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CHARTERED ACCOUNTANTS

Budget 2017

On Wednesday 8 March 2017 the Chancellor Philip Hammond presented to Parliament the economic and fiscal forecast of the Office for Budget Responsibility (OBR) and apparently the very last spring Budget, intended to put an end to tax announcements being made twice a year. Will it work? Others have tried…

Twenty years ago, the then Chancellor, Kenneth Clarke, inaugurated the "Unified Budget". This was ditched in 1997 by Gordon Brown, with a budget in the spring and an autumn pre-budget report, which was then re-titled by George Osborne in 2010 as the Autumn Statement. Then between March 2015 and March 2016 there were four 'fiscal events'!

UK Economic growth during the second half of 2016 continued unaffected by the **EU referendum** result for Brexit, although remaining dependent on increasing consumer spending, up by over **3%** for the entire year, and *the strongest annual expansion of consumer spending since 2004*.

Even so total investment grew by only 0.5% in 2016, with business investment falling by 1.5%. Exports rose by 1.4%, but imports increased by 2.5%, the resultant net trade then reducing overall 2016 growth by half a percentage point (½%).

Consumer-services industries (retail, restaurants and hotels) have all grown vigorously by between 5% and 6%, with service industries overall growing by nearly 3% in 2016. Manufacturing was weaker in comparison, growing by less than 1%. Construction saw a healthier 1.5% increase in output. From 2010 to 2015, London saw the fastest growth over this whole period, followed by the South East. The slowest rates of growth were in Northern Ireland, Yorkshire and the Humber.

GDP growth has not slowed since the EU referendum

The OBR's changes to their economy forecast are relatively modest. This acknowledges the recent strength of the UK economy, largely through the dominance of consumer spending growing much more strongly than incomes through last year. The UK consumer's confidence was undented by the Brexit vote, contrary to the expectation and predictions of many economists.

The OBR now expects **annual GDP growth** to be higher in 2017, but lower in 2018 to 2020. The forecast from 2019 is virtually unchanged.

After a strong start to the year, the OBR expect GDP growth to slow through 2017 as higher inflation (CPI: 2.3%) squeezes household budgets. They believe that the robust beginning should be sufficient to deliver **2% growth for 2017**. Cumulative growth over the whole forecast period is little changed from last November's five year economic and fiscal forecast.

With real consumer spending growing at over 3% and the OBR estimating that the growth of household incomes is flat, the implication is that there has been a sharp fall in saving and increase in borrowing. The pace of which cannot continue indefinitely, the OBR have reasonably assumed.

Gross domestic product (GDP), the monetary value of all the finished goods and services produced, has had unbroken growth for 16 consecutive quarters, the latest revised official statistics from the ONS show UK GDP growth over the last decade as:

2007: ***2.6%***	*2008:* ***-0.6%***	*2009:* ***-4.3%***	*2010:* ***1.9%***	*2011:* ***1.5%***
2012: ***1.3%***	*2013:* ***1.9%***	*2014:* ***3.1%***	*2015:* ***2.2%***	*2016:* ***1.8%***

The **Purchasing Managers' Index**, an important indicator of output, was 54.5 last October and in February 2017 53.3, although signifying the index's second successive monthly fall, it has now remained above the '*magic 50'* level for six consecutive months, usually taken as a sign of increasing economic output.

The OBR see GDP growth slowing through much higher inflation caused chiefly by the fall of sterling, pressing on real incomes through higher import prices. In 2018, business investment is forecast to recover and that squeeze from higher inflation loosen. Lower sterling should then boost net trade and the UK economy through 2017 and into 2018.

As of March 2017, the pound has fallen by **12%** against a basket of the UK's main trading partners' currencies since the 23 June '16. The Bank of England cut the Base Rate from 0.5% to **0.25%** on 4 August 2016, the first change since March 2009.

Although developments in the economy since November have had a relatively modest impact on the public finances, the OBR believe **public sector net borrowing** will be a lot lower this year than they had originally thought last November. Largely reflecting one-off factors and timing effects that flatter this year's data, for example, accelerated tax receipts from income shifting to beat higher dividend taxation.

