Budget 2015

On Wednesday 18 March George Osborne MP delivered the last Budget of this Parliament, and potentially his last as Chancellor. Rounding up the content of the speech, FTI Consulting takes a look at the key announcements that have been made. A list of measures announced can be found overleaf.

> *"This is a Budget that takes Britain one more big step on the road from austerity to prosperity. We have a plan that is working – and this is a Budget that works for you"*
>
> - Rt Hon George Osborne MP, Chancellor of the Exchequer

A Budget for the election – some light at the end of the tunnel?

With just fifty days to go until the General Election it's no surprise, despite Osborne's pre-Budget disclaimer that there will be "no giveaways, no gimmicks", that this was a Budget squarely aimed at voters. Cracking more than a couple of jokes, a bullish Osborne hammered home the Coalition's (or rather, Conservative Party's) core message - that the economic plan is working. Osborne was aiming for a positive sounding Budget, designed to create optimism among the electorate and the marginal seats of Hendon, Croydon, Cambridge and Birmingham were all given a tactical mention.

The OBR's upward re-adjustment of both growth in 2014 and growth forecasts for 2015 and 2016 allowed him to include some giveaways aimed at converting the *Long Term Economic Plan* into *Short Term Political Votes*. Well trailed measures included the increase in the personal allowance and a cut in life time pension allowance while among the surprises was the abolition of the annual tax return and a new "Help to Buy ISA".

With little to no time to prepare a response, Ed Miliband stuck to expected lines, attacking Osborne's claim of a truly national recovery by calling it a *recovery for the few from a Government of the few*. Aiming to pick apart the Budget as one that could not be believed, Miliband accused Osborne of ignoring the NHS and hiding future cuts on public spending. "This Budget didn't solve the problem, it confirmed them" said Mr Miliband. Whether the electorate agree with him, we'll know soon enough.

Business and economic climate

“Out of the red and into the black” was the motto of the Chancellor. A very significant reduction of the forecasted budget surplus in 2019/20 (- £16bn) suggesting a dramatic reduction of planned austerity measures which will be widely discussed in the weeks to come as the Conservative party fight to shake off Labour’s “back to 1930’s” narrative. The Chancellor claimed that public spending as a percentage of GDP will rise in line with economic growth so that it will rest at the same level as it was in 2000. Announcing the lowest unemployment rate in recent decades (- 3 points since the start of the Coalition) the Chancellor strongly rebutted the Opposition’s accusations that job creation was concentrated on part time and low paid jobs and noted that GDP per capita is up by 5% and real household disposable income would be higher in 2015 than in 2010.

Describing a "truly national recovery", which combine the success of the “global capital of the world” and of the “northern powerhouse”, the Chancellor noted that Yorkshire had created more jobs than the whole of France in the last year. There were a number of announcements for the North – not least promises of a new Transport Strategy for the North, the funding of the Health North initiative and the promotion of industries from chemicals in the North East to Tech in the North West. Focusing on the national debt, he announced that savings from lower charges on gilts, the sales of mortgage assets from Northern Rock, Bradford and Bingley and the upcoming sale of Lloyds shares would all go towards paying down the national debt. Combined with a mixture of departmental cuts, welfare savings and gains from measures to combat tax evasion this would work toward reducing national debt by 8.8 percentage points by 2020.

While the economic outlook looks positive (a factor the published Budget makes clear is due in part to improving global conditions, something on which the Chancellor did not seem keen to dwell in his speech), the Government will be keen to improve its level of productivity; with this in mind Osborne announced that Corporation Tax will be cut to 20pc, the joint lowest in the G20 and down from 2010’s 28pc. The widely anticipated, conveniently leaked and relatively expensive increase in the personal allowance to £10,800 (2015/16) and to £11,000 (2017/18) – or a tax cut for 27 million people as he put it – was one of the main announcement of this pre-election Budget. Similarly, the increase of the higher tax rate threshold (over and above inflation) to £43,300 by 2017/1 will be welcome by the electorate. One surprise was the announcement of the abolition of the annual tax return aimed at helping entrepreneurs and small businesses who will also enjoy previously announced radical” changes to business rates. Duty cuts on cider, scotch, beer and the continued freeze of fuel duty will appeal to voters up and down the country.

Financial services

The financial services sector and in particular, financial technology firms (FinTechs) were recognised as an area of strength for the UK and an area for growth. The Payment Systems Regulator, which takes effect on April 1 2015, is set to enable greater access for FinTechs, while the development of a FinTech regional strategy through local partnerships is set to build momentum already established in cities such as Leeds and Manchester. A further £10m has been earmarked for research into digital currencies, which will also now be subject to anti-money laundering regulation.

"The banks got support going into the crisis; now they must support the whole country as we recover from the crisis," Mr Osborne said of the banking sector, who will now see the bank levy raised from 0.156pc to 0.21pc, raising £900m a year. This is in addition to amending “contrived” arrangements to mitigate losses made by companies. Banks will no longer be able to deduct losses such as those made by the mis-selling of PPI from their corporation tax receipts.

As expected, there were several announcements designed to assert the UK’s leadership in tackling aggressive tax avoidance schemes and eliminate tax evasion practices, particularly by multinationals. In the Autumn Statement, the Chancellor announced a Diverted Profits Tax (the “Google Tax”) that forms part of the Finance Bill 2015. The 25pc tax will apply to companies’ profits that have been diverted from the UK through tax structures. Going beyond this, Osborne’s promise to implement a Common Reporting Standard next month is a political move to knock back Labour’s claims that the Conservatives are friends of the bankers.

The Budget outlines the Government’s plans to close the existing disclosure facilities for tax evaders early. A ‘last chance’ disclosure facility will be offered between 2016 and mid-2017, with no immunity from criminal prosecution. HMRC will name and shame both the companies avoiding tax and those who promote it by forcing all promoters to disclose if they are being monitored by HMRC. New powers through the accelerated payment notices will allow the Government to demand payment upfront for disputed tax arrangements deemed to be possible avoidance behaviour. The hardened measures peddled by HMRC have already yielded £5bn, but Osborne enthuses that combined measures to recuperate unpaid tax will total as much as an additional £3.1bn.

In a nod to the ageing voting demographic, five million pensioners will be given greater flexibility to sell annuities for cash or as a drawdown for payments; on the other hand, the Lifetime Pension Allowance on which tax relief can be claimed will be reduced from £1.25m to £1m. Protection for those building up pension pots, including the indexing of the Lifetime Allowance from 2018, is to increase annually. On savings, Osborne has rewarded savers with a new Personal Savings Allowance so that the first £1000 of savings is tax free for basic rate taxpayers and £500 for those paying the higher rate. As expected by the sector, he also relaxed rules on ISAs, creating a more flexible environment where savers can withdraw and replace money in the same tax year without losing the tax advantage. Because of this policy, the automatic deduction of 20% income tax by banks and building societies on non-ISA savings will be removed from April 2016. A new Help to Buy ISA will appeal to first time buyers.

Energy

Following an Autumn Statement aimed at supporting the UK’s burgeoning onshore oil and gas industry, the Chancellor took “bold and immediate action” to help the North Sea Oil industry with the announcement of a far more generous than expected £1.3bn worth of tax breaks and incentives.

In the first announcement since promising to reform the offshore fiscal regime, a much anticipated 'Investment Allowance' will replace all other field allowances, with the exception of the 'Cluster Allowance', as a "single, simple and generous tax allowance". This reduces taxes on some oil schemes from 60% to 30% and intends to help to stimulate investment at all stages.

To combat falling production revenues, an immediate and back-dated additional 12% cut in the supplementary tax charge on profits to 20% was made available. This could reduce total taxes on some companies by around 10% to just 50%. At a value that is still considerably higher than corporation tax, the industry hopes that a future phased reduction in tax will continue.

Even more relief, sending positive signals to investors, was the considerable cut from 50% to 35% in the Petroleum Revenue Tax from 2016. In addition, new measures aiming to stabilise and secure the industry's future through supporting continued production in older fields were announced, including £20m for new seismic surveys in under- explored areas of the UK Continental Shelf.

The Office for Budget Responsibility assessed that these combined tax cuts will boost production by 15% by the end of the decade and drive £4billion of new investment over the next five years, securing some of the 400, 000 jobs the industry supports and the future of the UK's energy security.

Tax cuts for the oil and gas industry, whilst committing to a low-carbon future won't sit well with everyone. Yet, a small win for the green contingency reportedly came at the insistence of the Lib Dem Secretary of State for Energy and Climate Change, Ed Davey. Following through on his announcement of "closer discussions" over the Swansea tidal lagoon project, the Chancellor announced the start of formal subsidy negotiations for funding the ambitious £1bn venture.

Health

It was inevitable that Ed Miliband would accuse the Chancellor of neglecting the NHS but Osborne didn't do too much to stop him from doing so.

He laid out a package of investment that would see an additional £1.25 billion invested in mental health services in England over the next five years, with a particular emphasis on children and new mothers. In January, Labour accused the Coalition of failing to deliver on their promises of making mental health a priority, and as a key feature of the Lib Dem election campaign, Nick Clegg will have been eager to see this put back front and centre.

For Osborne and the Conservatives the only way to ensure the future of the NHS is by ensuring a strong economic recovery nationwide. Miliband countered that the Chancellor will not be able to deliver on the planned spending cuts across defence, policing and local government so will turn to the NHS as the source of additional funding as the pace of cuts continues to increase.

Snap market reaction

The FTSE 100 climbed higher during the announcement, 69.13 points higher at 6,906.74.

- New savings proposals have seen shares in investment groups St James Place and Hargreaves Lansdown both up 3.6%
- News of a consultation on local newspaper taxation have seen shares in Johnston Press rise by 2.5%.
- Diageo's shares have climbed 25p following the cut in alcohol duty.
- Shares in housebuilders and energy firms have also gained ground

List of key announcements

Personal Allowance: increase to £10,800 in 2016-17 and to £11,000 in 2017-18 with full gains to higher rate taxpayers

Fuel Duty: cancel September 2015 RPI increase

Alcohol duty: reduce the duty rate on beer, spirits and cider

Savings tax: a) changes in tax-free savings income allowance; b) in-year flexibility for Individual Savings Accounts (ISAs); and c) an extension to the list of qualifying investments for ISAs

Help to Buy: support first time buyers saving for a deposit

NS&I bonds for people aged 65 and over: extension

Pensions: lifetime allowance to £1 million from 2016-17, and index with inflation from 2018-19

Annuities: increased flexibility of use

Income Tax: extending farmers' profits averaging period to 5 years

Film tax relief: increase the rate to 25 per cent for all qualifying expenditure

Changes to high-end television tax relief & Orchestra tax relief

Venture Capital Schemes: new qualifying rules for companies receiving investment through the

Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs).

Enterprise Zones: allow businesses to be able to claim 100 per cent enhanced capital allowances (ECAs) on qualifying expenditure in designated Enterprise Zones.

Employment Intermediaries: review of contracts of employment that allow some temporary workers and their employers tobenefit from tax relief for home-to-work travel expenses

Oil and gas: reduced supplementary charge, petroleum revenue tax and new basin-wide Investment Allowance

Bank Levy rate: amendments

Corporation Tax: make banks' customer compensation expenses non-deductible for corporation

tax purposes.

Company car taxation: increase

Heavy Goods Vehicles: freeze VED and the Road User Levy

Aggregates Levy: freeze aggregates levy 2015-16

Capital Allowances: update the list of technologies and products covered by the first-year allowance scheme for energy-saving and environmentally beneficial technologies.

VAT: VAT incurred supporting all foreign branches of UK businesses will become deductible by reference to the UK VAT recovery rate.

Corporation Tax: Prevent companies from obtaining a tax advantage by entering contrived arrangements to convert brought forward reliefs into more versatile in-year deductions.

Evasion: introduction of an operational response by HMRC to the adoption of the Common Reporting Standard (CRS).

Capital Gains Tax: Prevent claims for capital gains tax (CGT) entrepreneurs' relief (ER) on shares in a company that is not a trading company in its own right.

Capital gains tax: minimum requirement as to the size of this withdrawal for access to certain capital gains tax (CGT) entrepreneurs' relief (ER)

Tobacco: introduction of a registration scheme for raw tobacco users and dealers including sanctions designed to minimise the risk of evasion of Tobacco Products Duty.

Accelerated Payments: Widen the remit of accelerated payment (AP) legislation

Stamp Duty Land Tax (SDLT): a seeding relief for certain existing property portfolios transferring into particularly fund and schemes

DWP Fraud and Error: strategic use of HMRC's Real Time Information (RTI) system to prevent fraud in pension credit and HB

Restricting EEA jobseekers' access to Universal Credit: restricts access to Universal Credit for EEA migrants who are seeking to claim with a right to reside status in the UK as a 'jobseeker'.

Implementation of Strengthen Self-Employed Test for Working Tax: new requirements for Working Tax Credit (WTC) claimants

Affordable housing: extend capital DEL funding for the construction of affordable homes for a further two years, to 2018-19 and 2019-20, at £960m per annum.

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