

8 July 2015

## Summer Budget July

### Summary

Chancellor George Osborne delivered the first Conservative Budget for 18 years. Unconstrained by being part of a coalition administration, Mr Osborne has set out a broad plan of action which seeks to define the political and economic landscape to 2020 and beyond. The headline announcements include:

- A new National Living Wage (to reach £9 p/h by 2020).
- The abolition of Non-Domicile status.
- A Green Paper on pensions tax relief.
- A new levy on large employers to pay for new apprenticeships.
- An increase in the personal allowance and the threshold for the 40p rate of income tax.
- An increase in Insurance Premium Tax to 9.5% and a review of the regulation of Claims Management Companies.

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

### General overview

Chancellor George Osborne delivered the first Conservative Budget for 18 years. Unconstrained by being part of a coalition administration, Mr Osborne set out a broad plan of action which seeks to define the political and economic landscape to 2020 and beyond. In fiscal terms he remains constrained by current the state of the deficit and has to make changes against a more febrile economic environment, as a result of the continuing Greek crisis, than he would have liked.

As ever, this is a very political Budget from a Chancellor who not only wants to complete deficit reduction for economic reasons but who is a true believer in the smaller state. This first Budget is important as it sets in train the reductions in welfare spending as well as across a number of other spending departments. These will be eye-watering for some, though perhaps over a slower trajectory than expected. Crucially, further constrained by a self denying pledge not to cut schools, health and international development budgets and an election pledge to not increase VAT, NI or income tax his options are narrowed. Indeed his party has been clear that some benefits, notably for those for pensioners, are sacred cows. This has left Mr Osborne with stark options for cutting and reforming.

The Budget set out well established themes: promoting a high wage, low tax country; a one nation budget with a focus on reforming welfare; and driving an infrastructure plan with an emphasis on a northern powerhouse and a focus on tackling weak productivity. There was a strong focus on welfare reforms, although other spending cuts will be detailed in the autumn Spending Review. As ever with Mr Osborne there were a number of surprises: the focus on reforming non-dom tax status, the introduction of a levy on large firms for apprenticeships and his '*rabbit out of the hat*' the National Living Wage – expected to be £9 by 2020.



## General economic overview

### Economic growth forecast

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

2015	2.4%
2016	2.3%
2017	2.4%

### The public finances

#### Borrowing

15/16	£69.5 bn
16/17	£43.1 bn
17/18	£24.3 bn
18/19	£6.4 bn
19/20	£10 bn surplus
20/21	£11.6 bn surplus

#### Deficit

15/16	3.7%
16/17	2.2%
17/18	1.2%
18/19	0.3%
19/20	0.4% surplus
20/21	0.5% surplus

(Expressed as a % of national income)

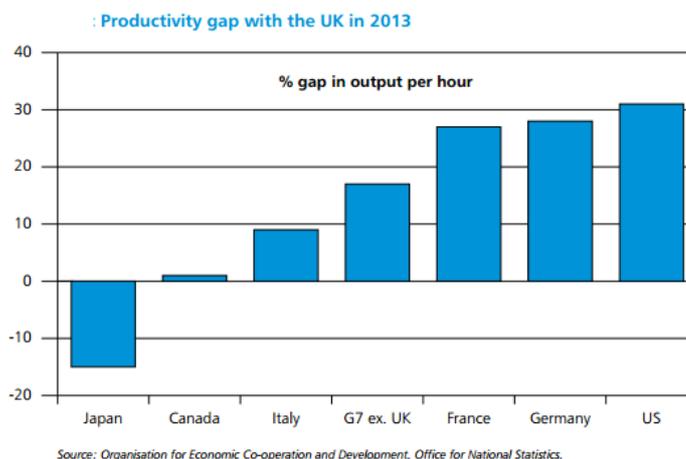
#### Debt target

15/16	80.3%
16/17	79.1%
17/18	77.2%
18/19	74.7%
19/20	71.5%
20/21	68.5%

(Expressed as a % of GDP)

### Productivity

Productivity growth is a key component to economic growth. The UK still lags behind many developed nations (see right) and so the Chancellor announced the publication of the Government's 'plan for productivity'. This will be published on Friday 10<sup>th</sup> July.



### Personal taxation

#### Income tax rates and thresholds

The Chancellor resisted calls from elements of his party to make changes to tax rates, though he did continue to make alterations to income tax thresholds. On the personal allowance, this will rise to £11,000 next year, from £10,600 at the moment. The longer term goal remains £12,500 and once this is met, the threshold will be tied to the minimum wage. The 40p threshold will increase to £43,000 from next year (up from £42,385). By the end of the current parliament this will have reached £50,000.

#### Inheritance Tax Changes

Changes to inheritance taxation see the introduction of a new transferable nil-rate band of up to £175,000 per estate when a main residence is passed to direct descendants. This means that the effective inheritance tax threshold will be £1 million. This change will be paid for through the introduction of a taper to the annual allowance for pensions tax relief for those with total income over £150,000 (see below).

#### Non-domiciled individuals

Non-domiciled individuals (non-doms) live in the UK but consider their permanent home to be elsewhere. The UK rules allow non-doms to pay UK tax on their offshore income only when they bring it into the UK. Permanent non-dom status

will be abolished from April 2017. From that date, anyone who has been resident in the UK for 15 of the past 20 years will be considered UK-domiciled for tax purposes.

## Welfare

The Chancellor announced a number of changes to the welfare system to meet his £12bn savings target. Changes include:

- working-age benefits, including tax credits and Local Housing Allowance, will be frozen for four years from 2016-17 (this doesn't include Maternity Allowance, maternity pay, paternity pay and sick pay)
- the household benefit cap will be reduced to £20,000 (£23,000 in London)
- support through Child Tax Credit will be limited to two children for children born from April 2017
- those aged 18 to 21 who are on Universal Credit will have to apply for an apprenticeship or traineeship, gain work-based skills, or go on a work placement 6 months after the start of their claim
- rents for social housing will be reduced by 1% a year for four years, and tenants on higher incomes (over £40,000 in London and over £30,000 outside London) will be required to pay market rate, or near market rate, rents

## Savings & Pensions

### Green Paper – reforming pensions tax relief

Alongside the Budget, the government published a consultation entitled “*Strengthening the incentive to save: reforming pensions tax relief*”. It explores the case for reforming pensions tax relief to strengthen incentives to save, offering savers greater simplicity and transparency, or whether it would be best to keep the current system.

The paper considers views on the various options for system change. These range from a fundamental reform of the system (for example moving to a model which is “Taxed-Exempt-Exempt” like ISAs and providing a government top-up on pension contributions) to less radical changes (such as retaining the current system and altering the lifetime and annual allowances), as well as options in-between. The reforms must adhere to four basic tenets:

- be simple and transparent
- allow individuals to take personal responsibility
- build on the success of auto-enrolment; and
- be sustainable for example with the Government’s long-term fiscal strategy

The consultation closes on 30 Sep 2015.

### Pension Wise

The government is extending access to this free and impartial guidance service. This reduces the minimum age to receive this service from 55 to 50. It will also be launching a comprehensive nationwide marketing campaign to further raise awareness of Pension Wise.

### Creating a secondary annuities market

Implementation of the secondary annuities market proposal will be delayed from April 2016 to 2017 “to ensure there is an in-depth package to support consumers in making their decision.”

## Business

### National Living wage

The major surprise of this Budget was the announcement of a new national living wage (NLW). From April 2016, the new NLW will be set at £7.20 – a rise of 70p relative to the current national minimum (NMW) rate, and 50p above the NMW increase coming into effect in October 2015. This will rise to £9 p/h by 2020. The Low Pay Commission will recommend future rises. The National Living Wage will be at least 60 per cent of median earnings by 2020

### National insurance contributions

In order to help firms pay for this new NLW, the government will increase the National Insurance contributions (NICs) Employment Allowance from £2,000 to £3,000 a year.

### Corporation tax

Corporation tax will be reduced to 19% in 2017 and will be reduced further to 18% in 2020.

### Annual investment allowance

The annual investment allowance, which has previously been increased temporarily, will be set permanently at £200,000 from January 2016. The allowance means businesses can deduct the full value of certain items, including equipment and machinery, up to a total value of £200,000 from their profits before tax. This helps them with cash flow because it means the full tax relief is given in the year items are purchased, rather than over several years. This permanent increase will help businesses plan their spending on longer-term investments.

### Tax avoidance, planning and evasion

The government will continue to clamp down on tax avoidance, planning and evasion, as well as increasing resources for HM Revenue and Customs (HMRC) so they can make sure people pay the tax that's due. This includes:

- extra investment between now and 2020 for HMRC's work on evasion and non-compliance
- tripling the number of criminal investigations HMRC can undertake into complex tax crime, concentrating on wealthy individuals and companies
- allowing HMRC to access more data to identify businesses that are not declaring or paying tax
- clamping down on the organised crime gangs behind the illicit trade in tobacco and alcohol
- stopping investment fund managers from using tax loopholes to avoid paying the correct amount of Capital Gains Tax on their profits from the fund (this is known as carried interest)
- making sure international companies pay tax on profits diverted from the UK
- introducing a 'general anti-abuse rule' penalty and tough new measures for serial avoiders, including publishing the names of people who repeatedly use failed tax avoidance schemes.

### Bank Tax Levy

Following increasing bank profits, and to reflect changes in bank regulation, the government is:

- introducing a new 8% tax on banking sector profits from January 2016
- introducing a phased reduction in the rate of the Bank Levy (which is charged on banks' balance sheets) from 0.21% to 0.1% between 2016 and 2021
- excluding UK banks' overseas subsidiaries from the Bank Levy from January 2021.

## Insurance

### Insurance Premium Tax

From 1 November, the standard rate of Insurance Premium Tax will be increased from 6% to 9.5%. The Insurance Premium Tax standard rate will remain lower than that of many other EU Member States. It will, for example, continue to be much lower than the 19% tax rate that applies in Germany. Separately, the government will also introduce VAT provisions to level the playing field for insurers. This will deter insurers from routing costs via offshore associates and ensure UK VAT is accounted for on all repair services on UK insurance contracts.

### Review of claims management

The Government will reform the regulation of the claims management sector to help to drive out further unnecessary costs from insurance premiums. This Budget announces a fundamental review of the regulation of Claims Management Companies (CMCs), led by the Chairman of the Chartered Trading Standard Institute Board Carol Brady, which will report to HM Treasury and the Ministry of Justice in early 2016. In addition, there is also a case for reform of the fees that CMCs charge consumers, particularly in those instances where consumer complaints fall within the remit of the Financial Ombudsman Service. Therefore, the Government will bring forward proposals for the introduction of a cap on the charges that CMCs can apply to their customers, and will consult on how this will work in practice.

This builds on the success of previous measures including the ban on referral fees and action to address fraudulent whiplash claims. The Insurance Fraud Taskforce will report by the end of 2015 on what can be done to reduce the impact of fraud on insurance premiums. To further assist car owners, the government will extend the deadline for new cars and motorcycles to have a first MOT test from three years to four, saving motorists more than £100 million per year, subject to public consultation and cost-benefit evaluation. If people compare the different options available for their insurance they can generally get a much better deal, but many people simply renew with their existing insurer without checking the price they could get elsewhere. The Financial Conduct Authority will review what more can be done to ensure that people are encouraged to shop around when they renew their insurance.

## Skills

### Apprenticeships

The Chancellor said one of the big issues holding back productivity in this country is that the UK does not train enough. Apprenticeships remain the Government's key skills growth policy and are central to George Osborne's call to "*raise our game on skills*".

To achieve this goal the Chancellor is calling on large employers to do their bit through the introduction of a levy to fund the new apprenticeships. The levy will support all post-16 apprenticeships in England. The funding will be directly controlled by employers via the forthcoming digital apprenticeships voucher. It is expected that firms that are committed to training will be able to get back more than they put in. There will be formal engagement with business on the implementation of the levy, which will also consider the interaction with existing sector levy boards, and further details will be set out at the Spending Review later this year.

