

# A Budget for the Next Generation, 16 March 2016

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George Osborne delivered his eighth budget this week, but his first as a member of a majority government, and the first unfettered Conservative economic plan in twenty years. He immediately came to terms with a theme which has been top of the Parmenion investment agenda this year, the uncertain position of the world economy. He pointed to the slowing of world trade, the unexpected further easing of monetary policy abroad (QE and NIRP) and the lack of productivity growth as being the important factors, before a reminder of how well in comparison the UK is performing. He had to report a reduction in the forecast in the UK's growth to 2% in 2016 although he pointed out how, excepting the USA, this means we are ahead of the pack among developed nations. But he was not in a 'give away' mood and focussed instead on reminding MPs that the wellbeing of the next generation is an important aim of the Government. In practice this means sticking to his commitment to spend no more than he borrows in the last year of this parliament, which requires him to cut spending by a further £3.5bn over that period. No firm details were announced. The Chancellor followed up on his theme of the safeguarding the next generation with announcements on schooling and a sugar tax.

For savers and investors, much of the details were known in advance, and the threatened shake up of pensions never happened. The bigger changes announced on Wednesday were the significant cut to the rate of CGT, the increase in ISAs to £20,000 per person in April 2017, and the planned introduction of a Lifetime ISA to encourage young people to save for a home and/or their retirement. For every £4,000 invested, an additional £1,000 will be added by the Government.

## Pensions

Life Time Allowance falls to £1m from £1.25m. Pension Commencement Lump Sum, PCLS, the 25% tax free cash remains available.

Annual contributions limit: £40,000, unless benefits have been taken, after which contribution limit falls to £10,000.

## Personal Tax

Personal allowance for income tax increased to £11,000, up £400. This allowance is abated by £1 for every £2 of adjusted net income (broadly earnings less pension contributions) above £100,000, so at £122,000 there is no personal allowance available. (From 2017 the Personal Allowance is set to rise to £11,500).

Basic rate (20%) income tax band (income above annual allowance) set at £32,000, up £215. Starting level at which Higher rate (40%) income tax payable is £43,000 from April 2016. This will rise to £45,000 from April 2017.

Additional rate tax (45%) on income above £150,000.

## Dividends

All dividends on shares totalling less than £5,000 can be received tax free. Dividends received totalling above £5,000 are taxed at these marginal rates:

- 7.5% on dividend income within the basic rate band
- 32.5% on dividend income within the higher rate band
- 38.1% on dividend income within the additional rate band

## Savings

New Personal Savings Allowance of £1,000, tax free, covering interest income, purchased life annuities and income from collective funds, for basic rate tax payers. Higher rate tax payers with adjusted net income below £150,000 have up to £500 Personal Savings Allowance.

## National Insurance

Class 1 contributions on earnings between £155 and £827 per week, contribution rate: 2%. Thereafter, 2%.

Class 2 contributions to be abolished in 2018.

# Capital Gains Tax

Tax free allowance held at £11,100. Basic rate tax on gains above exemption and reliefs cut to 10% (down from 18%), and for higher and additional rate tax payers, the rate is cut to 20% (down from 28%).

## ISAs

Annual contribution held at £15,240 for 2016/17, Junior ISA contribution held at £4,080 but the contribution increases to £20,000 from April 2017.

New Lifetime ISA to be introduced in 2017 allowing young people to receive a £1,000 top up on contribution of up to £4,000 a year, for either house purchase or retirement.