

# Budget Report 2016



Chancellor George Osborne presented his Annual Budget Report to The House of Commons on 16<sup>th</sup> March 2016. In this newsletter we focus on some of the main announcements that may affect you.

“Today’s Budget sets out long term solutions to long term problems. It’s a Budget that puts the next generation first.”

*George Osborne - Chancellor*

“The Budget looked to be a press stunt to hide George Osborne’s failures.”

*John McDonnell - Shadow Chancellor*

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## A Budget that puts the next generation first

The Chancellor said: “We were elected as a Government for working people. And we have delivered a Budget for working people”.

George Osborne said the new sugar levy would raise an estimated £520million, with the proceeds to be spent on school sports.

“This is a big political story after pressure from the medical community to act on obesity. Cameron was said to be sympathetic, then backtracked, but has now taken the plunge.”

*Rowena Mason, political correspondent on the new sugar tax*

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## Highlights

- New sugar tax
- New lifetime ISA for under 40s
- ISA limit raised to £20,000
- Tax relief on pensions unchanged
- Tax relief on financial advice
- Corporation tax cut
- Threshold for small business rate relief to increase
- Fuel duty frozen
- Savings to help low paid workers
- Severn River tolls to be reduced
- Longer school day
- £100m homelessness fund
- Tax thresholds to be increased
- Capital gains tax cut
- New infrastructure projects HS3 and Crossrail 2

### New sugar tax:

Soft drinks manufacturers will be taxed according to the volume of the sugar-sweetened drinks they produce or import.

Drinks will fall into two bands: one for total sugar content above 5g per 100ml, and a second, higher band for the most sugary drinks with more than 8g per 100ml.

The tax will come into force in two years time in order to give companies time to change the ingredients of their products.



# UK Budget Overview March 2016



## A Budget that puts the next generation first

The Chancellor of the Exchequer, George Osborne, launched his 2016 Budget with the words:

*“Today I report on an economy set to grow faster than any other major advanced economy in the world.*

*I report on a labour market delivering the highest employment in our history.*

*And I report on a deficit down by two thirds, falling each year and – I can confirm today – on course for a budget surplus.”*

George Osborne said the government was presenting a Budget that would focus on the long term, “put the next generation first” and help make the UK “fit for the future”.

Social mobility has been a key theme, as the UK chancellor vowed to help people “save and let them keep more of the money they earn”. Most of the announcements involved a gloomy assessment of the economy and a bevy of tweaks to the tax system.

### Economy:

Growth forecasts cut for every year. For 2016, that means a drop from 2.4 per cent to 2 per cent. The

Office for Budget Responsibility (OBR) also believes the economy is fundamentally less productive than previously thought.

Inflation forecast for 2016 cut from 1 per cent to 0.7 per cent.

### Public finances:

Debt to Gross Domestic product (GDP) revised up from 81.7 per cent to 82.6 per cent for 2016-17, which means Mr Osborne misses his target to have debt to GDP fall every year.

Borrowing forecast revised up from £49.9bn to £55.5bn for 2016-17, and for every other year until 2019, when the chancellor predicts an unexplained £10.4bn surplus.

New spending cuts of £3.5bn by 2020.

### Business tax:

Corporation tax to fall from 20 per cent at the start of this parliament to 17 per cent by 2020.

New threshold for small business rate relief raised from £6,000 to £15,000. Mr Osborne estimates 630,000 businesses will no longer pay any business tax.

However, a series of other changes to the system are expected to raise £9bn over the Budget period,

George Osborne: In this Budget we choose the long term. We choose to put the next generation first.

# Personal

## Personal Taxation

The personal tax allowance will be raised (from £11,000 2016-2017) to £11,500 in April 2017-2018.

Whilst higher rate income tax threshold will be increased (from £43,000 2016-2017) to £45,000 in 2017.

## ISA limit to rise

The annual ISA (Individual Savings Allowance) will rise from £15,240 to £20,000 from April 2017.

## New Lifetime ISA for homebuyers and retirement

Millions of adults under 40 will be able to use a new Individual Savings Account (ISA) to buy a home or a pension, the chancellor has announced.

The Lifetime ISA will be launched in April 2017, and savers will receive a 25% bonus from the government.

They will be able to put in up to £4,000 a year, with the annual bonus of up to £1,000 paid until the age of 50.

And from April 2017 all savers will be able to put up to £20,000

a year into ISAs, up from £15,240 at the moment. So it will be possible to have both a standard and a Lifetime ISA, subject to the £20,000 limit.

## Low paid workers to receive savings bonus

Employees on in-work benefits who put aside £50 a month would get a bonus of 50% after two years - worth up to £600.

## Pensions tax relief unchanged

The pensions tax relief on contributions was expected to have been axed during this budget, it has however been left unchanged.

## Capital Gains tax to be cut from 28% to 20%

Capital gains tax (CGT) is to be cut this April from 28% to 20% for higher rate tax payers and from 18% to 10% for basic-rate taxpayers (does NOT apply for 2<sup>nd</sup> homes).

