

## The Economy

Philip Hammond delivered his second Budget on 22 November 2017. It was, he said, a Budget for “a future that will be full of change, full of new challenges and above all full of new opportunities” and one in which he set out his resolve “to look forwards not backwards”.

The economic backdrop gave him very limited room for largesse. The Office for Budget Responsibility (OBR) revised its growth predictions down from 2% to 1.5% for 2017, to 1.4% for 2018, 1.3% for 2019 and 2020 before returning to 1.5% in 2021. The uncertainty over the impact of Brexit makes it likely that the figures will be revised again by the time of the next Budget in 2018.

CPI inflation is forecast to be 2.7% this year falling to 2.4% next year, 1.9% in 2019, 2.0% in 2020 and then stabilising at that level.

The deficit – the amount by which the Government’s annual expenditure exceeds its income – is now expected to be £49.9 billion for 2017/18 (£8.4 billion lower than the estimate in the Spring Budget), £39.5 billion in 2018/19, £34.7 billion in 2019/20 and £32.8 billion in 2020/21. Overall, across the period 2017/18 to 2021/22, the deficit is now forecast to exceed the levels set out in the Spring Budget by £29.1 billion. No date has been set for achieving a surplus.

The national debt is now forecast to reach £1.791 trillion this year and to hit a staggering £1.909 trillion in 2022/23. Interest on this debt is currently running at over £40 billion a year, which is more than the combined annual defence and Home Office budgets.

The Budget Red Book once again highlights the UK’s poor productivity, which remains well below the average for the G7 and other OECD countries. This has been a persistent problem for the UK economy since the financial crisis in 2008. Although a number of measures were outlined by the Chancellor, the hill that has to be climbed is both steep and high.

## Tax changes for individuals

The Chancellor confirmed that the personal allowance will increase to £11,850 from 6 April 2018. The higher rate threshold will increase to £46,350 from the same date.

The Government’s aspiration is still for the personal allowance to reach £12,500 and for the higher rate threshold to be set at £50,000 by the end of the current Parliament.

The Individual Savings Account (ISA) investment limit will remain at £20,000 for the 2018/19 tax year, while the limit for Junior ISAs and Child Trust Funds will increase to £4,260.

Perhaps surprisingly, there were no further changes to tax relief on payments to pension funds and the Lifetime Allowance will increase from £1 million to £1,030,000 from 6 April 2018.

Employees will not be taxed on a benefit in kind on electricity provided by their employer to recharge electric vehicles.

Time limits for assessing non-deliberate offshore tax non-compliance will be extended to at least 12 years, giving HMRC further powers to tax undeclared income from overseas sources. HMRC is also being given additional resources to pursue tax evasion and avoidance and to collect tax debts.

## Stamp Duty Land Tax (SDLT) & Housing

The surprise announcement was undoubtedly the permanent – insofar as anything is ever permanent in tax – abolition of SDLT on the first £300,000 of the property cost (on properties of up to £500,000) for first time buyers.

The Chancellor also set out a long term goal to build 300,000 new houses a year by the mid-2020s. He threatened to use compulsory purchase powers where land is held by developers but not being built on for financial reasons and has also launched a review into delays in permitted development projects.

## Business taxation

The 2017 business rates revaluation provoked significant discontent in the small business community and Mr Hammond introduced reliefs in the Budget which went some way to addressing this. The reliefs included a £1,000 discount for pubs with a rateable value below £100,000 and on 22 November the Chancellor confirmed that this relief would continue next year. He also said that business rates will rise in line with CPI inflation (rather than RPI) from April 2018 and that with effect from the next revaluation (currently due in 2022) revaluations for non-domestic properties would be made three-yearly rather than five-yearly. Legislation will also be brought forward to address the so called "staircase tax".

There had been much speculation in the press about the Government's reaction to a recent report by the Office for Tax Simplification which drew attention to the level of the VAT threshold and contrasted it with much lower thresholds elsewhere in the EU. There had been suggestions that it could be lowered from the current £85,000 to as little as £25,000 forcing many more small businesses to charge their customers VAT. In the event Mr Hammond elected to freeze the VAT registration threshold at its current level until April 2020, but in the meantime to consult on the issue. Lowering the limit would certainly raise more tax and overcome the perceived barrier to growth that the threshold is said to represent (with some businesses deliberately remaining just below the threshold to avoid having to register and charge VAT) but it would also add a further burden to the smallest businesses.

Vehicle Excise Duty will increase for new diesel cars that do not meet the latest emissions standards but not for vans.

A further freeze on fuel duty will help both businesses and individuals.

The indexation (inflation) allowance companies can use when calculating capital gains will be frozen from 1 January 2018.

Changes are proposed to the Enterprise Investment Scheme, significantly increasing the amount that can be invested from 6 April 2018 in "knowledge-intensive" companies to further encourage innovation.

Having placed the onus on public sector bodies to decide whether individuals working through limited companies should be treated as employees, the Government will now consult on extending that responsibility to the private sector.

The rate of the R&D expenditure credit will be increased from 11% to 12%

## Tax administration

There were no further announcements on Making Tax Digital (MTD) in the Budget, but the Government did make a significant concession in July, recognising the significant additional burden compliance could have represented for many small businesses.

MTD will now only be compulsory for VAT registered businesses with sales above the VAT threshold from April 2019 and then only for VAT purposes and not for income tax or corporation tax. Other businesses and landlords will not be mandated to use MTD until it has been proved to work and not before April 2020 at the earliest.

We welcomed the Government's change of heart on this as we have always taken the view that MTD should be optional, but we do believe that digital record keeping and the use of accounting software and mobile apps can yield advantages for businesses of all sizes. Our Business Solutions team are happy to offer support, by recommending and providing software and Apps or training.

## Last word

The Chancellor played it safe on 22 November and with the uncertainty over the effect Brexit is likely to have on the UK economy, perhaps that was not entirely surprising.