## Housing

### Mortgage interest relief

Relief for mortgage interest for individual landlords will be restricted to the basic rate of income tax. This will be phased in over four years. It is aimed to limit the advantage that these individuals currently enjoy over those purchasing their own home.

## Support for Mortgage Interest scheme

This Budget converts the Support for Mortgage Interest scheme into a loan, so that homeowners repay the financial support they receive. At present those who receive benefits to help to pay their mortgage interest are able to do so indefinitely with no need to pay anything back.

## Rent-a-Room relief

The government will increase the Rent-a-Room relief from £4,250 to £7,500 a year from April 2016. The value of this relief has been frozen since 1997, so this increase will allow individuals who rent a room in their main residence to do so tax free on income up to £7,500 to reflect increases in rent.

## Help to Buy ISA

Help to Buy ISAs (announced in the April Budget statement) will be available for first-time buyers to start saving into from 1 December 2015. First-time buyers will be able to deposit £200 per month into their Help to Buy: ISA at participating banks and building societies. First-time buyers will be able to open their Help to Buy: ISA accounts with an additional one off deposit of £1000 so that they can start saving now.

## What others say

### General

**BBC Norman Smith's** instant reaction: "So Budget of Big Decisions. National Living Wage. 4 years of Benefit and public sector pay freezes. Tax cuts for 29 million."

**Chris Sanger, Head of Tax Policy at EY:** "The Chancellor resembled 'Michelangelo' as he re-sculpted the UK tax system, taxing dividends, proposing changes to pensions, adding a new tax on banks, cutting corporate tax rates and restricting interest relief on buy-to-let investments. The Chancellor went well beyond what many expected, spanning the whole tax regime, from non-domiciles to Vehicle Excise Duty. He may not have listened to Lord Lawson's argument on abolishing the 45% income tax rate, but he clearly wanted to emulate his reputation as a man of principle and principled reform."

**Paul Johnson, director of the Institute for Fiscal Studies,** says there will be some losers – high income earners who have buy-to-let properties and earn dividends in particular. Overall, it was a tax-raising Budget and will cut welfare spending, with a significantly less generous universal credit scheme being proposed, he says. The chancellor has also "decided to take a gentler slope" towards achieving a Budget surplus.

**Terry Scuoler, chief executive of manufacturers' organisation EEF,** welcomed much of the Budget, but said: "Employers must be in the driving seat on [apprenticeship] reform to ensure we get the right quality of apprenticeships and training. There will be no tolerance for recreating the failed skills bureaucracy of the past."

**John Allan, National Chairman, Federation of Small Businesses** "We agree with the focus on productivity but need to see the details to raise skills through the apprenticeship levy on large firms. Planning reforms are also critical to raising productivity and again we look forward to seeing the proposals. However, even though offset by a welcome increase in the employment allowance, some will find the new National Living Wage challenging."

**Katja Hall, deputy director-general of CBI,** describes it as "a double-edged Budget" for business. George Osborne is taking "quite a big gamble" by increasing the minimum wage, which will rise by more than 6% a year until 2020 at a time of zero inflation. "It will have a big impact on small firms in particular."

**TUC general secretary Frances O'Grady** said: "The chancellor is giving with one hand and taking away with the other. Massive cuts in support for working people will hit families with children hardest. The chancellor has finally woken up to the fact that Britain needs a pay rise. The TUC has long campaigned for the minimum wage to rise faster and the chancellor has listened to us at last."

## Links

### Treasury sites

Key Budget announcements: <https://www.gov.uk/government/news/summer-budget-2015-key-announcements>

Budget “Red Book”:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/443232/50325\\_Summer\\_Budget\\_15\\_Web\\_Accessible.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/443232/50325_Summer_Budget_15_Web_Accessible.pdf)

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

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

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

### Press

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

Guardian Budget Website: <http://www.theguardian.com/uk-news/budget-2015-july>

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

### ***CII Group Policy & Public Affairs 8 July 2015***

The CII is the world’s leading professional organisation for insurance and financial services, with over 115,000 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](http://www.cii.co.uk/policy).