2016/17 public sector current receipts are projected at £721bn, less total managed expenditure of £773bn, the deficit is now forecast to come in at nearly **£52 billion** this year (2016/17) or **2.6% of GDP** (cf. the peak, 2009-10: £152bn or 9.9% GDP).

Self-employed and business tax

Making Tax Digital

In the Budget, after concerns raised, Chancellor Philip Hammond announced that quarterly reporting, for the self-employed principally, would be delayed by one year for businesses that have a turnover below the VAT threshold (currently at £85,000).

It had previously been mandated that taxpayers chargeable to income tax (unincorporated businesses, self-employed people and landlords) will be required to start reporting income and expenditure quarterly from April 2018. Those with a turnover under £10,000 are exempt.

Businesses can continue to use spreadsheets for record-keeping, but these will need to be combined with new HMRC software in order to produce these quarterly reports, it has been currently proposed.

The 'Making Tax Digital' announcement, from the last pre-Brexit Chancellor, George Osborne, apparently presaged the abolition of the personal tax return – if it sounds too good to be true it usually is!

This Budget's announcement just simply postpones the inevitability of the new tax return system that may, or may not, replace the annual Tax Return. That would then make five HMRC returns a year instead of one.

Class 4 NICs

The rate of Class 4 national insurance contributions (NICs) was to increase to 10% (from 9%) from April 2018 and then again increased to 11% from April 2019. Following the abolition of Class 2 contributions from April 2018.

The logic had been to gradually tax the self-employed as employees. A 'profound error' in the opinion of ex-Chancellor Lord Lamont. Rather ignominiously these proposals have been dropped.

Admittedly, from April 2016, the self-employed have had access to the full new State Pension.

Dividend nil rate band

The recently introduced dividend nil rate band is to be reduced from £5,000 to £2,000, after April 2018. This large reduction to the allowance only introduced a year ago will reduce the tax advantage for those working through a company and able to extract profits as dividends.

Trading and property income allowances

Two separate £1,000 allowances are to be introduced for 2017/18 onwards for trading income and property income. Where an individual's gross receipts do not exceed £1,000, there will be no charge to tax. An individual can elect that this should not apply.

Where gross receipts exceed that limit, the individual can elect to use an alternative method of calculating the taxable income. Under this method the charge to tax is on gross receipts less £1,000.

Employment Tax

Termination payments

For 2018/19 onwards, where employers make payments on termination of employment, including all contractual and non-contractual amounts, not just contractual payments in lieu of notice (PILONs), there will be a new statutory formula to tax these amounts as earnings, and Class 1 NICs.

Those earnings will not qualify for the exemption from income tax on the first £30,000 of termination payments. Any payment over and above the amount identified will then be chargeable to income tax to the extent that it exceeds £30,000 and subject to employer Class 1A NICs as well.

Salary sacrifice arrangements

With effect from 6 April 2017, salary sacrifice arrangements are restricted and may only be used to achieve certain tax and NIC savings e.g. for employer pension contributions; and childcare and workplace nurseries. Other benefits will lose exemption and will become subject to income tax and Class 1A NIC.

Money purchase annual allowance

From 6 April 2017 there will be a reduced annual allowance of £4,000 for money purchase pension contributions where an individual has flexibly accessed their pension benefits.

Corporate Tax

The Budget reiterated the fact that the UK's corporate tax rate is the lowest in the G20, reducing to 19% from April 2017 and then to 17% in 2020.

Legislation will be introduced in the Finance Bill 2017 to change the taxation of personal service companies providing services to the public sector. Responsibility for deducting any tax and NICs due will move to the public sector body, agency or third party paying a personal service company. It is expected for this legislation, once bedded in, to be extended to the private sector for individuals contracting through personal service companies.

New Probate Tax

Government is to charge 'enhanced fees' for the grant of probate in England and Wales after someone dies.

Some 270,000 people annually pay fees for probate (£215). From an as yet unannounced date in May these fees will rise to between £300 for smaller estates through to £4000 for those estates worth £½m to £1m and up to £20,000 for the largest 2500 estates (>£2m) in probate, raising £320 million a year.