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Informed Choice
INDEPENDENT FINANCIAL PLANNING

budget 2017

highlights and analysis

About the authors

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Martin is proud to be a Certified Financial Planner (CFP™) Professional; this is the only globally recognised mark of excellence in Financial Planning. He is also a Fellow of the Personal Finance Society.

In addition to his work with elderly clients and trustees, Martin is responsible for the day to day running of Informed Choice, managing the investment management research and all aspects of marketing.

Shelley McCarthy is a Chartered Wealth Manager and Certified Financial Planner (CFP™) professional. As Financial Planning Director at Informed Choice, she specialises in Financial Planning including lifetime cash flow forecasting and Inheritance Tax Planning.

Shelley has over sixteen years of experience in retail financial services, previously working with a national IFA firm in a number of different roles, including as a wealth adviser.

She holds the Diploma in Financial Planning from the Chartered Insurance Institute (CII) including advanced qualifications in taxation and trusts, personal investment planning, pensions and investment portfolio management.

About Informed Choice

We help people just like you find the answers to the big financial questions, making sure you can live a meaningful life as a result.

As an award-winning firm of Chartered Financial Planners working in Cranleigh since 1994, we know a thing or two about Independent Financial Planning.

Our team of Financial Planners use their knowledge and experience to deliver impartial and unbiased independent financial advice which will remove stress, bring your goals closer and deliver real financial security.

We are a firm of Chartered Financial Planners. This means we have satisfied rigorous criteria relating to professional qualifications and ethical good practice. It means you can be confident that you are dealing with one of the UK's leading firms that is wholly committed to providing you with the best possible advice, service and support.

To find out more about our advisory and planning services, please visit www.icfp.co.uk or follow us on Twitter @InformedChoice. You can call us on 01483 274566 if you have any questions.

Introduction

The Chancellor of the Exchequer Philip Hammond delivered his first Budget to parliament at lunchtime today, in what was positioned as an 'upbeat' speech designed to help Britain prepare for its 'new chapter' after Brexit.

Hammond started his Budget speech by explaining we have economic growth which is confounding the experts, with employment at a record high. There was, however, no room for complacency, as the Chancellor continued to tighten his belt and take the next steps in preparing Britain for its new global future.

The self-employed and business owners are likely to feel unfairly treated in this Budget, as a result of National Insurance contribution rises for the self-employed and a dividend tax allowance reduction for shareholders.

Within this briefing note we have described the main Budget announcements as they relate to personal financial planning.

As with every Budget and Autumn Statement, the devil is often in the detail. As more details come to light, we will add blogs on specific planning topics to our website at www.icfp.co.uk.

Do call us on 01483 274566, email hello@icfp.co.uk, or follow us on Twitter @informedchoice if you would like to discuss your own investment, pension or Financial Planning as a result of the Budget or any of the contents within this document.

Economic Environment

The Chancellor positioned the unexpected strong economic growth in the UK by pointing out that, of the developed economies, the UK was second only to Germany last year. He also reported that employment has reached a new record high with 31.8m people in work.

There was a decent economic growth forecast from the Office for Budget Responsibility, who now believes the British economy will grow by 2% this year. This forecast was up from 1.4% in Autumn Statement.

They did however forecast slightly slower growth for the British economy in 2018 and subsequent years, before growing faster again at 2% in 2021.

The latest inflation figures show price inflation at 2.4% in 2017, 2.3% in 2018 and then 2% in 2019. The OBR has a potted history when it comes to the accuracy of its inflation forecasts, and much will depend on the performance of Pound Sterling during Brexit negotiations, with the impact this has on imported inflation.

Despite a short-term improvement in the public finances, Hammond was focusing on long-term measures, continuing with his programme of austerity. He confirmed that Britain's debt is now close to £1.7trn, representing £62,000 for every household in the country.

National debt is forecast to peak at 88.8% next year, which is only slightly lower than the forecast from the Autumn Statement. As a result of this national debt, we are paying £50bn a year in interest.

Pensions

Surprisingly (and welcomed by Financial Planners) there was very little in this Budget regarding pensions.

The reduction in the Money Purchase Annual Allowance (MPAA) from £10,000 to £4,000 effective from 6th April 2017 was confirmed in the Budget. This move will impact on those who flexibly access taxable benefits from their money purchase pensions, limiting the amount of contributions they can make in the future.

In response to this cut to the MPAA, Pete Glancy, Head of Industry Development at Scottish Widows, said:

"It's disappointing that the cut will go ahead as it will penalise those who need to make use of pension freedoms. Those drawing from their pension will not be able to save more than £4,000 into their pension – that's a 60% reduction in the amount people can save.

"We estimate that tens of thousands of people will be affected by this change, and especially vulnerable customers who do not have access to professional financial support.

"It's vital that we ensure support is available for those who need it, and we must remember that there will be people who have taken some money from their pension already. There's a big educational job to be done by providers, advisers and public services to ensure that the new rules are understood by customers before they make at retirement decisions."

A new 25% tax charge is introduced from midnight tonight on transfers of pensions to overseas schemes, unless the pension saver is living in that country. This is designed to combat up to 20,000 such pension transfers each year, which are often used to facilitate pension scams.

Taxation

There was disappointing news in the Budget for the self-employed, with the main rate of Class 4 National Insurance contributions rising from 9% to 10% in April 2018, and then to 11% in April 2019.

This NI contribution increase for the self-employed is expected to raise £145m a year by 2021/22 and will cost the average self-employed person an extra 60p a week.

Shareholders, including company directors, will experience a reduction in their tax-free dividend allowance. This is being reduced from £5,000 to £2,000 from April 2018.

The Chancellor announced there will be a further crackdown on tax avoidance, with a new financial penalty for professional advisers who promote schemes which are later defeated by HM Revenue & Customs.

The income tax personal allowance will rise from £11,000 to £11,500 on 6th April 2017. The higher rate income tax threshold rises from £43,000 to £45,000.

Savings

The Chancellor confirmed the launch in April of a new savings bond from National Savings & Investments. This will offer an interest rate of 2.2% but is limited to deposits up to £3,000.

Whilst interest from this new three year fixed term savings bond will be taxable, savers will be able to use their personal savings allowance, where available.

The Lifetime ISA becomes available, as previously announced, from 6th April 2017.

Businesses

The Chancellor explained he wanted to make Britain the most attractive place in the world to start and grow a business. The reduction in corporation tax to 17% in 2020 was confirmed.

Many businesses, especially retailers, are concerned about higher costs ahead of the upcoming business rate revaluation. The Chancellor announced a smoother approach to rate revaluations in the future, although this does not appear to apply to this revaluation round.

Businesses who currently benefit from the small business rate relief scheme will have a cap on rate increases, at a maximum of £50 per month.

Smaller local pubs will also benefit from a £1,000 a year discount in 2017, where their rateable value is less than £100,000. This covers 90% of pubs.

There will also be a £300m fund for local authorities to apply discretionary relief to businesses facing significant rate increases. This will be applied on a case-by-case basis, to those businesses that can demonstrate hardship due to rising business rates.

Social care

There was acknowledgement in the Budget that social care funding faces challenges and is "under pressure".

The Chancellor announced £2bn of grant funding for local authorities over the next three years. £1bn of this funding will be made available this year, with £500m a year in the following two years.

To address the longer term challenges of social care funding, the Chancellor announced there would be a Green Paper published in the summer, exploring all of the available options, with the exception of exhuming Labour's previously suggested death tax.

According to former Pensions Minister Steve Webb, now Policy Director at Royal London, this Green Paper will simply prolong the decades of dithering on how to fund social care. He reminds us we have had 20 years of reviews and commissions on the subject, and what is lacking is the political courage to implement a system which protects all families from potentially huge care costs.

Because 24 local authorities are responsible for more than half of all delayed discharges from hospital, the Chancellor promised that the Department of Health and Department for Communities and Local Government will work together to support these areas.

Miscellaneous

- A new minimum excise duty on cigarettes which is based on a price of £7.35 a packet.
- There were no additional increases announced for alcohol or tobacco duties.
- A freeze on vehicle excise rates for hauliers and the HGV Road User levy.
- £90m of the infrastructure fund announced last year to be allocated to transport spending in the north of England and £23m for the Midlands.
- £270m allocated for investment in new technologies, including driverless cars. £16m allocated towards 5G mobile technology.
- Signs that the 'nudge' approach of the sugar tax is working, as this is bringing in less than originally expected.