

18 March 2015

Budget 2015

Summary

Chancellor George Osborne's final Budget before this year's General Election was made against the background of economic growth, low inflation and low oil prices. Though there will have been the temptation to make pre-election giveaways, the Chancellor resisted and instead promised to use savings made as a result of reduced debt interest, lower welfare payments and sale of bank assets to pay down debt. And despite the plethora of pre-Budget announcements George Osborne was still able to announce the odd surprise or two.

The headline announcement was a four point plan to support a savings culture: allowing current annuity holders to access their savings; creation of flexible ISAs; a new Help-to-buy ISA; and making first £1000 of savings income tax free.

Other headline announcements included:

- End of the annual tax return. A new online account system will be implemented
- Changes to income tax thresholds – personal allowance to rise to £11,000 by 2018. The 40p band will rise, above inflation, to £43,300 by 2017/18
- Reduction in the pension lifetime allowance, from £1.25m to £1m.

To access the main budget documents, visit: <https://www.gov.uk/government/publications/budget-2015-documents>

General overview

As the last Budget (Osborne's sixth) before the General Election this was expected to be a very political Budget - if not exactly a giveaway pre-election Budget of old (this would have undermined the austerity narrative). Chancellor Osborne is well aware that the economic impact of pre-election budgets are often over-stated but there is still a lot of politics on show - as he demonstrated last year with his pensions freedom 'rabbit out of hat' announcement. His narrative was one of 'Britain is recovering, don't put it in jeopardy' with a clear attempt to identify, not just the offer of a continuing stable hand on the economic tiller but, a few reveals of the prospect of what a Conservative rather than a Coalition set of priorities might look like (something his Coalition partners were happy to play along with, signalling to their targeted voters what they has blocked i.e. inheritance tax proposals). In a way he has been lucky in the circumstances surrounding this Budget – low inflation and falling fuel costs provided him with some unexpected wiggle room. Chancellor Osborne like his predecessor but one Gordon Brown, has always been a very political Chancellor and has usually (*with the significant exception of the so-called Omni-shambles budget of 2012*) been sure footed within the economic constraints placed by the context of austerity.

Osborne's aim was clear: to drum home that the economic recovery, as delayed as it may have been, is finally coming through under his watch. But he inevitably couched his message with ominous warnings about how dangerous the world is out there and that the "job is not done". He understands the risk of voters feeling too positive and therefore not worrying about backing someone else on 7 May.

The public finances

Borrowing

2015	£90.2 bn
2016	£75.3 bn
2017	£39.4 bn
2018	£12.8 bn
2019	£5.2 bn surplus
2020	£7 bn surplus

Deficit

2015	5%
2016	4%
2017	2%
2018	0.6%
2019	0.2% surplus
2020	0.3% surplus

Debt target

2015	80.4%
2016	80.2%
2017	79.8%
2018	77.8%
2019	74.8%
2020	71.6%

(Expressed as a % of national income)

(Expressed as a % of GDP)

Inflation

The remit for the Monetary Policy Committee for the coming year remains the 2% symmetric CPI inflation target.

Savings during the next Parliament

The Chancellor outlined £30bn of savings that the Conservative's would make during the next Parliament should they form the next government. £13bn would come from departmental cuts, £12bn from welfare cuts and £5bn from tackling tax avoidance and evasion. There would be no tax rises.

Personal taxation

Income tax thresholds

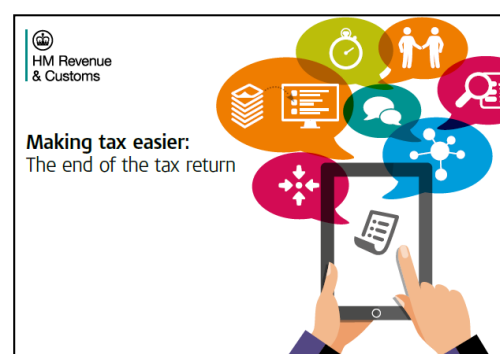
The personal tax allowance is to be increased again. In 2016 the rate at which people will start to pay income tax will rise to £10,800. The following year it will increase to £11,000 (2017).

