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Budget Statement

March 2017 Overview

Introduction

This time last year Philip Hammond was the Foreign Secretary: then came Brexit, Theresa May as Prime Minister, George Osborne's opportunity to spend more time with his family – or on the after-dinner speaking circuit – and Mr Hammond's move into 11 Downing Street.

He delivered his first Autumn Statement in November of last year – and promptly announced that it would be his *last* Autumn Statement. "No other major economy makes hundreds of tax changes twice a year and neither should we," he said, declaring that in future he would deliver his main Budget in the autumn. This means that 2017 will see two Budgets before the traditional Spring Budget gives way to a Spring Statement from 2018.

So here we are at the last Spring Budget – at least until we get a new Chancellor. But with Philip Hammond looking certain to remain Chancellor at least until the next General Election in 2020 (let's discount the rumoured possibility of a snap General Election for now) we should probably get used to the idea of the Autumn Budget.

The Economic and Political Background

Theresa May has committed herself to triggering Article 50 – and beginning the formal process of Britain's withdrawal from the EU – by March 31st. That is 23 days from Budget day and, despite minor setbacks for the Government in the House of Lords, the Prime Minister appears to still be on course for that deadline. She certainly has enough parliamentary support, with the recent vote on Brexit in the Commons going overwhelmingly in her favour.

However, it was not just UK politics that the Chancellor would have been concerned with as he was penning his speech. There's a new man in the White House, promising radically different economic policies, and this year will see potentially pivotal elections in Holland, France and Germany. With another Budget due later in the year, there could have been some temptation for the Chancellor to delay major decisions: by the autumn he will know the result of the European elections, he'll know how Donald Trump's policies have started to play out and – most importantly – he'll know how the early Brexit negotiations have progressed.

Economically, the news for the UK economy has largely been good since the Autumn Statement, with positive growth recorded in both the manufacturing and service sectors. This was reflected in the Bank of England's last Quarterly Bulletin, when the Bank forecast growth of 2% for this year. This was an increase on the 1.4% growth predicted in November, and just 0.8% in the immediate aftermath of Brexit. "There have been relatively few signs of the slowdown the committee expected," the Bank admitted.

Predictions

There are always plenty of predictions and rumours ahead of the Budget and this year has been no exception. Speaking on the *The Andrew Marr Show,* the Chancellor trailed his plans for investment in technical training – in a bid to address the UK's productivity gap which was such a recurring theme of his predecessor's Budgets. There will also be moves to address the social care problems in the UK, and to ease the concerns of shops, pubs and restaurants about forthcoming increases in business rates.

Sadly, tax rises were also rumoured, with many papers saying the Chancellor wanted to build a 'Brexit War Chest.' The *Telegraph* suggested that the Chancellor would reject extra borrowing in favour of tax rises, with the national insurance contributions for the self-employed and duties on alcohol apparently in his sights…

The Speech

Following the usual pleasantries of Prime Minister's Questions, the Chancellor rose to speak at 12:37pm, armed only with his notes and a glass of water. The days of Chancellors steadily sipping brandy throughout their speeches seem long gone…

Given the Bank of England's recent Quarterly Report, his opening remarks couldn't be anything but positive. The UK economy was, he said, "continuing to confound the doubters, with robust growth." The deficit was coming down and the economy "provided a strong and stable platform for [the] Brexit negotiations." We were, he said, "building the foundations of a stronger, fairer, more global Britain."

The Economy and the Numbers

With a nice touch of self-deprecating humour, 'Spreadsheet Phil' apologised to the Commons and said he needed to start "with the spreadsheet bit."

In 2016, the UK had the 2nd fastest growing economy in the G7 (behind Germany) and – in line with the Bank of England's forecast – the Office for Budget Responsibility had upgraded this year's growth forecast from 1.4% to 2%. However, growth was then downgraded to 1.6%, 1.7% and 1.9% in subsequent years, before returning to 2% in the financial year 2021/22.

Inflation was forecast to be 2.4% in 2017/18, falling to 2.3% in 2018/19 and then 2% (the Bank of England's target rate) in subsequent years.

Turning to public borrowing, he forecast that annual borrowing in 2016/17 would be £51.7bn, some £16.4bn lower than had been originally anticipated. Borrowing was then forecast to total £58.3bn in 2017/18 followed by £40.8bn the following year, then £21.4bn and £20.6bn in 2020/21. This would see public sector net borrowing fall from 3.8% of GDP in 2015/16 to 2.6% this year, then 2.9%, 1.9%, 1% and 0.9% in subsequent years, reaching 0.7% in 2021/22.

The Chancellor made the point that employment growth had been spread around the UK and that – despite the rise in inflation – "real wages continued to rise."

Despite this good news though, the total UK debt remained at almost £1.7tn – which meant that the country was spending £50bn a year on interest: "more than we spend on defence and policing combined." Therefore – as had been widely trailed before the Budget – he wouldn't be borrowing for any additional spending; he would instead be relying on tax rises and tackling abuses and evasion.

