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On Wednesday 13th March the Chancellor Philip Hammond presented to Parliament the Office for Budget Responsibility's (OBR) economic and fiscal outlook. No changes to the tax system were announced in his statement, and only a small number of spending measures.

Last October the big picture was that if the Chancellor had done nothing in his autumn Budget, then the UK would be on course to have an annual surplus by 2023-24.

The Chancellor decided then to make the largest discretionary fiscal giveaway, since the institution of the OBR in 2010. Fortunately, the outlook for public finances has improved again since October '18. Tax receipts continue to perform better than expected, something that the OBR believe will endure, combined with reduced debt interest from lower market interest rates. These are the two principal reasons for the modest medium-term improvement to public finances.

Apparently, of the six forecasts produced by the OBR since the EU referendum, four have shown an improved outlook for the public finances and two have shown a deterioration. Each has resulted in some fiscal giveaway.

Economic growth in the UK and globally has slowed since the Budget in October, leading the OBR to revise down the near-term GDP forecast.

The OBR's forecast was produced at a time of considerable political uncertainty hanging over Brexit's progress; when or even if the UK will withdraw from membership of the EU.

To be consistent with government policy the OBR assume the UK makes an orderly withdrawal from the EU on 29 March into a transitionary period until the end of 2020. In this, there is no change to their broad assumptions since the referendum, with a disorderly period of exit remaining the largest short-term risk.

In recent weeks survey indicators of current economic activity have weakened, in part reflecting heightened uncertainty related to Brexit. As a result, the OBR revised down **forecast GDP growth to 1.2%,** reversing their previous upward revision.

The outlook for potential output is little changed with **medium-term GDP growth forecast at around 1½ per cent a year**. Although, the downward revision of the GDP forecast opens up a small margin of spare capacity, in their judgement. Slower growth early in the forecast means slightly faster growth later as that 'output gap' closes.

There is around a one-in-two chance of a recession in any five-year period, implying a one-in-five chance of the economy shrinking in 2020, but the same probability of it growing by 2½%.

The OBR's **pre-referendum forecast** in March 2016 had real GDP growing by over 5% between the second quarter of 2016 and the end of 2018. Their first **post-referendum forecast** lowered that to 4%. The latest outturn data show growth just over 4%. Since June '16, the UK economy has held up much better than expected, creating over **950,000 new jobs**, but now appears to be slowing, with business investment cited as a reason, having fallen in each quarter of 2018, owing to Brexit uncertainty.

The OBR now expect the **annual deficit** between public sector spending and income (*public sector net borrowing*) to be around **£23 billion** (or just over **1% of GDP**) this year, down nearly £3 billion since last October. By 2023-24 that improvement is over £6 billion, again primarily because of higher income tax receipts and lower debt interest.

These downward pressures on borrowing are partially offset by the more than £2bn cost of 20 policy decisions announced since the Budget and in the Spring Statement, that leaves the **expected deficit in 2023-24 at £13½ billion** (or ½% of GDP).

An aim has been to balance the budget by the middle of the next decade (2025-26) and on past performance there is less than 50/50 chance of doing this. Factors affecting success include: the ageing population putting greater upward pressure on spending, the open question of Brexit, the contribution of net migration to population and employment growth, and lastly but possibly with most importance, productivity growth.

Nevertheless, Government remains on course to bring the structural portion of the budget deficit to below 2% of GDP by 2020-21, with some improved headroom, and to reduce the overall GDP net debt ratio in 2020-21.

	Net borrowing		Net debt	
	£ bn	% GDP	£ bn	% GDP
2010/11	136	8.5%	1,158	71.0%
2011/12	116	7.0%	1,253	74.7%
2012/13	120	7.0%	1,364	78.2%
2013/14	98	5.5%	1,464	80.2%
2014/15	90	4.8%	1,555	82.6%
2015/16	72	3.8%	1,603	82.3%
2016/17	45	2.3%	1,727	85.1%
2017/18	42	2.0%	1,779	84.8%
2018/19	23	1.1%	1,803	83.3%
2019/20	29	1.3%	1,838	82.2%
2020/21	21	0.9%	1,828	79.0%
2021/22	18	0.7%	1,796	74.9%
2022/23	14	0.6%	1,838	74.0%
2023/24	13	0.5%	1,878	73.0%

The OBR expects the **debt-to-GDP** ratio to fall from its peak in 2016-17, to just over **83%** this year 2018-19, to the forecast level in five years' time 2023-24 of **73%**.

