Policy briefing

CII

16 March 2016

Budget 2016

Summary

Although Chancellor George Osborne's Budget did not include as many 'rabbits' as we have become accustomed to, there was still plenty of interest for people to digest. This Budget was based around five themes:

- Reform of the business tax system.
- Further devolution of power to local communities.
- New commitments to national infrastructure projects.
- Improvements to education and children's futures.
- Supporting savers.

The headline announcements included:

- A new 'Lifetime ISA' will be available for under-40s from 2017. For every £4,000 put in, the Government will top up £1,000.
- Further increases in the personal allowance and the threshold for the 40p rate of income tax.
- A further increase in Insurance Premium Tax (by 0.5%) – this will be used to pay for flood defences.
- A tax on drinks with more than 5g per 100ml of sugar (fruit based or milk based drinks excluded).

To access the main budget documents, visit: https://www.gov.uk/government/topical-events/budget-2016

General overview

The intention of the Chancellor was for a radical Budget. He has been thwarted on two fronts one economic and one political. Since his autumn statement and the relatively helpful hand offered to him by the OBR, the world economic climate has worsened and reduced his options. There were less rabbits out of hats than usual for this Chancellor. His economic options have reduced in the short term if he is to achieve his ambition to eliminate the structural deficit by the end of this Parliament. But the European referendum being brought forward to June has created a political roadblock to his radical instincts. He has already postponed thought not abandoned) his emerging plans to radical reshape pensions tax by introducing the concept of a pensions ISA in the teeth of his party's backbench concern (and some concerted lobbying). The radical intent has been tempered by any danger of diversion from the main focus of the Prime Minister and his Chancellor to deliver a 'remain' in the EU vote in June.

So much of this Budget is about sending signals re other policy fields e.g. education (the academies announcement); the Northern powerhouse and infrastructure investment though not the London airport issues – also verboten till after the referendum) which will give Osborne a set of themes while he regroups post the referendum. On pensions, while there will be postponement of his radical plans, it is unlikely they have been abandoned.

Key themes

- A surplus by 2019-20
- Double the dedicated funding for sport in primary schools, paid for by a levy on soft drinks.
- A longer school day for 25% of secondary schools
- Every school will be an academy by 2022
- Lifetime ISA: a new £4,000 ISA that you can use to save for retirement or to buy your first home
- The Personal Allowance will increase to £11,500, and the higher rate threshold will rise to £45,000 in April 2017
- HS3 between Leeds and Manchester
- £80 million to give Crossrail 2 the go-ahead
- £100 million to help people move on from emergency hostels and refuges
- New tax allowances for money earned from the sharing economy
- Fuel duty will be frozen again in 2016-17
- Making sure large companies can’t artificially shift profits out of the UK
- Tax support worth £1 billion for the oil and gas industry
- Cutting business rates for all rate payers
- Capital Gains Tax rates will be cut from 6 April 2016, but residential property will still be taxed at current rates
- Employers will pay National Insurance on pay-offs above £30,000 from April 2018
- Corporation Tax will be cut again to 17% in 2020
- Class 2 National Insurance contributions (NICs) for self-employed people will be scrapped from April 2018
- New stamp duty rates for commercial property from 17 March 2016
- More funding to protect homes and businesses from flooding

The Chancellor’s speech

Word cloud

Political response – Official Opposition

Opposition leader Jeremy Corbyn said in response that Britain's economic recovery is "*built on sand*" and George Osborne's 2016 Budget is the "*culmination of six years of his failures*". The Labour leader said the Chancellor has failed to balance the books, adding that the Budget has "*unfairness at its very core*" and will be "*paid for by the people who can least afford it*".

