INFORM
IN ACCOUNTANCY

So, George Osborne has delivered his 'emergency budget' - the first conservative budget in almost 20 years... back when Prodigy was topping the charts with Breathe - I daren't comment on those lyrics in this context! Some are saying that this budget has garnered the most negative reaction from the public of any budget in recent times, but what's it all about and who are the winners and losers??

A little bit of background...

It's a parliamentary tradition that while making the Budget speech, the Chancellor may drink whatever he wishes. Previous Chancellors have opted for whisky (Kenneth Clarke), gin and tonic (Geoffrey Howe) and even sherry and beaten egg (William Ewart Gladstone). Reflecting more sombre and health conscious times, both Alistair Darling and Gordon Brown went for water and the current Chancellor, George Osborne has followed this dour, modern tradition.

But you could have forgiven him a celebratory glass as he rose to deliver his seventh Budget speech, the first wholly Conservative speech since Kenneth Clarke in November 1996.

George Osborne has frequently said that the UK economy cannot be immune to what is happening in the rest of the world. As he began his second Budget speech of 2015, Greece was receiving its daily ultimatum from the EU and in China, companies were rushing to suspend dealing in their shares as the stock market continued its dramatic falls.

Back at home, there were mixed messages on the UK economy. In June, the CBI had cut its growth forecasts to 2.4% for this year and 2.5% for 2016, blaming weaker-than-expected growth in the first quarter of the year. However, the Federation of Small Business was more optimistic, declaring that there had been a 'robust' improvement in confidence among the owners of small businesses.

The number of people in work in the UK continued to increase, with the latest figure putting the number at 31 million – an increase of 114,000 on the previous three month period. Meanwhile, unemployment had fallen again to 1.81 million and welfare spending was at its lowest level for 25 years.

Indeed, it looked as though welfare would be set to go even lower, with almost all of Wednesday morning's papers reporting that the Chancellor was set to announce a 'lower welfare, lower tax Britain.'

The Speech

The Chancellor looked confident and relaxed, as well he might with the support of a Conservative majority behind him. It would, he said, be 'a Budget for working people, as Britain looks to create a higher wage, lower tax, lower welfare country.'

'Our long term economic plan is working,' he declared, 'but the greatest mistake this country could make would be to think that all our problems are solved. You only have to look at the crisis unfolding in Greece to realise that if a country is not in control of its borrowing, the borrowing takes control of the country.' He made this last remark with a significant glare at the Opposition benches and then, as always, launched into the figures.

The Economic Background

The Chancellor stated the UK economy was 'fundamentally stronger' than it had been in 2010, with 2 million more jobs having been created over the last five years. However, the UK still 'spends and borrows too much and doesn't train enough.' It was time for a 'big Budget for a country with big ambitions.'

Growth for the UK in 2014 had been revised up to 3%, but there were still worries with the slowdown in China and continuing problems for the US economy. UK growth was estimated at 2.4% for 2015, 2.3% in 2016 and then 2.4% again in 2017.

The Office for Budget Responsibility estimated that one million more jobs would be created in the next five years as the Chancellor confirmed his determination to 'make work pay', but George Osborne set a more ambitious target yet, declaring that he wanted to create another 2 million jobs over the next five years as the country moves towards full employment.

The Chancellor confirmed that he would aim to cut the deficit at the same rate as in the last parliament and that Royal Bank of Scotland would be returned to the private sector.

He then turned to the borrowing figures, pointing out that in 2010 the UK had been borrowing an 'unsustainable' £153bn. For this tax year, borrowing would be down to £69.5bn, followed by £43.1bn in 2016/17, £24.3bn in 2017/18, £6.4bn in 2018/19 before posting a surplus of approximately £10bn in the tax year 2019/20. 'Finally,' said the Chancellor, 'Britain will be raising more than it spends. The country,' he continued, 'has finally left the age of irresponsibility behind.' And, of course, he couldn't finish his review of the economy without his favourite phrase: 'We'll fix the roof while the sun is shining.'

The Chancellor then turned to the specific measures…

Personal Taxation

What: The threshold for paying the higher rate of income tax will increase from £42,385 to £43,000

When: From April 2016

Comment: David Cameron has frequently said that too many middle class workers have found themselves pulled into the higher rate tax bracket. For example, over the past ten years a quarter of teachers, a third of the police and one in ten nurses have found themselves paying 40% tax. George Osborne recently said that increasing the thresholds was ‘a priority’ and this was him delivering on that promise. Under plans set out earlier this year, the higher rate tax threshold was due to increase to £42,700 in April 2016 and to £43,300 in April 2017, with a mooted increase to £45,020 in 2019. All these increases have now been brought forward as the Chancellor declared that today’s move would take 130,000 people out of the higher rate band, as part of an eventual commitment to increase the threshold to £50,000.