Tips & changes from 6th April 2019

The personal allowance (£11,850 for 2018-19) cannot be carried forward. It should be used against income, if possible. From 6th April 2019 the personal allowance increases to **£12,500** and the basic rate limit will be increased to £37,500, with the higher rate threshold at £50,000.

Although changes to the basic rate limit apply to non-dividend/savings income in England, Wales and N.I., this is not so in Scotland.

For those clients operating through a limited company, for example, there may be a benefit in drawing a salary of at least the class 1 National Insurance lower earnings limit of £6,032, to obtain contributions for the state pension.

Drawing a salary of up to £8,424 would maximise use of personal allowances and gain that year's National Insurance credit without payment of class 1 contributions.

Income over £100,000

The personal allowance is reduced by £1 for every £2 of income over £100,000. For 2019-20, the allowance is reduced to nil when income exceeds **£125,000**. A higher rate applies to income falling between these bands. Any use of allowances against such income will result in tax saving at the marginal rate of **60%**.

The additional rate (45%) applies to income over £150,000 and a restriction on relief of pensions contributions.

By election, a taxpayer can transfer 10% of their personal allowance to their spouse or civil partner. A transfer can still be made for 2015-16.

Inheritance tax

Gifts of up to £3,000 a year can be made without any inheritance tax implications. This allowance can be carried forward for one year.

There is also an exemption for small gifts, for marriage or maintenance of family, for example. The exemption for gifts out of income is often overlooked, where a pattern of giving is established. There's also no IHT on gifts between spouses or civil partners, who live in the UK permanently.

Pensions

Gross premiums of up to £40,000 can be paid each year, and unused allowance carried forward, but accurate records are necessary for those wishing to maximise relief and flexible access (from age 55) restricts this allowance.

A net premium of £2,880 can be paid into a stakeholder pension for anyone, even if they have no earnings, and the scheme reclaims the basic rate tax relief from HMRC.

Paying into a pension scheme for a spouse may mean they have income in retirement – or after the age of 55 – that will be covered by their personal allowance.

Capital gains tax

The annual allowance – £11,700 for 2018-19 and **£12,000** next year – cannot be carried forward, so if it can be used each year a basic planning point is to crystallise gains on assets within the allowance.

Bed and breakfasting of shares to use the annual allowance is no longer possible, there has to be a 30-day gap between selling and buying: 'bed and ISA' or 'bed and spouse' are still possible!

Transfers between spouses or civil partners can be made at no gain/no loss. So, a transfer before disposal can mean two annual allowances, but the legal transfer must be before any contractual commitment and sale proceeds paid in the appropriate shares to the right beneficiary.

Tax-efficient investments

For sophisticated investors, those capable of withstanding the wealth-risk: the enterprise investment scheme provides a tax reduction at 30% of the investment, subject to all HMRC conditions being met, if this is in newly-issued shares of an unquoted company; although a family-company may qualify.

There is also the similar 'seed enterprise investment' where relief is available for 50% of the amount subscribed.

A fund may pool risk among managed portfolios and investment in a *venture capital trust* fund should attract a tax reduction at 30% of the investment. VCT dividends are not treated as income for tax purposes; gains are exempt from CGT.

High income child benefit charge

An income tax charge is imposed on an individual whose adjusted net income exceeds **£50,000** in a tax year and who is, or whose partner is, in receipt of child benefit. Those with incomes above £50,000 may consider whether, say, a pension premium might reduce the benefit clawback.

"MAKING TAX DIGITAL"

Making Tax Digital (MTD) – Mandatory digital record keeping of transactions for VAT for businesses over the VAT threshold (with turnover over £85,000) comes into force from 1 April 2019.

According to the Chancellor, there is to be a 'light touch approach to penalties' in this first year, if a business is 'doing their best to comply'. Of great relief for some is the news that this requirement is not extended to other taxpayers until 2021.

Other News

Other pressures affecting businesses over the next twelve months, apart from the impact of Brexit, include preparations for the **extension of IR35 rules to the private sector** from April 2020 and the now infamous 'loan charge': those affected have a choice to either agree a settlement with HMRC by 5 April 2019 or accept a **liability under the loan charge provisions**. Those who settle with HMRC may be able to pay their liability over five or seven years depending on their income.