisers

Tel: 01923 60 55 55
www.starfp.co.uk

Star Financial Planning Ltd is Authorised and Regulated by The Financial Conduct Authority

SPRING BUDGET 2016

OBR FORECASTS

REGIONAL ISSUES

EDUCATION

PERSONAL TAXATION

PENSIONS AND SAVINGS

THE BUSINESS SECTOR

BUT WHAT ABOUT THE DEFICIT?

OTHER NEWS IN BRIEF

'A BUDGET FOR THE NEXT GENERATION'

Spring Budget March 2016

'A BUDGET FOR THE NEXT GENERATION'

By the time Chancellor George Osborne stood up on 16 March to deliver his eighth Budget Speech, the outside world knew much of what would follow. Some proposals had been pre-announced, as had the shelving of major changes to the tax treatment of pension contributions and benefits.

Setting the scene for his Budget announcements, the Chancellor delivered a summary of the uncertain geopolitical climate and updated the government's finances, with June's EU referendum in mind. He asserted that with unemployment still falling the British economy is set to grow faster than any other in the developed world and that the deficit has reduced by two-thirds. He warned, however, that weakness in the global economy presented a challenge that he would confront in 'a Budget for the next generation'.

OBR FORECASTS

The Office for Budget Responsibility's latest forecasts outline that GDP had grown 2.2% last year and is forecast to rise 2% this year, 2.2% next year and 2.1% in each of the following three years. CPI inflation is forecast at 0.7% this year and 1.6% next, whilst the national debt should fall to 77.2% of GDP by 2019-20. The OBR's figures, he stressed in an overtly political part of his speech, reflected an assumption that Britain remains in the EU. The OBR, he added, reckoned that a vote to leave would bring uncertainty, negative implications and market volatility.

REGIONAL ISSUES

Focusing on falling unemployment (to 1.68m), Mr Osborne claimed success in rebalancing the economy, with employment



rising faster in some UK regions than in the Southeast. Expected references to 'the Northern Powerhouse' linked in with a range of measures including increased devolution to Scotland, Wales, Northern Ireland and the English regions. He committed to major infrastructure expenditure, including a rapid HS3 railway between Leeds and Manchester, Crossrail 2 in London plus upgraded trans-Pennine road links. More than £230m was earmarked for road improvements in the north of England and £700m pledged for flood defence schemes.

EDUCATION

Building on the benefits some of his measures would bring for the next generation, the Chancellor confirmed pre-announced plans for all English state schools to commit to academy status free of local authority control by 2020. Funds would be found to improve standards and widen extra-curricular activities. The Chancellor pledged £500m to ensure "fair funding" formulas for schools

in England, with a focus on performance of schools. Other action to improve children's well-being include a sugar levy on the soft drinks industry by 2018. A White Paper to set out further improvements to the quality of education to be published on 17 March 2016.

PERSONAL TAXATION

The Chancellor announced that the threshold at which people pay 40% tax will rise from £43,000 in 2016-17 to £45,000 (from 6 April 2017). Tax-free personal allowance, which is set to rise to £11,000 from 6 April 2016, will be further increased to £11,500 from April 2017 – a tax cut for 31 million people and consistent with the Conservative manifesto pledge to raise the allowance to £12,500 by the end of this Parliament.

In a major overhaul, the government will cut the headline rate of Capital Gains Tax (CGT) from 28% to 20%, and from 18% to 10% for basic-rate taxpayers, effective from 6 April

2016, except for residential property and carried interest.

Entrepreneurs' Relief will be extended to long-term investors in unlisted companies, with 10% CGT from gains on newly issued shares – time constraints apply.

Osborne announced an increase in Insurance Premium Tax (IPT) by 0.5% to 10%, which is the second increase in nine months to tax on general insurance premiums.

PENSIONS AND SAVINGS

Following wide consultation last year, the Chancellor announced that there was no consensus on pension reform. It was previously expected that he would use the Budget to announce radical reforms regarding pensions tax relief, but these plans have been temporarily put on hold due to the unrest surrounding Brexit. This is welcome news for the financial industry, still contending with pensions freedom reforms.

The Chancellor reiterated the plans about 'Help to Save', a scheme open to around 3.5 million adults who receive universal credit or tax credit, incentivising them to save. These accounts will be available from April 2018, consultations on their implementation will begin after the Budget.

