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INDEPENDENT FINANCIAL PLANNING
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# A LITTLE CRYSTAL BALLING…

There have been few rumours about the contents of next month's Budget. Will it be a quiet affair? We will have to wait and see.

The Autumn Budget is now less than six weeks away and so far there have been few rumours about it contents. There are several reasons for this:

- We are at the start of the new Budget cycle and there has been no Spring Statement - as there will be from 2018 onwards - to provide any clues.
- The backwash from the spring 2017 fiscal announcement - the March 2017 Budget - is still lapping around parliament in the form of Finance Bill 2017/19. This reached Committee stage in the House of Commons on 11 October.
- The news released this week from the Office for Budget Responsibility (OBR) that it "is likely to revise down potential productivity growth in its November forecast, weakening the outlook for the public finances" may have been holding up decisions. To put not too fine a point on it, the money isn't there for giveaways.
- The political landscape for Mr Hammond is some way short of perfect. His March Budget was blown off course by a backbench rebellion over increasing Class 4 NICs. Back then the Conservatives had a parliamentary majority in their own right. Now the Government's majority depends upon a confidence and supply agreement with the DUP and there are plenty of Conservative backbenchers unhappy with the Chancellor's Brexit stance. Ordinarily, the first post-election Budget would be the occasion to push through unpopular (tax-raising or controversial) measures, but these are not ordinary times.

With all that in mind, here are a few thoughts on areas of interest:

## Pensions

The latest set of HMRC data showing the cost of pension tax relief was enough to set personal finance columnists writing about a threat to higher rate contribution relief.

In the political circumstances - remember Class 4 NICs - this looks very unlikely. David Gauke, who moved from the Treasury to the DWP after the election, told a conference in July that we "wouldn't see any fundamental changes in the near future".

"Fundamental" does not preclude some technical tweaks which raise revenue without ruffling too many feathers - a cut in the annual allowance to £30,000 or deferring the auto enrolment contribution rise to 8% until April 2020, for example.

One potential piece of good news is that the Lifetime Allowance is due to rise in line with CPI from 6 April 2018 (to about £1.03m) – unless Mr Hammond decides otherwise.

## VCT, EIS and SEIS

The writing has been on the wall for venture capital schemes since the publication of the Treasury's paper on patient capital in August.

Despite the overhaul to investment rules that took effect just under two years ago, another VCT revamp now looks very likely. The target will be schemes aimed at "capital preservation" rather than high risk growth - the classic example being pub-based EIS. One VCT has already pulled a share issue in expectation of such action.

There is a flood of VCTs and EISs on the market at present: by tax year end it may be only a trickle.

## Capital Gains Tax

George Osborne's decision to cut CGT to a maximum of 20% (other than for carried interest and residential property) came as a complete surprise in his last (2016) Budget.

Nobody had been lobbying for it, the result was a wider gap between income and capital taxation and it only benefited those few people (about 250,000 in 2013/14) with taxable capital gains exceeding their annual exemption.

Mr Hammond could choose to revert to the old rates and win a few plaudits from the JAMs (just-about-managing), plus about £0.5bn a year.

## SME tax

Corporation tax is due to fall to 17% in April 2020. It is possible that Mr Hammond could kick this reduction down the road - or abandon it completely - in response to gloomier OBR numbers and to spike (partially) Labour's guns (their manifesto pledge was a 26% rate).

Lurking in the background is the Taylor Review of modern working practices, which is probably lodged on a dusty shelf after Mr Hammond's failure to push through Class 4 NIC changes. Equally problematical for the Chancellor would be any attempt to extend what amounts to presumed employment rules for contractors, which were introduced in the public sector in April 2017.

## Income tax

The Chancellor still has unfinished business here in terms of the promise (repeated in this year's manifesto) to bring the personal allowance up to £12,500 and the higher rate threshold to £50,000 by 2020/21.

That implies increases of £1,000 and £5,000 respectively over the next three years. Given the current inflationary outlook, the increased personal allowance will probably be covered by normal CPI indexation, but the lifting of the higher rate threshold will require a more concerted effort.

Politics and the tight financial backdrop suggest Hammond will just stick with something close to CPI indexation for both in 2018/19 – say an £11,900 personal allowance and a £46,500 threshold (implying a £34,600 basic rate band).

Fiscal drag will be left to do its silent worst on the fixed thresholds for high income child benefit tax charge (unchanged since January 2013), phasing out of the personal allowance and the additional rate (both of which are unchanged since introduction in 2010/11).

## Investment taxation

The dividend allowance cut to £2,000 from 2018/19 is already in the Finance Bill 2017/19, but a further cut – to zero – is possible for the following year or 2020/21. The latter timing could be justified if the corporation tax cut to 17% is not altered, as it could be argued to be a necessary counter to further incorporation.

Other investment tax changes look unlikely, if only because of those restive backbenchers.

## ISA

The increase in ISA contribution limits to £20,000 only took effect in April, so any change beyond a CPI linked increase looks unlikely. It will be interesting to see whether LISA attracts any attention – this Osborne inheritance has not had a particularly bright start to life.

## Inheritance tax

Intergenerational equity is one of the flavours of the month at present. The Chancellor could use that as a starting point to initiate a review of capital taxes – IHT and CGT – which the Office for Tax Simplification called for long ago. This could examine something closer to a genuine inheritance tax, where the liability is based on the recipient rather than the donor. Such a structure encourages a greater spread of wealth.

In line with the likely moves against capital preserving venture capital schemes, it is possible the Chancellor will tighten up the rules on business relief for shareholdings in unlisted companies. This relief is looking increasingly anomalous when it extends to companies created and marketed solely for IHT mitigation purposes or to large AIM companies such as ASOS (with a market capitalisation of nearly £5bn).

## Stamp duty land tax

SDLT is bringing in around £1.25bn a month to the Exchequer at present, 60% more than in 2013/14. Despite moans from estate agents about the stagnation of the £1m+ market, it is very hard to imagine Mr Hammond making any relaxation of rates or thresholds in the top bands. The politics of such a move would be highly dangerous. However, he might make a gesture by raising the lower threshold – currently £125,000 and even lower than the £150,000 proposed by the Welsh government – but do not expect much anything else.

## COMMENT

We will keep an ear out for further rumours, but with everything else that is going on, this time around Mr Hammond may not want to break his own record (established in March) for the largest Finance Bill ever.



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