"*Growth is revised down last year, this year and every year that's forecast - business investment is revised down, government investment revised down. It was a very good thing that the Chancellor was blaming the last government because he was the Chancellor in the last government.*"

General economic overview

Economic growth forecast

The independent Office for Budget Responsibility (OBR) growth forecast for the UK economy is as follows:

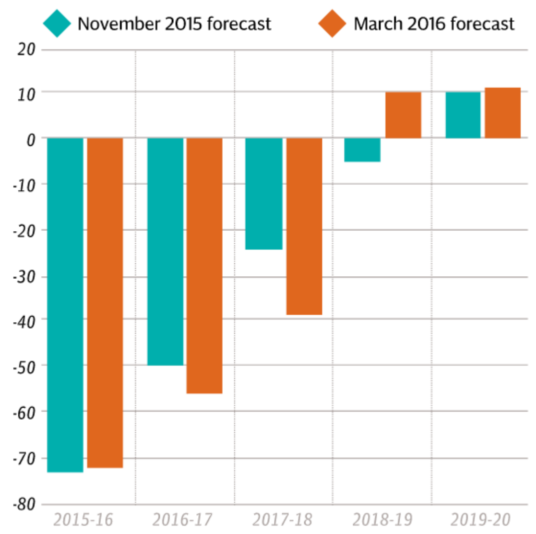
2016	2%
2017	2.2%
2018, 2019, 2020	2.1%

These figures have been revised downwards from the November 2015 figures.

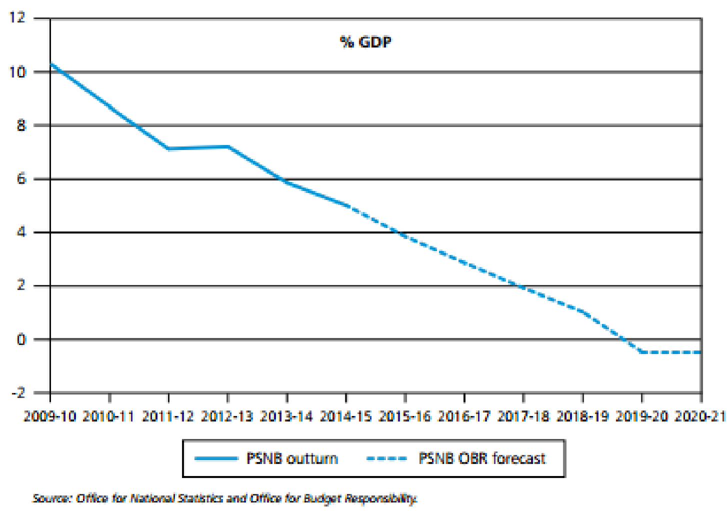
The public finances

UK Deficit and surplus

The Chancellor announced a rise in the deficit for 2016-17 and 2017-18 (from his November 2015 figures) but also a rise in the surplus form 2018-19 and 2019-20.



Public sector net borrowing – to 2021



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Personal taxation

Income tax rates and thresholds

The Chancellor once again raised the personal tax allowance. From 2017-18, the tax-free allowance will rise to £11,500 (from £110,00 in 2016-17). The higher tax rate threshold will also increase. The new level at which people will start paying 40 per cent income tax will be £45,000 by 2017-18. At present this figure is £42,385.

Savings & Pensions

Financial Advice Market Review

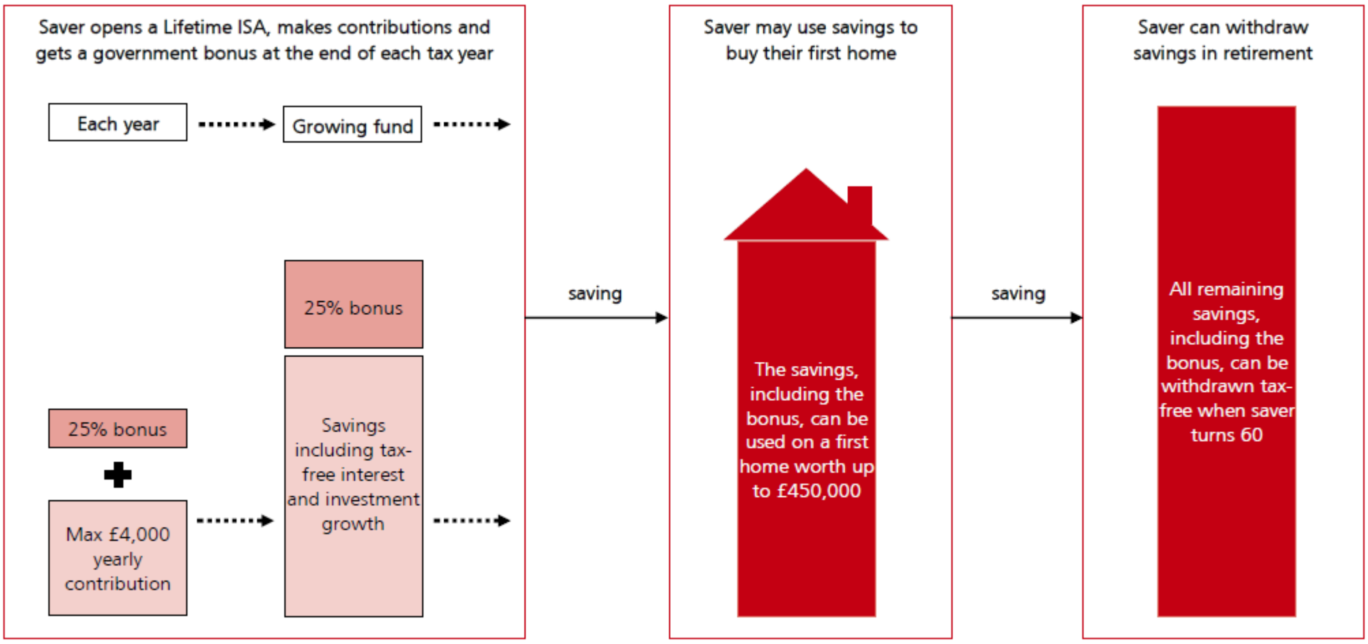
Following the Government's Financial Advice Market Review (FAMR) final report, published earlier this week, the Treasury committed to implement the following proposals:

- Increase the tax and NICs relief available for employer-arranged pension advice from £150 to £500 from April 2017 – this will ensure that the first £500 of any advice received is eligible for the relief.
- Consult on introducing a Pensions Advice Allowance over summer 2016, this will allow people to withdraw £500 tax free before the age of 55 from their defined contribution pension to redeem against the cost of financial advice – the exact age at which people can do this will be determined by consultation.
- Consult on amending the definition of regulated advice in the existing Regulated Activities Order to bring it in line with that of the Markets in Financial Instruments Directive – this would mean that regulated advice is based upon a personal recommendation
- To help the next generation to clearly view their pension savings, the government will ensure the industry designs, funds and launches a pensions dashboard by 2019. This will mean an individual can view all their retirement savings in one place.

Lifetime ISAs

The Government announced in Budget 2016 what appears to be a first phase towards reform of the pensions tax relief system, with a move towards an incentivised Taxed-Exempt-Exempt (TEE) model.

Lifetime ISA system explained (from HM Treasury Lifetime ISA Technical Note, p.1, Chart 1.A)



- From 6 April 2017, every adult under 40 will be able to open one Lifetime ISA and save £4,000. In other words, the holder's contributions into this ISA will have been subject to tax (either income or business tax if the holder is an employee or business owner respectively).
- From 5 April 2018, each Lifetime ISA will be subject to annual bonus from the Government, currently 25%. This will continue and be paid annually at the end of each tax year until the holder reaches age 50.
- Like other types of ISAs, investments from the funds including the bonus would be exempt from capital gains tax.

- If the holder wishes to use the Lifetime ISA to purchase a first residential property in the UK, all its contents including the accumulated bonuses and investments up to £450,000 can be used. Two or more Lifetime ISAs can be used on the same property.
- Once the holder reaches age 60, the Lifetime ISA can be accessed exempt of tax.

Effectively this is variation of the TEE system that adds a Government bonus. In effect, it has two benefits:

- It partially allays public misgivings that the second "Exempt" could become "Taxed" in a future change of Government policy;
- In so doing, this also allays the intergenerational struggle that younger savers (at least those under 40) will be penalised.

The government will consider whether Lifetime ISA funds plus the government bonus can be withdrawn in full for other specific life events in addition to buying a first home. The government proposes that savers can make withdrawals at any time for other purposes, but with the bonus element of the fund plus any interest or growth on it returned to the government, and a 5% charge applied.

The government will also explore with the industry whether there should be the flexibility to borrow funds against the Lifetime ISA without incurring a charge if the borrowed funds are fully repaid. In the US some retirement plans allow 50% to be borrowed up to a maximum of $50,000. Further details on the Lifetime ISA are set out in a document published alongside Budget.

Help to Buy ISAs

The Help to Buy: ISA will be open for new savers until 30 November 2019, and open to new contributions until 2029.

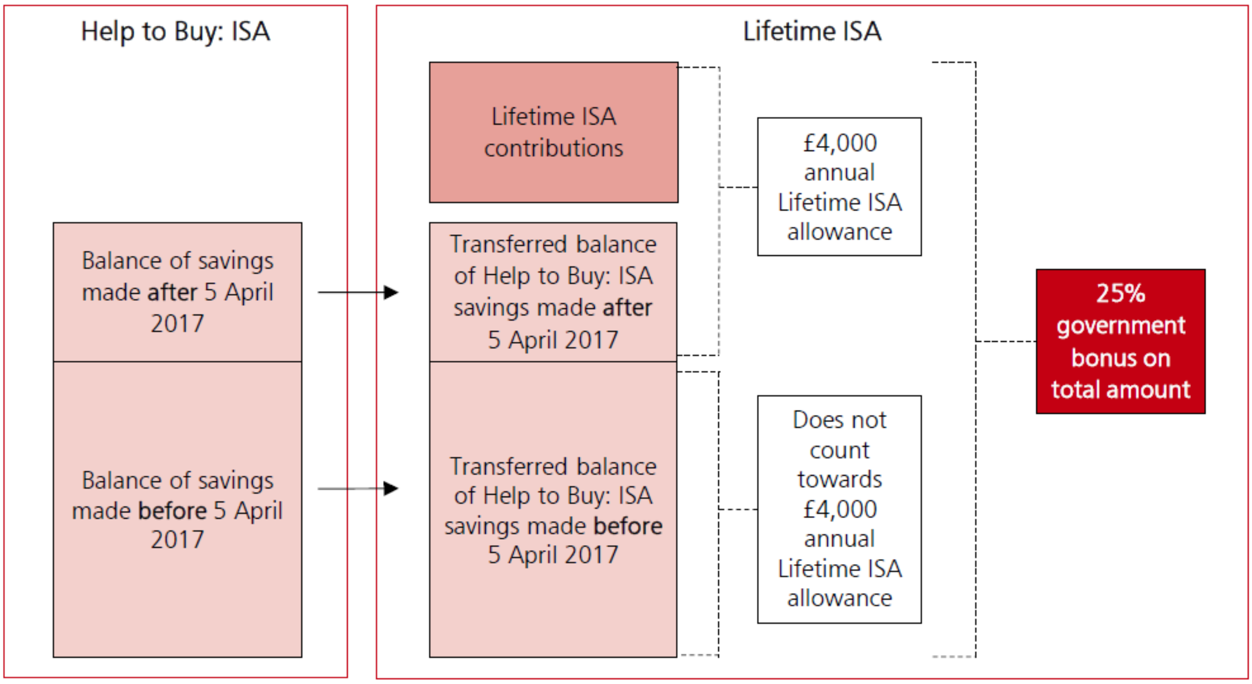
Savers will be able to save into both a Help to Buy: ISA and a Lifetime ISA, but will only be able to use the government bonus from one of their accounts to buy their first home. For example, if an individual holds a Help to Buy: ISA and a Lifetime ISA they may:

- Use their Help to Buy: ISA with its government bonus to purchase their first home, and save their Lifetime ISA with its government bonus for retirement.
- Use their Lifetime ISA with its government bonus to purchase their first home, and withdraw the funds held in their Help to Buy: ISA to put towards this purchase without the government bonus.
- Use their Help to Buy: ISA, including its government bonus, to purchase their first home and withdraw funds from their Lifetime ISA to put towards the purchase. In this instance the government bonus on the Lifetime ISA savings would be returned to government and the individual would be required to pay a charge, as set out below in paragraph.

During the 2017-18 tax year only, those who already have a Help to Buy: ISA will be able to transfer these funds into a Lifetime ISA and receive the government bonus on those savings.

- Any Help to Buy: ISA funds that were saved prior to the introduction of the Lifetime ISA on 6 April 2017 will not count towards the Lifetime ISA annual contribution limit.
- Contributions made after this point to the Help to Buy: ISA and transferred across will count against the annual contribution limit.
- At the end of the tax year they will receive a bonus on the full amount of the transferred Help to Buy: ISA and their Lifetime ISA contributions.
- In line with the normal Lifetime ISA rules, Help to Buy: ISA savers will be able to purchase a first home with the government bonus 12 months from the date of opening their Lifetime ISA.

Transferring funds from Help to Buy ISA to a Lifetime ISA (from HM Treasury, Lifetime ISA Technical Note, p.4, Chart 1.B)



Other ISAs

The ISA allowance for all other ISAs will rise from £15,240 to £20,000 in April 2017.

Help to Save for people on low incomes

The government will introduce a new Help to Save scheme for those on low incomes who wish to regularly set aside some of their income. The scheme will be open to 3.5 million adults in receipt of Universal Credit with minimum weekly household earnings equivalent to 16 hours at the National Living Wage, or those in receipt of Working Tax Credit. It will work by providing a 50% government bonus on up to £50 of monthly savings into a Help to Save account. The bonus will be paid after two years with an option to save for a further two years, meaning that people can save up to £2,400 and benefit from government bonuses worth up to £1,200. People will be able to use the funds in any way they wish. Contributions can continue to be made with the bonus paid up to the age of 50.

Public financial guidance

Further to the public financial guidance consultation which closed in Dec 2015, the Government has observed that:

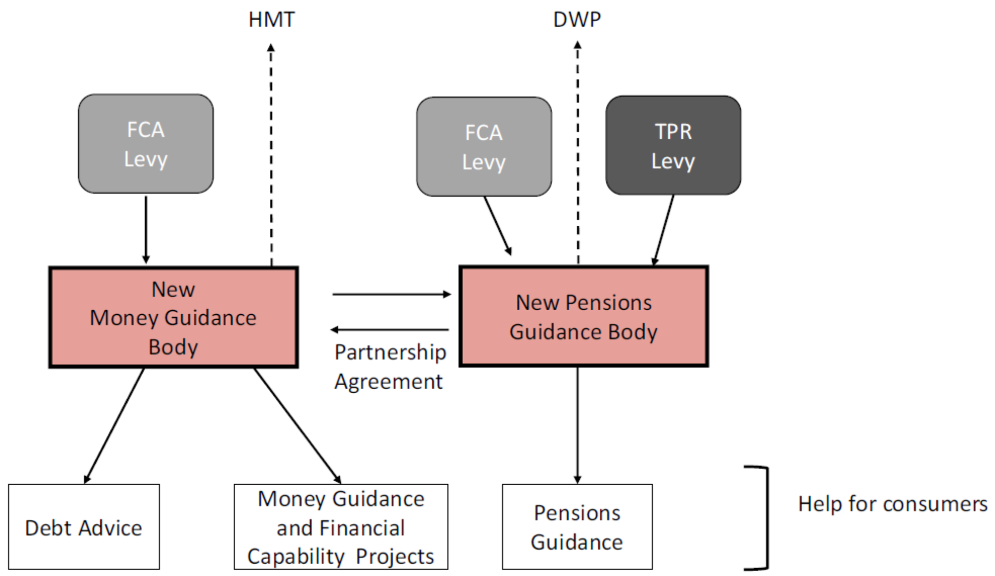
- there are both gaps in the guidance available to consumers and duplication of content within MAS, TPAS and Pension Wise, which is confusing for consumers.
- the three bodies have independent strategies and business plans and there is no requirement for them to consult the other publicly funded bodies in developing guidance.
- a lot of support for restructuring the current arrangements to improve the offer to consumers.
- the government agrees on the need to restructure the current arrangements and wants the publicly funded guidance bodies to fill gaps in the market, using resources effectively to complement other providers so that consumers can always find the information they need.

Therefore the Government is proposing a new delivery model to replace the Money Advice Service, and merge the functions of TPAS and Pension Wise.

The new delivery model is made up of:

1. A new pensions guidance body charged with making sure that consumers can get all their pensions questions answered in one place. This will incorporate the functions currently provided by TPAS and Pension Wise, and some pensions guidance provided by MAS.
2. A new slimmed down money guidance body, charged with equipping consumers to make more effective financial decisions by:
    - Identifying gaps in the financial guidance market
    - Commissioning targeted debt advice, money guidance and financial capability projects or services to fill any gaps identified
    - Providing funding to third parties to deliver these projects or services

New Public Financial Guidance system explained (from HMT Public Financial Guidance Review Proposal for Consultation, p.11, Figure 2A)



Insurance

Insurance Premium Tax

The standard rate of Insurance Premium Tax (IPT) will be increased from 9.5% to 10%. This will fund increased investment in flood defence and resilience. This ensures that the impact of the rate increase is spread broadly across the entire general insurance industry. IPT is a tax on insurers. However, if they do pass the cost of this rate increase on to their business and household customers, the average combined home and contents insurance would only increase by £1, and the average motor insurance premium by £2 per year.

All the revenue raised from this increase in IPT will be invested in an additional boost to spending on flood defence and resilience of over £700 million by 2020-21. The government will increase maintenance expenditure in England by £40 million per year, and deliver even more flood defence schemes – including investing over £150 million in Leeds, York, Calder Valley, Carlisle and wider Cumbria.

Claims Management Company Regulation

The government is clamping down on the rogue claims management companies (CMCs) that provide bad service and bombard customers with nuisance calls. Alongside action to cap the amount that CMCs charge, Budget 2016 announces that the government accepts the Insurance Fraud Task Force recommendations into the regulation of CMCs. The new regime will be tougher and will ensure CMC managers can be held personally accountable for the actions of their businesses. In order to ensure that the new regulatory regime is implemented effectively, the government intends to transfer responsibility for regulating CMCs to the Financial Conduct Authority.

Driverless cars

The government will look to establish the UK as a global centre for excellence in connected and autonomous vehicles:

- conduct trials of driverless cars on the strategic road network by 2017
- consult this summer on sweeping away regulatory barriers within this Parliament to enable autonomous vehicles on England's major roads
- establish a £15 million 'connected corridor' from London to Dover to enable vehicles to communicate wirelessly with infrastructure and potentially other vehicles
- carry out trials of truck platooning on the strategic road network
- start trials of comparative fuel price signs on the M5 between Bristol and Exeter by spring 2016 to drive fuel price competition and help motorists save money

Skills

Apprenticeships

From April 2017, employers will receive a 10% top-up to their monthly levy contributions in England and this will be available for them to spend on apprenticeship training through their digital account. The government will set out further details on the operating model in April and draft funding rates will be published in June.

Financial Services

Women in Financial Services review

Jayne-Anne Gadhia, CEO of Virgin Money, will publish her review into the representation of women in senior managerial roles in the financial services industry on 22 March.

Housing

Stamp Duty Land Tax (SDLT): reform of non-residential rates

The government will change the calculation of SDLT on freehold and leasehold premium non-residential transactions so the rates apply to the portion of the purchase price within each band.

The government will also amend the rates and thresholds so that the portion of the transaction value up to £150,000 is charged at a rate of 0%, the portion between £150,001-£250,000 is charged at a rate of 2%, and the portion over £250,000 is charged at a rate of 5%. SDLT on non-residential leasehold rent transactions, where the rates already apply to the portion of the purchase price within each band, will be reformed to include a new 2% rate for leasehold transactions with a Net Present Value over £5 million. These changes will take effect on and after 17 March 2016.

What others say

General

SNP Treasury Spokesperson Stewart Hosie welcomed the Government's measures on tax avoidance, but said that it would have been better to review the regime imposed on the self-employed. He also welcomed measures to support the North Sea oil and gas industry and the freezes on fuel duty and whisky duty. Mr Hosie said that the Chancellor had "skipped over" his record in the last Parliament, where Mr Osborne had missed his targets.

Conservative Treasury Committee Chair Andrew Tyrie suggested this was Budget had been the speech of a democratic socialist On the cuts to the capital gains tax, lifetime ISAs, and income tax thresholds, he commended the Chancellor. Mr Tyrie concluded that there was a considerable amount to consider and his Committee would produce a report in due course.

Huw Evans, Director General of the Association of British Insurers (ABI) said:"A further increase in IPT is disappointing news. Increased investment in flood defences is vital but should be part of core Government expenditure, not an afterthought paid for by raising taxes on people and businesses who do the responsible thing in protecting themselves through insurance".

On the new Lifetime ISA: "Anything that helps people to save more should always be welcomed. But for most people's retirement outcomes, employer contributions paid into a workplace pension will be critical. The test for success for the lifetime ISA will be whether it increases overall retirement savings and does not undermine the auto-enrolment programme; this must not be a backdoor to pension ISA.

Terry Scuoler, Chief Executive of EEF, the manufacturers' organisation, said: "If there was ever a time when industry wanted to be left alone in a Budget then this is it. The Chancellor heeded business warnings of no major new policies which will add to costs already in the pipeline, particularly as manufacturers are at the sharp end of many of the big global challenges he alluded to. The icing on the cake would have been setting these in the context of a broader strategy for industry which still remains a gap in the government's armoury"

Caroline Rookes, Chief Executive for the Money Advice Service commented: We will work with the government to fully consider the implications of this announcement. In the meantime we will continue to fulfil our statutory role to help people make the most of their money"

Edmund King OBE, AA president, said: "The Chancellor has listened to our campaign against a 3% hike in Insurance Premium Tax and 0.5% increase is better than expected. Using it for flood defences is helpful but it simply replaces past spending cuts and in effect targeting motorists to pay for flood alleviation is robbing Peter to pay Paul.

Richard Lloyd, executive director Which? said: "Following our calls for the Government to lead the introduction of a pensions and savings dashboard, we welcome the commitment shown in today's Budget. We hope that the industry uses the next three years to ensure it is a well-tested, market-wide pensions and savings dashboard that will help all consumers make sound financial decisions on retirement income."

Links

Treasury sites

Key Budget announcements: https://www.gov.uk/government/news/budget-2016-some-of-the-things-weve-announced

Budget "Red Book": https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508193/HMT_Budget_2016_Web_Accessible.pdf

Budget Documents: https://www.gov.uk/government/publications/budget-2016-documents

Full Budget Speech: https://www.gov.uk/government/speeches/budget-2016-george-osbornes-speech

HMT Budget Website: https://www.gov.uk/government/topical-events/budget-2016

Press

Financial Times' Budget Website: http://www.ft.com/indepth/uk-budget

Guardian Budget Website: http://www.theguardian.com/uk/budget

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

CII Group Policy & Public Affairs
16 March 2016

The CII is the world's leading professional organisation for insurance and financial services, with over 120,000 members in 150 countries. We are committed to maintaining the highest standards of technical expertise and ethical conduct in the profession through research, education and accreditation.