Personal Taxation and Allowances

One of the key themes running through Philip Hammond's speech was 'fairness.' In the Autumn Statement, he'd tackled what he dubbed 'middle class tax perks' and now he turned his attention to the self-employed and those trading through limited companies. It was only right, he said, that those doing the same work for the same pay, "should pay roughly the same tax. A strong society," he added, "needs a fair tax system." He therefore introduced two specific measures:

What	A reduction in the tax-free dividend allowance for shareholders and directors of small private firms from £5,000 to £2,000
When	From April 2018
Comment	As above, this is a move designed to provide 'fairness' and reduces a tax perk that had been enjoyed by those trading through limited companies and by private investors. The Chancellor said that HMRC estimated the cost of people working through companies at £6bn a year: "It's not fair and it's not affordable," said the Chancellor. The move is expected to raise £2.63bn by 2021/22.

What	The main rate of Class 4 National Insurance contributions for the self-employed will increase from the current rate of 9% to 10% in April 2018 and to 11% in April 2019
When	From April 2018
Comment	Some experts had been forecasting that this rate could jump from 9% to 12%, so the self-employed may be feeling relatively relieved. It is another move designed to ensure fairness in the tax system: the Chancellor said that, along with the abolition of Class 2 contributions, it would raise £145m by 2021/22 at an average cost to those affected of 60p a week. The Class 4 rate is levied on profits above £8,060 per year, up to profits of £43,000. Profits over £43,000 are taxed at 2%. Previously announced in 2016, Class 2 National Insurance, a separate, flat-rate contribution paid by self-employed workers making a profit of more than £5,965 a year, is to be scrapped from April 2018.

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Personal Taxation and Allowances continued

The Chancellor also announced – it's almost mandatory in a Budget speech – further action on tax avoidance and evasion which would, he said, raise an additional £820m of tax receipts. This will include action to stop businesses converting capital losses into trading losses and the introduction of UK VAT on roaming telecoms services outside the EU.

Beyond those measures, the Chancellor simply confirmed plans both longstanding and previously announced.

What	An increase in the tax free personal allowance to £11,500 and the higher rate threshold to £45,000
When	April 2017
Comment	This had previously been covered in the Autumn Statement but the Chancellor again confirmed the measure was due. He also reaffirmed the now long-standing commitment to raise the personal allowance to £12,500 by the end of the parliament in 2020 and to take the starting point for higher rate tax to £50,000 in the same period.

Pensions, Savings and Investments

What	The introduction of a 25% tax charge on Qualifying Recognised Overseas Pension Schemes (QROPS)
When	For transfers requested on or after March 9th 2017
Comment	Transferring a UK pension to a QROPS (done by someone retiring abroad) means that the person retiring can transfer their pension to the relevant country's tax regime and – in many cases – then benefit from more favourable tax treatment on their tax free cash and/or income. The Government will now introduce a 25% charge on transfers to these arrangements, although there will be 'exceptions where people have a genuine need to transfer their pension.' The 'genuine need' will need further clarification and examination. Explaining to HMRC why you have a 'genuine need' to live in the Seychelles could be a tough one…

What	New NS&I savings bond
When	April 2017
Comment	In the Autumn Statement, the Chancellor announced the introduction of a new, "market leading" savings bond, to be sold through NS&I. He confirmed that this bond will be introduced in April 2017 and will pay a rate of 2.2% over a term of 3 years with a maximum investment limit of £3,000.

What	Increase in the ISA limit
When	April 2017
Comment	As already announced, the ISA limit will again increase, this time to £20,000 from April 2017.

Business and Business Taxation

The Chancellor stressed that he wanted the UK to "be the best place in the world to start and to build a business." As expected, there were two specific areas that he identified as needing help, starting with a formal discussion paper on the future of the North Sea oil and gas industry.

There would also be consultations on how best to tackle the digital part of the economy – something felt very keenly by high street retailers who now find themselves competing with online retailers working from out-of-town warehouses. These premises have a fraction of the overheads of the high street, especially with regard to business rates. However, the Chancellor said that business rates raise £25bn a year and simply could not be abolished. Instead, he announced measures for making the impact of previously announced changes to business rates less painful for some.

What Mitigating the impact of business rates changes for some businesses

When April 2017

Comment The business rates changes are here to stay but the Chancellor announced three measures in an attempt to help businesses to cope with any increases:

- A cap for companies coming out of business rate relief
- A £1,000 discount for pubs up to a rateable value of £100,000 – which would apply to 90% of the pubs in the country
- A £300m discretionary fund will be made available to local authorities, enabling them to help businesses impacted by the changes

The cap means that business rate costs cannot rise by more than £50 a month when a business comes out of rate relief. Taken together, the announcements amounted to a total of £435m in rate relief, said the Chancellor, and – having protected the nation's pubs – he paused and took a sip of his water.

