

## BUDGET 2017

With the appearance of a Belgian librarian and the charisma of a piece of driftwood, Philip Hammond delivered his first Budget as Chancellor of the Exchequer on the 8<sup>th</sup> March. Most commentators expected that the Budget would be rather bland, given "Spreadsheet Phil's" reputation as a safe pair of hands, but within a week the Government had been pushed into an embarrassing U-turn as they were forced to abandon one of their flagship plans to punish the self-employed.

I have observed many Chancellors over the years and generally speaking it takes a number of Budgets before it becomes clear that they don't really know what they are doing. Gordon Brown managed to chirrup endlessly about "prudence" and how he had "abolished boom and bust". Of course it was all utter nonsense, but much of the mainstream media fell for his bluster and it wasn't until 2008 that he was exposed as a failure (forgive us for reminding you that we at Humphrey & Company pointed this out many years earlier). Similarly, George Osborne was granted some grace as he took the reins in 2010, after the outgoing Labour team left their infamous "I'm afraid there is no money" note. Osborne assured us that he intended to eliminate the deficit by 2015. When he was removed from office in 2016 however, the deficit was still running at approximately £1 billion per week.

Philip Hammond managed to deliver a Budget which didn't contain a huge number of measures, but within a week his reputation was in tatters after his blatant attempt to break a manifesto pledge (not to increase the rates of income tax, VAT or **national insurance**) was exposed. Hammond compounded his problems by initially attempting to defend the increase in Class 4 national insurance contributions by claiming that the change was being introduced so that the self-employed paid a "fairer" amount of tax and national insurance, which was more in line with the amounts arising from employment. Given that the self-employed do not benefit from the minimum wage, holiday pay, company pensions, redundancy payments, parental pay or leave and often struggle to obtain mortgages as well, the idea that this already disadvantaged group are not making a "fair" contribution is quite outrageous.

Although the Class 4 increase will not now be implemented, Hammond confirmed in the Budget that the ridiculous Making Tax Digital (MTD) proposals will go ahead, another blatant assault on the self-employed and landlords. The MTD proposals are based on the utterly false premise that the "tax gap" of £8 billion, a fantasy figure computed by none other than HMRC, will somehow be hugely reduced by forcing the self-employed and landlords to:

- 1) Maintain digital accounting records on approved software
- 2) Update HMRC in relation to their income and expenses **each quarter** via software that complies with MTD
- 3) Submit an annual year end adjustment to HMRC
- 4) Submit an annual final declaration to HMRC

These proposals will lumber the self-employed and landlords with additional software and computer costs, result in higher accountancy fees and will lower productivity and profits. The tax gap will not decrease, as this is almost exclusively caused by undeclared income and unregistered businesses.

For a self-employed individual, who currently reports to HMRC once a year through their Self-Assessment tax return, it will become necessary to make **six** reports per year. For a self-employed individual with rental income, it will be necessary to make **eleven** reports a year.

As if all of this wasn't enough, the HMRC propaganda brazenly claims that there will merely be a one-off cost to those affected of £280 in year one, and going forward, annual cost savings will arise. These claims are laughable.

Of course these changes are a breach of the manifesto pledge to “cut red tape”. Humphrey & Company has already made strong representations about this and **I would urge all clients who will be affected to complain in the strongest possible terms to their MP**. Please contact us for further guidance in relation to this. I will be more than happy to provide a suitably worded draft letter to any client who wants one.

The other changes that clients should be aware of are as follows:

### **1) Personal allowance**

The standard personal allowance for 2017/18 will be £11,500.

### **2) Tax rates**

Income Tax rates remain unchanged at 20%, 40% and 45%. In the 2017/18 year, the higher rate threshold (40%) will be £45,000.

### **3) Savings**

For the 2017/18 year, the first £1,000 of interest on a basic rate taxpayer’s savings will be tax free, with £500 available for 40% taxpayers and no savings allowance available for 45% taxpayers.

The first £5,000 of dividend income will be tax free and after that, dividend income will become taxable at 7.5% for basic rate taxpayers and 32.5% for higher rate taxpayers.

### **4) ISAs**

The ISA allowance has increased to £20,000 for 2017/18 year.

### **5) VAT**

With effect from 1st April 2017, the VAT registration threshold increased to £85,000.

If any self-employed client is not VAT registered and expects to breach this threshold, please contact us to discuss the appropriate course of action.

### **6) Trading and property allowances**

Two separate annual allowances of £1,000 each have been introduced for individuals. The “trading” allowance covers income from trades, professions and “miscellaneous” sources. The “property” allowance will cover income derived from property. In each case, income under £1,000 will not be taxable. If income exceeds £1,000, an individual may elect to deduct either £1,000 or the actual expenses incurred in deriving the income.

### **7) Landlords**

Restrictions in the amount of loan interest which can be offset against rental income came into effect at the start of the 2017/18 year. The restrictions are being phased in over three tax years, with inevitable complexity. Please contact us to discuss your specific circumstances.

## OUR VIEW

The last twelve months have brought seemingly endless political convulsions and turmoil. Here is Humphrey & Co.'s handy **A-Z** guide for making sense of it all....

**A** is for **AJP** Taylor, the English historian who remarked: "The people judge soundly on great issues. They cannot be expected to determine tactics". An interesting point of view as we enter Brexit negotiations.

**B** is for **Brexit**. With Article 50 now triggered, the United Kingdom is on an unstoppable path towards leaving the EU. Many view this as an opportunity for Britain to free itself from a dysfunctional and increasingly overbearing and inflexible institution and to forge a new path as a truly global, outward looking, independent trading nation. Mikhail Gorbachev described the EU as "the old Soviet Union dressed in Western clothes", but in spite of this, the goal of "ever closer union" will continue to be pursued fanatically by the European technocrats. 52% of voters in the UK rejected these ideas.

**C** is for **Chancellor** of the Exchequer. The current incumbent, Philip Hammond, is clearly not fit for purpose. He lacks vision and it appears he cannot read (the manifesto) and lacks the mental capacity to recognise 11% as a bigger percentage than 9%. This clown needs to be sent packing immediately so that a competent individual can be installed as soon as possible.

**D** is for **Doom-mongers**. I cannot recall a year where so many people and organisations have told us that we are all doomed and we might as well all just give up. The tone for this nonsense was set by Cameron and Osborne's ridiculous Project Fear propaganda (instant recession, collapsing house prices, poverty, every family £4,300 poorer) and has been kept going by the tiresome **Remoaners**, whinging endlessly, often on social media, about just how terrible everything is. Pathetic.

**E** is for **Exports**. It has long been the aim of many policymakers to re-orientate the British economy towards manufacturing, and early indications are that the post-referendum devaluation of the pound has boosted manufacturing exports, with export growth expected to strengthen further in 2018. No doubt there will be quite a few ups and downs along the road, but achieving a better balanced UK economy would be a very worthwhile **Brexit** dividend.

**F** is for **Forecasting**. I have expressed the view on numerous occasions that most economic forecasts are issued by organisations with an overinflated view of their own abilities. So the OECD, OBR, the IMF, the Bank of England and many other forecasting bodies all predicted an immediate post referendum recession. They were all wrong. Strangely, these organisations continue to issue very precise forecasts, seemingly unable to believe that in the real world, a variety of outcomes are possible, which certainly can't be predicted to one decimal point. Bizarrely, many people continue to view these bodies as revered prophets. In a campaign where neither the Leave nor Remain sides covered themselves in glory with their campaigning methods, one of the few memorable phrases was uttered by Michael Gove who observed: "I think the people in this country have had enough of experts".

**G** is for **Germany**, the economic superpower that dominates the EU and underwrites the Euro. Fifteen years ago the German nation sacrificed their beloved Deutschmark for the Euro and most Germans saw this as a generous act for the greater good of the continent of Europe. Although enormous benefits initially accrued to the German economy, with surging exports to the many newly (and falsely) enriched Euro countries, a more unstable situation has now arisen. Germany now has to walk the tightrope of assisting/coercing/teaching many of the "slacker" European countries how to run their economies and this "guidance" is often resented, as it inevitably involves austerity and pain. I do not subscribe to the view that

the modern Germany set out with a deliberate plan to take control of Europe in this way, but this is the reality of the Euro.

**H** is for **High taxes**. Since the end of the Second World War, history has shown that Labour governments have generally sought to increase taxes to enable them (in theory at least) to better fund public services and provide greater support to the less well-off. Conservative governments have generally sought to lower tax rates, in order to promote economic growth and self-reliance, boost entrepreneurship and wealth creation, reduce the size of the less productive public sector and generate greater tax revenues by taking a smaller slice of a bigger pie. Unfortunately, the current Conservative government no longer seems to believe in reducing taxation and Tax Freedom day (an intuitive measure of when the average taxpayer stops working to pay taxes and starts keeping their earnings themselves) fell on the 3<sup>rd</sup> June in 2016, four days later than in 2015. The modern Conservative party appears to favour seizing an even bigger chunk of the economy than the last Labour government managed. So next time you are unhappy about your tax bill, contact your MP.

**I** is for **Incompetence**. One of the greatest threats the United Kingdom faces in the coming years is the mindboggling ineptitude of so many of our politicians and so much of the machinery of government. In the business world, government activity is usually unhelpful and ill-judged. Governments cannot create prosperity and wealth, although they can create the necessary conditions for wealth to be created. Often this involves doing less, not more.

**J** is for **Joxit**. We are led to believe by the perpetually irritating Nicola Sturgeon that the Scottish people are being dragged kicking and screaming from the wonderful EU by the beastly English. Quite why this ghastly woman is given so much airtime by major broadcasters is beyond me. She claims to represent all of Scotland, which has a population slightly smaller than the West Midlands and even worse football teams. It is a shame that Theresa May didn't deal with this loathsome individual once and for all, by agreeing to her referendum request and telling her that on the same day the rest of the UK will have a referendum to determine whether they wish the Barnett formula, which guarantees higher public spending per head in Scotland, to continue.

**K** is for **Karl Marx** who developed the theory of international communism. He stated that "there is only one way to kill capitalism - by taxes, taxes and more taxes". This appears to be the basis of the tax policies proposed by Jeremy Corbyn and the modern **Labour party**. What utter fools.

**L** is for the **Labour party**. Led by the incredibly thick-skinned Jeremy Corbyn (who you might easily mistake for a second rate Geography supply teacher), the party has broadly decided to hate anybody who doesn't subscribe to its student Bolshevik views. The far-left Momentum group seems to think that positioning the Labour party as a virtually irrelevant protest group is the way forward. How bizarre.

**M** is for **Making Tax Digital**. This is undoubtedly the worst piece of tax policy I have seen over the last twenty four years, which is quite an achievement, given what has gone before. As a policy disaster, this is up there with the poll tax, the Iraq war and HS2. The architect of this nonsense, George Osborne, will regrettably not be around to reap what he has sown, as he is now too busy counting his earnings from his numerous jobs. Probably the best we can realistically hope for at this stage, is that when the Conservatives realise the electoral damage this could cause, they will be forced to reconsider.

**N** is for the **National Health Service**. The NHS has pretty much been in crisis for all of my adult life, but it seems impossible to have an honest conversation about the reforms needed to make the NHS better. The myth that the NHS is the "envy of the world" is still peddled regularly and the public at large seem

incredibly tolerant of the haphazard and often sub-standard care they receive. With the notable exception of the United States, universal access to healthcare irrespective of ability to pay (the defining principle of the NHS), is available in almost all developed nations. However, no other country has copied the NHS model, broadly because it doesn't work very well. The effectiveness of health provision can be measured by looking at patient outcomes and by this measure, the NHS languishes in the bottom third of countries alongside the Czech Republic and Slovenia. I continue to be completely baffled as to why the NHS is so revered by so many people.

**O** is for **Opinion polls**. Having failed to predict the 2015 General Election result correctly, the polling companies no doubt felt that they would fare better with the referendum, given the binary nature of the question being posed to voters. However, they failed once again with just one out of seven of the major companies calling the result correctly. The polls were conducted online and by telephone, and it seems fairly obvious to me that by definition these samples will not be representative of the population as a whole. Who in their right mind would accept a random call and discuss their voting intentions or waste time completing an online survey? An idiot, that's who.