The Chancellor also announced an above inflation rise for the 40p threshold – to £43,300 by 2017/18.

Personal tax returns

The system of annual tax returns is to be replaced by the introduction of digital tax accounts. By the end of the next Parliament individuals and small businesses will be able to see and manage their tax affairs online. Further details have been published in the government's *'Making Tax Easier'* document.

<https://www.gov.uk/government/publications/making-tax-easier>



Tax avoidance & evasion

Measures to toughen sanctions for those who continue to evade tax were announced. The existing disclosure facilities for tax evaders will be closed early. A tougher 'last chance' disclosure facility will be offered between 2016 and mid-2017, with penalties of at least 30% on top of tax owed and interest and with no immunity from criminal prosecutions in appropriate cases.

The government will also introduce tougher measures for those who persistently enter into tax avoidance schemes that fail, and will develop further measures to publish the names of such avoiders and to tackle avoiders who repeatedly abuse reliefs.

Savings & Pensions

Creating a secondary annuities market

Building on the pension freedoms announced in Budget 2014, the government now wants to allow people who have already bought an annuity to also enjoy flexibility in how they access the value of their annuity, without interfering with binding contractual requirements.

From April 2016, the government will therefore change the tax rules to allow people who are already receiving income from an annuity to sell that income to a third party, subject to agreement from their annuity provider. The proceeds of the sale could then be taken directly or drawn down over a number of years, and would be taxed at their marginal rate, in the same way as those taking their pension after April 2015.

The government published a call for evidence as part of the package of Budget documents, setting out a number of aspects. The consultation closes on 18 June.

In terms of next steps, the Treasury/DWP will:

- Change the tax treatment in relation to annuity holders wishing to realise the value of their annuities. This will include the removal of the “unauthorised payment” tax charge of up to 55% (or even 70%) that deters annuity holders from assigning their annuity. Individuals will, upon agreement with their annuity provider, have the opportunity to assign their annuity to a third party in return for a lump sum. Individuals can take this lump sum directly, or transfer the lump sum to an alternative retirement income product, drawing income down over a number of years and being taxed at their marginal rate.
- Ensure appropriate consumer protections: in cooperation with the FCA. This “may include the provision of guidance to annuity holders or the requirement to seek advice” so [annuity holders] are in a position to consider fully the impact of their decision and ensure they are receiving a competitive price

The Treasury/DWP call for evidence is available:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/413764/Creating_a_secondary_annuity_market_web_file.pdf

Pensions lifetime allowance

Chancellor Osborne announced, that from 6 April next year, the amount people can save into a pensions tax free will be reduced from to £1.25m to £1m. From 6 April 2018 the government will index the Lifetime Allowance, so as to protect savers from inflation.

Reforms to personal saving allowances

- First £1000 of savings income (£500 for higher-rate tax payers) to be tax free, from April 2016
- Automatic deduction by banks/building societies of 20% income on non-ISA savings products to cease from April 2016

The government will create a new Personal Savings Allowance from April 2016, exempting the first £1,000 of savings income from any tax for basic rate taxpayers and the first £500 for higher rate taxpayers, saving up to £200 off an annual tax bill. This will not apply to additional rate taxpayers. From April 2016, 95% of taxpayers can save completely tax free each year and choose from a range of savings products to meet their specific needs.

Because so many people will no longer pay tax on their savings, the automatic deduction of tax by banks and building societies will no longer be necessary. At present, 20% Income Tax is automatically deducted from most interest on savings outside ISAs. For those on low incomes, a 0% rate is applied, but only for those who have filled out a form to confirm they are eligible to receive gross interest. Higher rate taxpayers owe 40% tax and are therefore required to

notify HMRC of their savings income so they can pay the additional 20%. Both the opt out and the requirement to notify HMRC are complex, burdensome and poorly understood. Budget 2015 announces that the automatic deduction of 20% income tax by banks and building societies on non-ISA savings will cease from April 2016. These changes represent a major tax simplification.

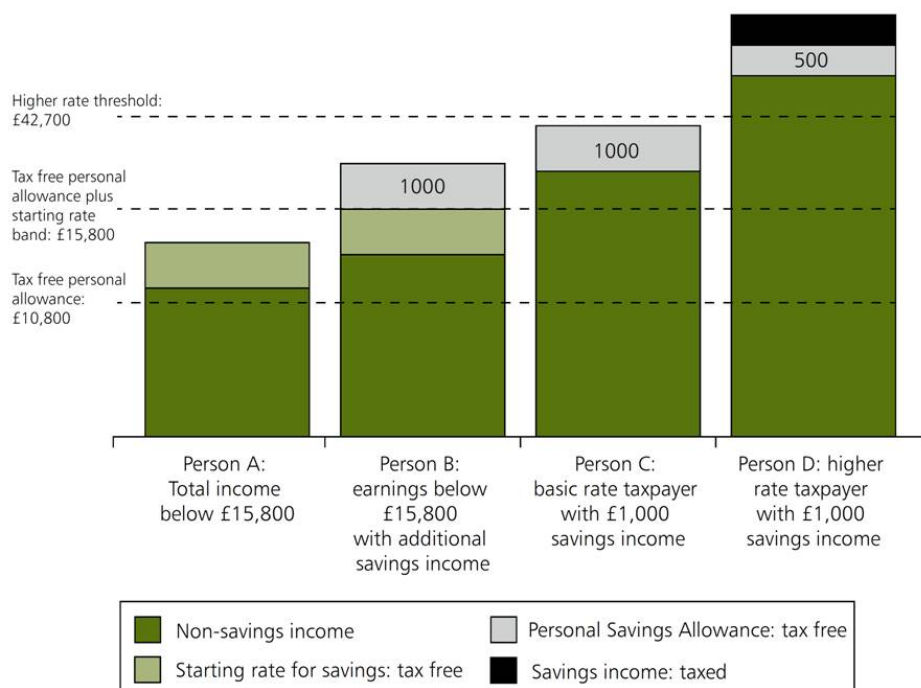


Figure 1: Taxation of Savings 2016-17 (from Red Book, p.57)

Note: The starting rate band is forecast to rise in line with inflation from 2016-17, but has been shown as £5,000 for simplicity

ISA withdrawal/replacement freedoms

- Remove withdraw-only restrictions for ISAs in a given tax year
- Extension of eligible investments to include cooperative and community benefit society listed bonds and SME securities issued by companies traded on a recognised stock exchange

The government will allow ISA savers to withdraw and replace money from their cash ISA without counting towards their annual ISA subscription limit for that year, as long as the repayment is made in the same tax year as the withdrawal. This will enable savers to access their ISA savings more flexibly without losing the benefits they have built up. These changes will be introduced in autumn 2015, following consultation with ISA providers.

Following technical consultation with the financial services industry, the government will extend the range of ISA eligible investments in 2015-16 to include listed bonds issued by a co-operative society and community benefit society and SME securities issued by companies trading on a recognised stock exchange. The government will also explore further extending the list to include debt and equity securities offered via crowd funding platforms, and will consult in summer 2015 alongside a response to the consultation on how to include peer-to-peer loans.

As a result of their popularity, the government announced in February 2015 that National Savings and Investments 65+ bonds would remain on sale until 15 May 2015. These bonds have seen unprecedented demand – the biggest opening sale of any retail financial product in Britain’s modern history – and the government has extended the issuance to ensure that eligible investors do not miss out on the market-leading rates on offer.

Help-to-Buy ISA

- New Help-to-Buy ISA intended to be made available from October 2015 whereby the government would contribute 25%

- In recognition of the impact the low interest rate environment has had on the ability of first time buyers to get on the housing ladder, Budget 2015 announces the Help to Buy ISA.

This will reward people that are making the difficult choices required to save regularly, and help them realise their aspirations of home ownership for the first time. The scheme will work by providing a government bonus to each person who has saved into a Help to Buy: ISA at the point they use their savings to purchase their first home.

For every £200 a first time buyer saves, the government will provide a £50 bonus up to a maximum bonus of £3,000 on £12,000 of savings. Savers will have access to their own money and will be able to withdraw funds from their account if they need them for another purpose but the bonus will only be made available for home purchase. Further details are provided in the document ‘Help to Buy: ISA’.

There are no eligibility limits to opening an account other than being a UK taxpayer with a national Insurance number over age 16.

Redeeming the ISA

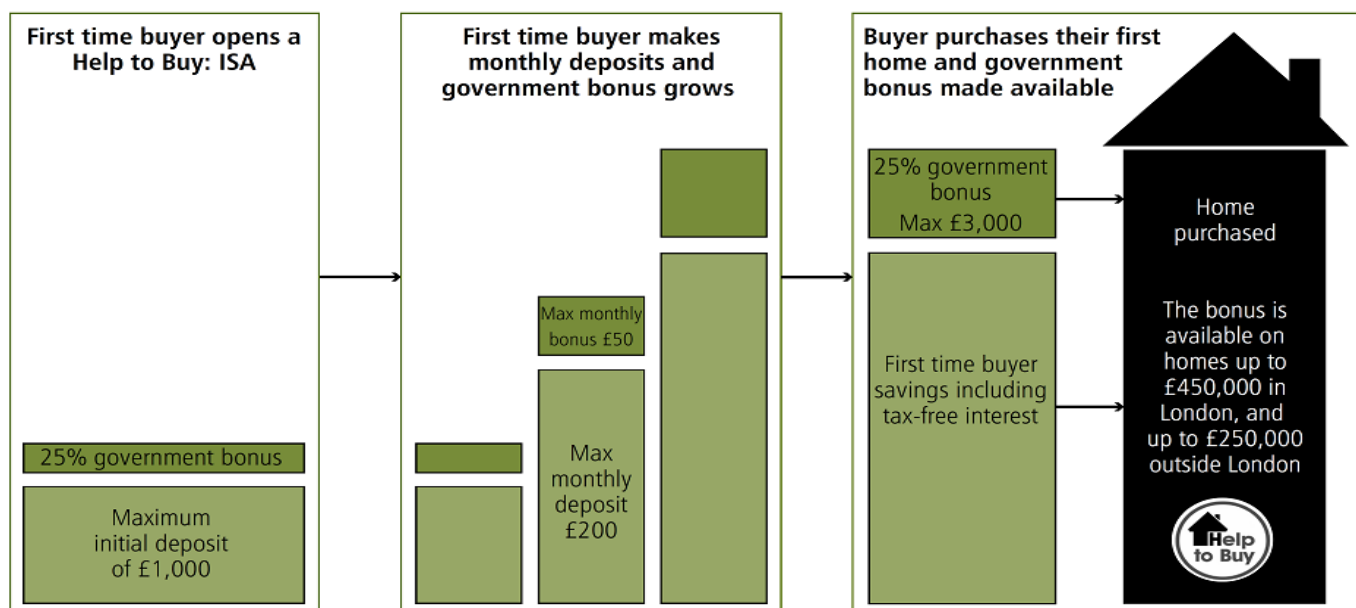
- Maximum purchase value £450,000 in London; and £250,000 all other parts of the UK
- Can only be used towards a property that is being used for the first time buyer to live in as their only residence and not buy-to-let
- Can be claimed at any time, subject to a minimum bonus amount of £400
- the government bonus will be calculated by the scheme administrator on the account balance at the point of claim.

The government intends the Help to Buy: ISA scheme to be available from Autumn 2015. The Treasury will work with the industry to finalise the operational details of the scheme

A policy paper setting out how this system will work has been published separately:

<https://www.gov.uk/government/publications/help-to-buy-isa>

Figure 2: How the “Help to Buy ISA” will work (from Red Book, p.58)



Business

Review of Business Rates

Ahead of the Budget, the government confirmed a broad review of business rates. The consultation closes on 12 June and the review will report its findings by Budget 2016.

<https://www.gov.uk/government/consultations/business-rates-review-terms-of-reference-and-discussion-paper>

Minimum wage

The adult, 18-19 and 16-17 National Minimum (NMW) wage rates will be increased following recommendations by the Low Pay Commission. The rate will increase by 3.1% to £6.70 from October 2015. The rate for apprentices will also increase, by 57p an hour to £3.30.

Diverted Profits Tax

The Chancellor announced legislation to create a new Diverted Profits Tax (or so called “Google Tax”). The tax is aimed at large multinationals who artificially shift their profits offshore.

Other tax changes

- Alterations to corporation tax rules to prevent contrived loss arrangements
- Businesses will no longer be able to take account of foreign branches when reclaiming VAT on overheads.

Insurance

Global reinsurance

The government announced last year that it would explore options to attract more reinsurance business to the UK. To build on the UK’s position as a world leader in the global insurance market, the government will work with the industry and regulators to develop a new competitive corporate and tax structure for allowing Insurance Linked Securities to be domiciled in the UK. This alternative form of reinsurance makes greater use of capital markets and is a key growth opportunity for the sector.

Insurance Taskforce

In December 2014 the government announced the establishment of an Insurance Fraud Taskforce chaired by David Hertzell. The Taskforce has published an interim report which sets out the areas that the group will explore: the encouragement of fraudulent claims; the drivers of policyholder behaviour; fraud deterrents in the claims process; and the role of fraud data. It will publish full recommendations in its final report later in 2015. The Taskforce has also made an early recommendation to the insurance industry to update guidance on the prevention of application fraud. The Association of British Insurers and the British Insurance Brokers’ Association have agreed to take forward this action by the end of 2015.

Flood defences

East of England

The government announced that it is to bring forward an additional £16.8 million of funding for flood defences in the East of England over the next four years. Key schemes will start in Canvey Island in 2016, and new projects in Great Yarmouth and Canvey Island will be funded within the 6-year programme (announced December 2014).

Housing

Housing zones

Budget 2015 sets out further progress on the government's commitments to housing and regeneration projects. The government is designating the first 20 Housing Zones outside London, and continuing to work with the other eight shortlisted areas. The government estimates that technical support and planning funding, brokerage and investment, these Zones could support up to 45,000 new homes.

What others say

General

Institute of Directors “This was a solid and responsible Budget. Few chancellors would be able to resist the temptation to binge on a £22bn windfall from the sale of bank shares this close to an election. By using it to pay down our national debt, George Osborne has shown commendable discipline.”

Chas Roy Chowdhury, head of taxation at ACCA “It contained a number of welcome measures that will go down well with voters from a range of economic backgrounds such as a further increase in the personal tax free allowance to £11,000, a new fully-flexible ISA and the new first-time buyer bonus.” On the announcement a reduction in lifetime allowance from £1.25m to £1m on pensions: “This is not the right way to deal with long-term investment. Every year the Government steps in and moves the goalposts”.

Phil Orford MBE, Chief Executive at the Forum of Private Business “Tax concessions and changes formed a key part of our members’ budget asks. We welcome the Chancellor’s decision to use taxation as a way to influence better business practice in the UK, to ensure that all businesses pay their fair dues and that the system doesn’t unfairly target many of the small to medium-sized firms that form the backbone of the UK economy”.

John Longworth, Director General of the British Chambers of Commerce (BCC) “The Budget unveiled today recognises both short-term electoral horizons and long-term economic needs. Businesses in every corner of the UK want more sustainable public finances, and they also want governments to take steps to support growth. Once again, it appears that the Chancellor has pulled off a difficult balancing act, maintaining fiscal discipline while ensuring that necessary deficit reduction doesn’t undermine the UK’s growth prospects”.

Mark Beatson, Chief Economist for the CIPD “The Government is right to cheer the rise in employment, but there are still some big questions that they have failed to answer on productivity. It’s astonishing that productivity wasn’t referenced even once in the Chancellor’s speech, and yet this is the biggest challenge that the economy and businesses face now”.

On Help to Buy ISAs

Paul Smee, Director General, CML “Those who can save for a deposit will appreciate the boost announced in today’s Budget. Such steps are welcome. But as saving for a deposit will never become easy, we still need a clear focus on the supply of new housing that will help deliver a sustainable, affordable housing market over the long term.”

John Cridland, CBI Director-General The new housing ISA offers a boost to first-time buyers looking to save for a deposit and get on the housing ladder. However, there is an urgent need to ramp up the supply of new homes to deliver the 240,000 needed each year.

On the Annuities Secondary Market

Steve Groves, Chief Executive Officer of Partnership “This year’s Budget contains good news for not only consumers but also for annuity providers. The creation of a well-regulated carefully-designed second hand annuity market could mean that peoples annuities are now more flexible, still guaranteeing an income for life but also able to provide some extra cash when it is needed. It will provide those 5 million older people who have already taken an annuity with a greater degree of flexibility”.

Gillian Guy, Chief Executive, Citizens Advice “While giving pensioners greater choice is a good idea in principle, for most people a guaranteed income stream for life is very important. Pensions choices are complicated so there needs to be the necessary support and consumer protections in place early. The government needs to carefully consider both the role of pensions guidance to help people understand the options open to them and regulated independent financial advice to inform their decision.”

Richard Lloyd, Executive Director, Which? “[These] tax break and new flexibilities on savings will prove popular with the millions who have got a raw deal on their savings in recent years. But there are still many savers whose money is languishing in extremely poor paying accounts so the financial industry must now play fair and help people get a better return.

“People who feel trapped by a poor value annuity will welcome the chance to take advantage of the new pension freedoms. But pensioners have been failed miserably in the past so the Government must keep a firm grip to ensure people aren’t ripped off again.

“We want to see strong regulation of sales practices and for anyone considering selling an annuity to have access to guidance through Pension Wise, especially given the high tax bill they could face. The Government should also consider whether consumers should have to take regulated advice, and whether using an existing savings and investment provider, like NS&I, could deliver security for people uncertain about the wider market.”

On reinsurance

Dave Matcham, Chief Executive of the IUA: “The IUA welcomes the Chancellor’s comments on global reinsurance in the Budget and looks forward to learning in more detail about his plans to help make the London market as competitive as possible.

On apprenticeships

John Cridland, CBI Director-General “It’s positive that the Government has accepted the independent Low Pay Commission’s (LPC) recommendations on the adult and youth rates. The Commission struck a careful balance, helping many low-paid workers without damaging their job prospects...it's disappointing that the Government has rejected the LPC’s recommendation on the apprentice rate.

“The National Minimum Wage has been one of the most successful policies of recent years thanks to the independence of the Commission – its politicisation is worrying. Employers must be in the driving seat when it comes to apprenticeship funding, so we welcome the announcement of the voucher system and await further details.”

Links

Treasury sites

Key Budget announcements: <https://www.gov.uk/government/news/budget-2015-some-of-the-things-weve-announced>

Budget “Red Book”:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/413949/47881_Budget_2015_Web_Accessible.pdf

Budget Documents: <https://www.gov.uk/government/publications/budget-2015-documents>

Full Budget Speech: <https://www.gov.uk/government/speeches/chancellor-george-osbornes-budget-2015-speech>

HMT Budget Website: <https://www.gov.uk/government/topical-events/budget-2015>

Press

Financial Times’ Budget Website: <http://www.ft.com/in-depth/uk-budget>

Guardian Budget Website: <http://www.theguardian.com/politics/budget-2015>

Daily Telegraph Budget Website: <http://www.telegraph.co.uk/finance/budget/>

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