For more information on the CII and its policy and public affairs function, including examples of the range of issues in financial services and insurance that we cover, please see: www.cii.co.uk/policy.

Appendix A

Action to raise productivity

Policy area and key evidence	Existing policies	Budget 2016 measures
	Encouraging long term investment	
Business investing for the long term • An even more competitive tax system • Rewards for saving and long term investment *OECD research suggests that corporate taxes are the most damaging to growth*	**Cut corporation tax** to 18%, the lowest in the G20 **Annual Investment Allowance** set at £200,000, its highest ever permanent level	A £6.7 billion package of cuts and **reforms to business rates** **Cutting Capital Gains Tax** and **expanding entrepreneur's relief** **Cutting corporation tax to 17%** in 2020
Skills and human capital • A highly skilled workforce • World-leading universities, open to all who can benefit *16-24 year olds in England and NI still ranked in the bottom 4 of 22 countries for literacy and numeracy skills*	**An apprenticeship levy** to fund more high quality apprenticeships Protected the **core schools budget** **Removed HE student numbers cap**	All schools in England **academies** by 2022 Accelerating the **move to fairer funding for schools** **Review of post 16 maths** **Northern Powerhouse Schools Strategy**
Economic infrastructure • A modern transport system • Reliable and low carbon energy • World-class digital infrastructure *UK investment as a share of GDP has been in the lowest 25% of OECD countries for 48 of the last 55 years*	**Over £100bn infrastructure investment** this Parliament **National Infrastructure Commission** to improve long term planning A **Roads Fund** from 2020-21 to provide certain long term investment	Green light to **Crossrail 2, and High Speed 3** between Leeds and Manchester New **National Infrastructure Commission studies** on 5G and the Cambridge-Milton Keynes-Oxford corridor
Ideas and Knowledge • High-quality science and innovation *New ideas are central to long run growth and there is a robust link between R&D spending and productivity*	Protected **science funding** in real terms £6.9bn for **research infrastructure** by 2021	**Funding for doctoral loans** Making the **UK a centre for driverless vehicles**
	Promoting a dynamic economy	
Flexible, fair markets • Planning freedoms, more houses to buy • A higher pay, lower welfare society • More people able to work and progress *A productive economy ensures work always pays and uses land efficiently*	Introduced a new **National Planning Policy Framework** Doubled the **affordable housing** budget at SR2015 A new **National Living Wage**	Launching a £1.2bn **Starter Homes Land Fund** Supporting areas to establish new settlements **Highest ever National Minimum Wage** (for under 25s)
Productive finance • Financial services that lead the world in investing for growth *Financial services generated £58 billion in net exports in 2014 and facilitate investment in the wider economy*	Launched the **British Business Bank** **Boosted competition in the banking market** and encouraged new entrants to ensure a better deal for SMEs	**Over £250m Midlands Engine Investment Fund** **Help to Grow** will support over £200m of finance in the next 2 years, from spring 2016
Openness and competition • Competitive markets with less regulation • A trading nation open to international investment *Improvements in competition in the 80s and 90s accounted for up to 20% of industry productivity growth in the decade to 2005*	Committed to **cut £10 billion of red tape** this Parliament Published **"A Better Deal"** with measures to open up markets Helped make the **UK the number 1 destination in Europe for FDI** projects	Consulting on **improving choice and competition** in legal services and **increasing transparency of local authority procurement** A goal to halve turnaround times for **accessing trade finance**
Resurgent cities • A rebalanced economy and a thriving Northern Powerhouse. *Cities with fragmented governance structures have up to 6% lower levels of productivity than those that do not*	**Signed landmark mayoral devolution deals** with Greater Manchester, Sheffield City Region, the North East, Tees Valley, Liverpool City Region and the West Midlands	**£1.2bn City deal for Cardiff, and deals for East Anglia, West of England and Greater Lincolnshire** **A Thames Estuary 2050 Growth Commission**

[1] *All sources can be found in the accompanying sources document*

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