A new 'Lifetime' ISA was announced, allowing under-40s (from age 18) to save for their first home or retirement. Available from April 2017, people will be able to save £4,000pa and receive a 25% additional bonus from the government. Savers can access the money at any point, but will lose the bonus and incur a small charge. Osborne will consult the industry on whether customers can return money to the account to reclaim the bonus. Those who have already taken out a Help to Buy ISA will be able to roll it into the new Lifetime ISA and preserve the government match. By investing £4,000, the government will contribute £1,000. For the basic rate tax payer, this is the equivalent of tax free savings into a pension, but unlike a pension, tax will not be payable on withdrawal. As with the Help to Buy ISA, the bonus comes with certain conditions.

The Chancellor praised the benefits of ISA investment and said he would increase the annual ISA limit from £15,240 to £20,000 from April 2017.



THE BUSINESS SECTOR

The Chancellor's headline announcement for the business sector was a further reduction in Corporation Tax, currently 20%, to 17% by April 2020. This he said would encourage investment in the UK, creating more jobs in future, but more action would be taken to ensure multinational companies did not divert taxable profits elsewhere. Other measures would also help small UK firms, 600,000 of which would pay no business rates from next year.

Stamp duty on commercial property is being revised so that the burden on many smaller business premises will fall. The Carbon Reduction Commitment scheme is being abolished, but the climate change levy will rise. In the hard-pressed oil and gas sector, concessions include the abolition of Petroleum Revenue Tax, backdated to 1 January 2016.

BUT WHAT ABOUT THE DEFICIT?

Would all these measures enable the Chancellor to eliminate the notorious deficit? His forecasts suggest so. It would fall from 2.9% of GDP in 2016-17 to 1% in 2018-19, with a 0.5% (£10.4bn) surplus in 2019-20. Though, with so many global uncertainties around, there will be scope to blame spanners in the works if there is still a deficit in 2021.

OTHER NEWS IN BRIEF

- Abolition from 2018 of Class II National Insurance contributions for the self-employed
- Disability benefits bill pledging £1bn to support disabled people
- Committing £12bn to tackle tax evasion
- Fuel duty to be frozen for sixth year in a row
- Beer and cider duty to be frozen
- Excise duties on tobacco to rise by 2% above inflation
- Major new package to support homeless

Some Important Tax Rates for 2016/17

Tax-free savings for individuals

-  ISA allowance ➤ £15,240
-  Junior ISA allowance ➤ £4,080
-  Help to Buy ISA ➤ £2,400*

*+£1,000 one-off contribution when the account is opened

New dividend taxation from 6/4/16

£5,000 tax-free
dividend allowance from 6/4/16

- Dividends **above** this level will be taxed at; ➤ **7.5%** (basic rate)
- **32.5%** (higher rate)
- **38.1%** (additional rate)

Income Tax Allowances

Income tax personal allowance increased to **£11,000** from 6/4/16



From 2016/17 there will be **one income tax personal allowance** regardless of an individual's date of birth

Pension Annual Allowance (AA) Tapered from 6/4/16

From 6/4/16 the current AA of **£40,000** will be tapered for anyone whose total 'adjusted income', including the value of any employer pension savings, is above £150,000. Their AA will be **reduced by £1 for every £2** of adjusted income above £150,000, with a **maximum reduction of £30,000**

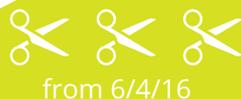
Personal Savings Allowance

up to **£1,000** of savings interest **tax free** to basic rate taxpayers from 6/4/16 and £500 for those who pay higher rate tax

Pension Contributions

Standard lifetime allowance reduced from

£1.25m to £1m



State pension

New flat rate state pension from 6/4/16 of

£155.65 if you reach state pension age after 6/4/16 (35 qualifying National Insurance years needed)

Capital Gains Tax Allowance

Annual personal CGT exemption

£11,100

CGT levied at **10%** for basic rate taxpayers

or **20%** for higher rate taxpayers*

*On gains in excess of the personal exemption, exclusions apply

Inheritance Tax

Nil-rate IHT band

£325,000



Additional main residence allowance introduced from April 2017

Chargeable

lifetime transfers and potentially exempt transfers attract taper relief, if made up to **seven** years before death on the amount of gift over the nil rate band

Other IHT-free gifts, include;

Gifts between UK domiciled husband or wife or between civil partners;



Total gifts up to £3,000 in a year (can be carried forward one tax year)

Small gifts to other recipients up to

£250 each in a year

Gifts in consideration of marriage or civil partnership ranging from **£5,000** from each parent of the couple, to **£1,000** from anyone else

40%

IHT payable above this threshold



Donate

or **36%** if you leave at least 10% of your assets to charity

It is important to take professional advice before making any decision relating to your personal finances. Information within this newsletter is based on our current understanding of taxation and can be subject to change in future. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK; please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor.