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SOUTHERNHAY
FINANCIAL PLANNING

FINANCIAL SERVICES NEWSLETTER
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A POLITICALLY SAFE BUDGET

Having been rebuffed by younger voters in the June general election, the Government is understandably concerned to be seen to be addressing their needs, and this was reflected in the Chancellor's November Budget announcements.

Of particular concern has been the difficulty young people are experiencing in getting onto the housing ladder, with research indicating that the number of home owning 25-34 year olds has fallen from 59% to 38% over the last 13 years.

Government funding is to be provided for house building and planning laws are to be reformed. In addition, first-time buyers are to be exempt from Stamp Duty Land Tax on houses worth up to £300,000, and those buying for up to £500,000 in higher value areas will benefit from a nil rate band on the first £300,000.

Other changes were less significant:

Income tax

With effect from April 2018, basic rate tax will become payable when income exceeds £11,850 p.a. (an increase of £350) and higher rate tax (at 40%) will apply to income in excess of £46,350 p.a. (an increase of £1,650). Additional rate tax will continue to be payable at 45% on income over £150,000 and tax on dividends at 38.1%.

Marriage allowance

Spouses are permitted to transfer 10% of their personal allowance to each other, provided neither are higher or additional rate taxpayers This can be backdated for up to four years and legislation is to be introduced which will allow transfers to be made from or to a deceased spouse within the same four year period.

Capital gains tax

The annual exemption for capital gains will increase in line with the consumer price index from £11,300 to £11,700 for 2018/19, and the equivalent rate for trusts will rise from £5,650 to £5,850.

Venture capital

The rules are to be tightened-up to restrict investments which qualify for the tax advantages enjoyed by Venture Capital Trusts ('VCTs'), Enterprise Investment Schemes ('EISs') and Seed

EISs ('SEISs'). In future, investments must be confined to entrepreneurial companies whose objective is to grow and develop and which involve a significant risk of capital loss.

Additional encouragement is to be given to investing in "*knowledge intensive*" companies, which satisfy various conditions such as engaging in the creation of patents and other intellectual property and having a certain number of skilled employees. The annual limit for investment in an EIS will be increased from £1 million to £2 million where more than £1 million is invested in such companies.

State pension

The basic State pension will be increased by 3% (£3.65 per week) and the new State pension by £4.80 per week in accordance with the "*Triple lock*". This is the government commitment to increasing payments every year by whichever is the highest of inflation, average earnings and a minimum of 2.5%.

Pension savings allowances

Contrary to some expectations, the Chancellor did not announce any further reduction in either the annual pension savings allowance or the lifetime allowance.

Entrepreneurs' relief

A consultation will take place in Spring 2018 to consider how this relief might be extended to shareholders whose holdings reduce below 5% as a result of the company issuing new shares.

INFLATION GETS COMPLICATED

After an extended period of exceptionally low inflation and low interest rates, Inflation is on the rise and interest rates seem set to rise, albeit slowly, in response on both sides of the Atlantic. But inflation affects different people in different ways, and there are several alternative ways in which inflation is measured.

The Retail Prices Index ('RPI') was created in 1947, when the typical shopping basket consisted of items we barely recognise today: rabbit meat, cod liver oil, tinned salmon, lamp oil, condensed milk and men's and women's hats.

Reflecting the very different lifestyles of today, these items are no longer included among the 700 items whose prices are now measured by the Office for National Statistics to calculate RPI, the latest additions to which include gin and nondairy 'milk' drinks.

A second inflation index, the Consumer Prices Index ('CPI') was introduced in 2003. This comprised a different basket of consumables from the RPI and excluded mortgage interest payments. CPI is on average 1.2% lower than RPI, and has been adopted by the government to calculate welfare payments and pensions, thus reducing the burden of these expenditures on the State.

The Royal Statistical Society has calculated that the adoption by the government of CPI rather than RPI in calculating public service pensions will reduce their value by £30,000 over 25 years, assuming RPI of 3% and CPI of 2.33%

The Chancellor announced in his November Budget that CPI will in future also be used to peg business rates and to determine annual investment limits for junior ISAs and trust funds, the capital gains tax exemption and the lifetime pension savings allowance, which will rise to £1,030,000 for 2018/19. However, RPI is still used in determining rail fares, alcohol, student loans and indexlinked gilts (government bonds).

To further complicate the issue, the government has now created a variant of CPI called CPIH (H for Housing). This includes the cost of renting a home but not the average mortgage payment. Consequently, it does not reflect variations in house prices. These are dealt with in yet another index.

People's age, location and food preferences will all affect the impact of inflation. Pensioners will be affected disproportionately by increases in food and energy costs, and they are consequently

less well served by CPI. People living in rural communities, on the other hand, will be more affected by the price of fuel, which is included in the RPI.

Most people will have little idea of which index relates most closely to their lifestyle, but it is the government which is best placed to play the system in what it regards as the national interest.

DEFERRING RETIREMENT

Recent research by Dunstan Thomas among a sample of 598 baby-boomers showed that one in five of those sur veyed, aged between 66 and 71, were still working full- or part-time and more than half respondents in the age group 55 to 71 expected to be working after State retirement age (65 for men and 64 for women).