What: The personal tax allowance will increase from £10,600 to £11,000

When: From April 2016

Comment: Having increased the personal allowance from £6,500 to £10,600 in the last parliament, the Chancellor has now given a commitment to increase it to £12,500 in this parliament. This move, he said, ‘was a down payment for a country on the up.’

What: Changes to inheritance tax

When: From April 2017

Comment: A change to inheritance tax will mean the amount that couples can pass on tax-free will rise from £650,000 to £1m, including a new ‘property allowance’.This was another measure that was widely trailed during the General Election campaign, when the promise was ‘to take family homes worth up to £1m out of the inheritance tax net.’ The change will see the introduction of a ‘family home allowance,’ worth up to £175,000 per person in 2020-21 on top of the existing £325,000 tax-free allowance. The allowance will be transferable and introduced at a rate of up to £100,000 from April 2017.

From 2020-21, individuals will therefore be able to pass on £500,000 free from inheritance tax, making the total for couples £1m.

What: Changes to dividend taxation

When: From April 2016

Comment: The Chancellor announced a major overhaul of how dividends are to be taxed with rates of dividend tax, above a new £5,000 allowance, set at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.This could lead to higher tax bills for those who receive significant amounts of income through dividends, the idea being to remove the incentive to reward people through dividends as opposed to wages, in an attempt to reduce tax liabilities.

This is likely to have a significant impact on both business owners and contractors. Contract workers who set themselves up as personal service companies, to pay themselves dividends, will need to consider how this change affects them, as will business owners who pay themselves via a high proportion of dividend compared to salary.

Dividends paid within ISAs and pensions will be unaffected by these changes.

What: Changes to mortgage interest relief for landlords

When: From April 2017

Comment: Mortgage interest relief for landlords will be reduced in a 'proportionate and gradual' way, to bring the benefits for Buy to Let landlords in line with 'Buy to Live' buyers.This tax perk allows landlords to put the cost of the interest on a buy-to-let mortgage on their self-assessment form and offset it against income they receive in rent. The system will be retained, but the tax relief will be restricted to the basic rate. The higher rate relief will start to be withdrawn over four years, starting in 2017.

What: Changes to the non-domiciled tax status

When: From April 2017

Comment: One of the key themes running through this Budget was 'fairness' and it was always inevitable that more action would be taken against 'non-doms' as part of an overall programme against tax avoidance and aggressive tax planning. In changes expected to raise £1.5bn for the Revenue, the Chancellor acknowledged that 'non-dom' status had been an important feature of the tax system and that abolishing it completely would probably cost the country money.'But,' he said, 'there is some fundamental unfairness.' You will no longer be able to 'inherit' non-dom status from your parents and non-doms with residential property in the UK will no longer be able to put it into an offshore company and avoid inheritance tax. 'Non-doms' who have lived in the UK for 15 of the last 20 years will pay full UK tax on their worldwide income.

Pensions and Savings

What: Help to Buy ISA

When: 1st December 2015

Comment: Announced during the March Budget as being available later in the year, this extra Summer Budget allowed the Chancellor to put a firm date on the new Help to Buy ISAs. The new savings vehicles, designed to help savers to purchase their first home, will be available from 1st December 2015.

What: Pensions Tax Relief reduced for high earners

When: From April 2016

Comment: Those earning more than £150,000 per year will have the amount they can invest in a pension each year reduced from £40,000 to £10,000.This was promised in the Conservative manifesto and had been widely anticipated. It means that the amount high earners can pay into their pension and still qualify for tax relief will taper to £10,000 per year for those earning over £150,000 per year.

Longer term, this move may well herald a comprehensive shake up of the way pensions are taxed.

What: Further changes to the UK pension system

When: TBC

Comment: Given the recent major changes to the pension system, the Chancellor could be forgiven for a Budget that was quiet on specific pensions and savings measures. However, Mr Osborne did announce that the Government was 'open to further radical change' to the UK pension system and announced a consultation on the issue which, he said, would include consideration of both large and small reforms.There was no date set for any decision, with the Chancellor keen to stress that all options would be considered, without a pre-judgement on which would provide the best solution for the British people. The aim, he said, was to 'move from an economy based on debt to an economy built on savings.'

Business and business taxation

What: Reduction in corporation tax

When: From April 2017

Comment: There will be a reduction in the corporation tax rate from 20% to 19% in 2017 and 18% in 2020.

What: Increase in the NICs Employment Allowance

When: April 2016

Comment: A raise in the NICs Employment Allowance from £2,000 to £3,000 is a welcome boost to small business.

What: Increasing the Annual Investment Allowance (AIA)

When: 1st January 2016

Comment: The Government will increase the permanent level of the AIA to £200,000 for all qualifying investment in plant and machinery. The Chancellor commits to maintaining the AIA at this level for the rest of this Parliament.

What: Supporting apprenticeships

When: TBC

Comment: The Government will introduce a levy on large UK employers to increase the number of apprenticeships. The Government wants to encourage employers to take on more apprentices and the details of the proposals will be presented in the Spending Review.

Other Measures

What: Increased funding for HMRC to pursue non-compliance and tax evasion

When: During this parliament

Comment: The Government's attempts to crack down on tax evasion have borne fruit recently, with the Chancellor announcing that HMRC had reclaimed £7.2bn in extra tax from monies held offshore and in other arrangements. Mr Osborne pledged that HMRC would be given an extra £800 million over the course of this parliament to continue to pursue these efforts.

What: Insurance premium tax will rise from 6% to 9.5%

When: From 1st November 2015

Comment: This will cover items such as car and home insurance, but not travel insurance which has its own rate of 20%. This announcement by the Chancellor came with a promise to review the regulation of claims management companies, with a view to imposing a cap on the charges they impose on those involved in an accident or those who seek compensation.

What: New vehicle excise duty (VED) bands will apply for new cars

When: For cars registered from April 2017

Comment: Known to most of us as car or road tax, the proposals will see three bands: zero, standard and premium with, according to the Chancellor, the 'standard' rate applying to 95% of vehicles. The standard costs will be £140 with a supplement for cars with a list price over £40,000. An additional first year rate (FYR) will be applied and vary according to the vehicle's carbon dioxide emissions. Existing cars will be unaffected and the Chancellor made a commitment to more investment in the country's roads, with all the money raised from VED going directly into investment in the road system.

What: Devolution of power to major cities and regions
When: Ongoing
Comment: The Chancellor announced that further discussions had taken place with Manchester on powers to be devolved to the new directly-elected Mayor, including control of the fire service. Mr Osborne also mentioned that further devolution deals are being worked on with several other regions and encouraged further take-up of this system. Sunday trading hours, which were much-discussed in the days leading up to the Budget announcement, were also discussed in this section. Mr Osborne stated that government would consult with local Mayors on handing over power on Sunday hours, within certain parameters.

What: A new ‘living wage’ of £7.20 an hour
When: From April 2016
Comment: This was the final announcement of the Chancellor’s speech and brought huge cheers from the Conservative benches, with Work and Pensions Secretary Iain Duncan Smith celebrating like a football fan. ‘Britain deserves a pay rise,’ the Chancellor declared and this was it, with a commitment to raise the living wage to £9 an hour by 2020. The ‘pay rise’ – which will benefit 2.5m workers – would have a ‘fractional’ effect on jobs said the Chancellor, which would be more than compensated for by his other measures to promote employment.

Welfare Savings

As had been widely predicted, the Chancellor duly found his £12bn of welfare savings as he confirmed his commitment to a 'low tax, low welfare' economy. He pointed out the UK had 1% of the world's population, 4% of its economic production but accounted for 7% of world welfare spending. 'Benefits,' he said, 'should not support lifestyles and rents that are not available to the taxpayers who pay for that system.' Consequently, he introduced a series of measures:

- The Benefits Cap of £26,000 will be reduced to £23,000 in London and £20,000 in the rest of the country.

- The BBC will now fund TV licences for those over 75, saving the Government £650m.

- Tax credits will now be limited to a maximum of two children, with this change being effective from April 2017.

- Student maintenance grants for low-income family students (which currently cost £3bn per year) will be converted to loans from the 2016/17 academic year, with the maximum loan for maintenance being increased to £8,200 per year.

- Those earning over £40,000 in London or £30,000 in the rest of the UK will be required to pay market or 'near-market' rent for properties they rent from housing associations.

Conclusions

This was a triumphalist speech from George Osborne. The Conservative majority seemed to have given him confidence and it was impossible not to see him as the front-runner to succeed David Cameron. 'Promise made, promise delivered,' he declared on any number of occasions – and this speech was full of other promises he clearly intends to deliver.

His vision of the UK as a 'high earnings, low taxation, low welfare' country was plain to see and his backbenchers were in jubilant mood. 'The plan is working,' he said, as he had said many times in the General Election campaign. He sat down to loud cheers, having delivered what he described as a Budget with 'one purpose, one policy for one nation.'