



BREWIN DOLPHIN



Insight

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Savers and small firms the biggest winners in a Budget “for the next generation”

Rumours that George Osborne's latest Budget would be bland and cautious proved wide of the mark. Among the surprises were a new Lifetime ISA to encourage younger people to save, a bigger than expected increase in the standard ISA allowance and a cut in capital gains tax.

The big picture

Sounding surprisingly upbeat, in what he confirmed were “challenging economic times”, the Chancellor said that the UK was “set to grow faster than any other major advanced economy in the world.”

He announced that the public finances are still on course to deliver a surplus of £10 billion by 2019-20.

However, the Office for Budget Responsibility (OBR), responsible for providing and analysing economic forecasts, has lowered its forecasts for economic growth. At the time of the Autumn Statement it was forecasting GDP growth of 2.4% in 2016 and 2.5% in 2017. The OBR is now predicting the UK economy will grow by 2% this year, then 2.2% in 2017, and 2.1% in each of the three years after that.

It expects inflation to remain low, with the Consumer Price Index rising from 0.7% this year to 1.6% next year.

The major announcements

Debate running up to the Budget had been dominated by the question of whether the Chancellor would reform the tax treatment of pensions. Speculation had been rife that he would introduce a new flat rate of tax relief on contributions. In the Budget he announced that he had backed away from scrapping pension tax relief saying that there was “no consensus” for reform.

However, there were a number of other significant changes.

Capital gains tax

The higher rate of capital gains tax on assets such as shares will be reduced from 28% to 20% and the



basic rate will drop from 18% to 10%. This will apply to disposals made on or after 6 April 2016.

However, in another snub to second homeowners and buy-to-let investors, these new rates will not apply to chargeable gains on the sale of residential property.

ISAs

The annual amount you can save into an Individual Savings Account (ISA) will rise from £15,240 to £20,000 in 2017-18.

In April 2017 a new Lifetime ISA will also be introduced for younger savers. Anyone under the age of 40 will be able to open a Lifetime ISA and save up to £4,000 each year until the age of 50.

The government will provide a 25% top-up, so for every £4 saved the government will add £1. If you put in £4,000, the government will add £1,000.

Savers will be able to access their money at any time, however, they will lose the bonus and be charged 5% on withdrawals unless they:

- Use the funds to buy a first home. Funds can be used for this purpose at any time from 12 months after opening the account or
- Wait until they are 60 to withdraw the money.

Insurance

In November, the Chancellor increased the standard rate of insurance premium tax from 6% to 9.5%. Today he announced another increase to 10%.

The tax is charged on millions of home, motor, pet and medical insurance policies and while insurers pay it the costs are usually passed on to customers in the form of higher premiums. Government estimates suggest that the measure will add £1 a year to the average combined home and contents insurance policy and £2 per year to a typical motor insurance premium. The extra money raised will be spent on flood defences.

Income tax

The personal allowance – the amount everybody can earn each year without paying income tax – will rise to £11,500 in 2017-18. It is currently £10,600 and is due to rise to £11,000 on 6 April 2016.

The threshold for higher-rate tax will increase from £42,385 to £43,000 in April this year and then £45,000 in 2017-18.

The move takes the Conservatives a step closer to their promise to raise the income tax threshold to £12,500 during this Parliament and to increase the higher-rate threshold to £50,000 by the end of the decade.

Fuel duty

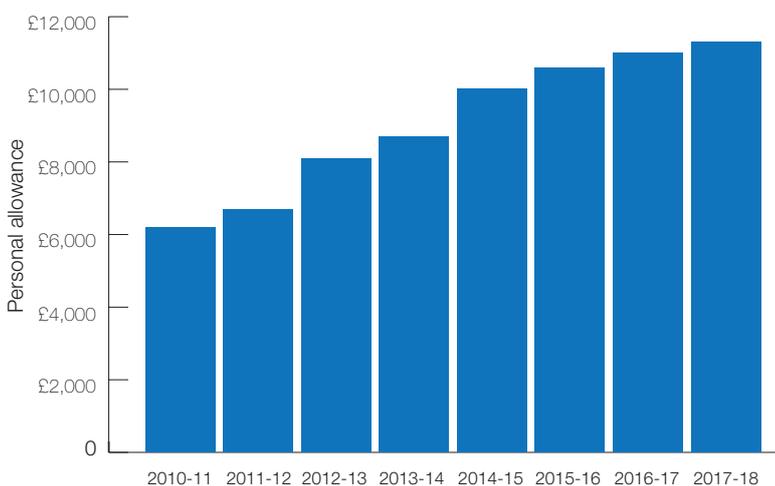
With the price of oil so low, motorists had appeared to be an easy target for the Chancellor. However, the Chancellor has decided to freeze the main rate of fuel duty for another year.

Business taxation

The Chancellor announced a number of measures that could help small and medium-sized businesses:

- From April 2017, there will be a new tax-free allowance worth £1,000 a year for property and trading income. Individuals with property income or trading income below the level of the allowance will no longer need to declare or pay tax on that income. Those with incomes above £1,000 will be able to deduct the allowance instead of calculating their exact expenses
- Small business rate relief will increase from £6,000 to a maximum threshold of £15,000 from 1 April 2017. The threshold for the higher rate will rise to £51,000 from £18,000
- The main rate of corporation tax will be cut to 17% in 2020
- From April 2018, Class 2 National Insurance Contributions (NICs), paid by the self-employed, will be abolished. Class 4 NICs will be reformed to ensure that self-employed individuals continue to build entitlement to the State Pension.

Personal allowance increases since 2010



Source: HM Treasury

The value of investments and any income from them can fall and you may get back less than you invested.

Any tax advantages mentioned are based on personal circumstances and current legislation which are subject to change.

The information contained in this document is believed to be reliable and accurate, but without further investigation cannot be warranted as to accuracy or completeness.

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