What The introduction of digital administration for tax reporting will be delayed for a year for firms below the VAT threshold

When Delayed until April 2019

Comment The Chancellor recognised the burden that the move to new digital, quarterly tax reports may put on small firms and thus delayed the introduction for some firms. The move, the Chancellor said, would cost the Revenue £280m in the relevant year.

Other Measures

On International Women's Day, the Chancellor announced three specific measures he introduced as targeted at women (although one equally applies to both women and men and technically the Prime Minister had stolen his thunder earlier in the day…).

What	£20m for victims of domestic abuse and violence
When	Over the current Parliament
Comment	The Prime Minister revealed this move on *Mumsnet*, saying, "Tackling domestic violence and abuse is a key priority for this Government." It is a measure that it's impossible to disagree with and the Chancellor said that this took spending on domestic abuse and violence to over £100m over the Parliament.

What	£5m for the return to work scheme
When	TBC
Comment	This money is intended to help women - and men – return to work after lengthy career breaks. It's a move that is intended to address the so called 'motherhood penalty'.

Finally, the Chancellor recognised that next year would be the 100th anniversary of the 1918 Representation of the People Act, which gave the vote to about 8.4m women. He promised a further £5m to mark the occasion.

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Other Measures continued

Alcohol, Tobacco, Gambling and Fuel

Again, there were very few changes from the Chancellor: with the rumours of tax rises, many people must have been worrying about the cost of their Friday night pint or bottle of wine…

There will be a new minimum excise duty on cigarettes, based on a packet price of £7.35 – this will mean a packet of cigarettes costing 35p more. Other than that, there were no further increases in duty on alcohol or tobacco other than those already announced, meaning that duty on beer, wine, cider and spirits will increase in line with inflation.

Vehicle excise duty rates for hauliers and the HGV Road User Levy remain frozen for another year.

The Country's Infrastructure

The Autumn Statement had been heavy on infrastructure projects – and in its Quarterly Report, the Bank of England praised the impact of that investment – but in this Budget much less stress was placed on infrastructure. The Chancellor did allocate £90m to alleviate "transport pinch points" in the North of England and £23m to the Midlands for the same purpose. He also announced a £690m competition fund for English councils to tackle urban congestion and £270m for new technologies such as robots and driverless vehicles.

There was also £350m to the Scottish government, £200m for the Welsh Assembly and £120m for the new Northern Ireland executive – and, of course, the obligatory rallying cry of "stronger together."

The NHS

Finally – and again as had been anticipated – the Chancellor acknowledged the problems of the NHS and the looming crisis in social care, caused by the constantly increasing number of people over the age of 75. He committed £1bn in 2017/18 to social care and a total of £2bn over the next three years: many had hoped and expected that the figure would be higher.

He promised a green paper on the problems of funding social care – although he indicated that it would not include a 'death tax' – and pledged £100m to GP triage services within A&E departments in time for next winter.

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Other measures continued

Education and Training

In many ways, the meat of the Chancellor's speech came with his plans to reform education and training, specifically with a view to overcoming the productivity gap, as he conceded that the UK was 35% less productive than Germany and 18% behind the productivity of the average of the G7 countries.

There would be an extra £300m for PhD students, specifically in STEM (Science, Technology, Engineering and Maths) subjects.

As had been widely trailed, the Chancellor then turned his attention to technical skills, where he announced several specific measures:

- An investment of £500m in technical education for 16-19 year olds, and the introduction of 'T-levels,' the technical equivalent of A-levels.
- Free transport (based on the free school meals qualification) as many pupils will travel much longer distances than average to attend specialist schools and colleges.
- With universities and private schools being encouraged to sponsor free schools, the Chancellor said that these moves would lead to the creation of 110 new free schools, on top of the 500 already pledged by 2020.
- To slightly ironic cheers from the Opposition, given the recent review of education funding, the Chancellor announced a further £216m investment in school estates over the next three years.
- Finally, he also announced the extension of maintenance loans to all students studying to doctoral levels and pilot schemes to test approaches to lifelong learning, recognising that many of today's students will change career paths many times in their life.

Conclusions

Listening to a Budget speech from beginning to end is never easy going, but Philip Hammond was in a buoyant mood – and his jokes are certainly better than his predecessor's. Hopefully, his speechwriter is paid a bonus for the 'driverless vehicle' reference to the Opposition which drew the loudest laughs from the Conservative benches.

The speech itself – as many suspected – was about a plan for the future as much as it was about specific measures. We can expect a lot more heavy detail when he delivers his second Budget of the year in the autumn. For now, the Chancellor declared that the Government would, "continue with its plan to make Britain the best place in the world to do business." He was determined to, "look forwards not backwards and invest in the UK's future." With that, he commended his Budget to the House and to the nation, "confident in our strength and clear in our determination."

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