Capital Gains Tax is a tax on the gain you make when you sell something (an 'asset') that has gone up in value. It is paid at a basic or higher rate

depending on the rate of Income Tax you pay.

## Financial Advice

Consultation to be entered into on the possibility of introducing a Pension Advice Allowance. This will allow clients under 55 to take up to £500 tax free from their defined contribution pension plan to help pay for retirement advice.

## Money Advice Service

The Money Advice Service is to be closed.



"The Lifetime ISA can be used to buy a home, or finance retirement"

Income from an ISA is tax free.

Your ISA allowance is £15,240 Apr 2016-2017 and £20,000 Apr 2017-2018.



Working people: £11,500 personal allowance and a £45,000 higher rate threshold. Savers: new flexible Lifetime ISA for young people.



# Business and Business Taxation

## Corporation tax

The Chancellor announced that by April 2020 the rate of corporation tax would fall to 17%, the current rate is 20%.

## Business rates

From April 2017, small businesses that occupy property with a rateable value of £12,000 or less will pay no business rates. Currently, this 100% relief is available if you're a business that occupies a property (e.g. a shop or office) with a value of £6,000 or less.

There will be a tapered rate of relief on properties worth up to £15,000. This means that 600,000 businesses will pay no rates.

## Class 2 National Insurance

Currently, self-employed people have to pay Class 2 NICs at £2.80 per week if they make a profit of £5,965 or over per year. They also pay Class 4 NICs if their profits are over £8,060 per year. From April 2018, they will only need to pay one type of National Insurance on their profits, Class 4 NICs.

## Anti-tax avoidance

Anti-tax avoidance and evasion measures to raise £12bn by 2020.

## Commercial stamp duty

Commercial stamp duty 0% rate on purchases up to £150,000, 2% on next £100,000 and 5% top rate above £250,000. New 2% rate for high-value leases with net present value above £5m. Effective from midnight on 17<sup>th</sup> March 2016.

## Unfunded public sector pensions

Unfunded public sector employer contributions to rise from 2019/2020. The discount rate is being set at 2.8% above the consumer price index (CPI). The government reviews the discount rate to unfunded public sector schemes every five years.



This Budget is backing businesses with a major overhaul of corporation tax reliefs and a big reduction in small business rates.

# Education

## **Every school will be an academy by 2022**

By the end of 2020, every school (currently under Local Authority control) in England will be an academy or free school – or be in the process of becoming one. This will give head teachers more control over their budget and the curriculum they teach.

The current system for funding schools will also be replaced by a fairer national funding formula from April 2017. There will be £20 million a year in additional money for schools in the north of England.

## **Longer school day**

25% of secondary schools will be able to opt in to a longer school day from September 2017 so that they can offer a wider range of activities for pupils. There will be up to £285 million a year to pay for this.

## **Sugar tax**

Soft drinks companies will pay a levy on drinks with added sugar from April 2018. This will apply to drinks with total sugar content above 5 grams per 100 millilitres, with a higher rate for more than 8 grams per 100 millilitres. This won't need to be paid on milk-based drinks or fruit juices.

This will be used to double the primary PE and sport premium (the additional money schools have to spend on PE and sports) to £320 million a year.

## **Maths compulsory for pupils up to age 18**

Maths lessons could become compulsory for all pupils up until the age of 18.

Chancellor George Osborne announced the setting up of a review to determine whether the subject should be studied by all children until they leave education as part of a blueprint to ensure the next generation gets the “best start” in life for employment. In England, young people already have to stay in school or training until they are 18.



# Other Measures

## Alcohol

Duty on beer, spirits and some ciders has been frozen.

## Fuel duty

Fuel duty has been frozen for the sixth consecutive year.

## Culture

Cathedral repairs fund gets an extra £20m.

## Flood defences and insurance

A £700m increase for flood defences and a 0.5% increase in the insurance premium tax to 10%.

## Infrastructure

HS3 between Manchester and Leeds : £60 million has been announced to develop plans to cut journey times to around 30 minutes between Leeds and Manchester, as well as improving transport connections between other cities in the north.

Crossrail 2 to be commissioned: The proposed Crossrail 2 route will connect South-West and North-East London, increase tube capacity and reduce the pressure on Victoria and Waterloo stations.

## Homelessness

£100 million to help people move on from emergency hostels and refuges.

This will pay for 2,000 places to live for those who need to move on from emergency hostels and refuges.

## Tolls on Severn River crossings

Tolls on Severn River between England and Wales to be halved by 2018.

## EU referendum and Brexit

The Office for Budget Responsibility warns leaving Europe could have negative implications for business and consumer confidence.



An improved east-west rail link named “Northern Powerhouse Rail” which aims to reduce journey times from 50 minutes to 30 minutes between Leeds and Manchester. Also plans for 18 mile road tunnel under the Peak District to speed up journey times between Manchester and Sheffield.

# Demonstration Financial Services

Address line 1 Address Line 2 Town

Postcode

Tel: 01453 521358 admin@ifawebpro.com

<http://www.ifawebpro.com>

## Budget Report 2016

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