**P** is for **Post-truth**, which was named as the 2016 word of the year by Oxford Dictionaries. This adjective describes circumstances in which it is thought that objective facts have become less influential in shaping public opinion than appeals to emotion. Many sappy liberals claim that Brexit and the election of Donald Trump occurred because politics has now entered the post-truth era and they comfort themselves with this, knowing that their opinion is "superior" and others are misguided. If we are now in the post-truth era, logic would suggest that this must have been preceded by the "truth" era, where public opinion was shaped by objective facts. So I suppose this truth era must have included the fake justifications for the Iraq war which the contemptible Tony Blair presented to Parliament, the promise Nick Clegg made to block any increase in student tuition fees, the boasts that Gordon Brown made about "abolishing Tory boom and bust", the "cast iron" guarantee that David Cameron gave about holding a referendum on the Lisbon Treaty and the honest and truthful way MPs completed their expense claims. Yes, the truth era was just great wasn't it?

**Q** is for **Quantitative easing** (QE) which was introduced as a £50 billion emergency measure in 2009. Under QE, the Bank of England "electronically created new bank reserves" and used this money to buy assets. In effect, as if by magic, "virtual" money was injected into the economy, but the embarrassment of physically printing money and being compared to a banana republic was avoided. What was originally intended as a short term economic stimulus has morphed into a terribly damaging £375 billion "funny money" addiction. QE and near zero interest rates have contributed to sky high house prices and spiralling stock markets at the same time as punishing savers. Although the media are obsessed with the likely economic impacts of Brexit, it seems to me that the much bigger story in years to come will be how we unwind these unsustainable cheap money policies.

**R** is for **Remoaners**. With Tony Blair, Nick Clegg, Tim Farron, John Major, Ken Clarke, Michael Heseltine, Alistair Campbell, Bob Geldof, Gary Lineker, Richard Branson and ~~Jimmy Krankie~~ Nicola Sturgeon bleating endlessly, the Remoaners are clearly going to do everything they possibly can to derail the Brexit process. They are obviously very upset at the prospect of the United Kingdom freeing itself from the clutches of the EU and can't stop telling us just what a disaster it's going to be. It is somewhat ironic that Blair, eviscerated by the Chilcot report, and Major, are in many ways the godfathers of Brexit. Major was happy to sign more and more powers away at Maastricht, without bothering to consult with the people. He also signed Britain up to the disastrous ERM experiment. Blair was keen to take us into the Euro and it was on his watch that

unchecked mass immigration caused enormous stresses on public services and put the issue of immigration back on the political agenda. Many Remain voters have grave concerns about the future, but accept that a slim majority took a different view to them. However, the chief Remoaners named above, remain horrified that so many people disagreed with their clearly “superior” views and believe Leave voters were thick racists who didn’t know what they were doing and were hugely influenced by a number written on the side of a campaign bus. What breathtaking arrogance.

**S** is for **Social media**. Enthusiastically utilised by the young (and not so young), the various forms of social media provide an echo chamber for knee jerk reactions, a forum for recreational grief and permit an unlimited number of largely meaningless expressions of angst and dismay, with a side serving of cyber bullying. I understand that when used correctly, social media is also a great tool for developing egotistical behaviour and other disorders. Donald Trump and Piers Morgan are fans.

**T** is for **Trade deal**. When the Brexit negotiations progress, the question of whether a formal trade deal will be agreed between the UK and the EU will no doubt dominate the media coverage. In a rational world, where both parties to an agreement understand that free trade, with minimal tariffs and barriers, is mutually beneficial, I have no doubt that a satisfactory agreement could be reached. However, I very much doubt that rational behaviour will win the day and it seems quite likely that the UK will face the equivalent of negotiating a divorce with twenty seven furious, spurned wives. There is a scurrilous myth that you need to be “inside the single market” to trade with EU countries and if this was true, then it would be impossible for the US, China, Japan and Australia and dozens of other countries to access the hallowed single market. This is clearly not the case.

57% of our trade is already conducted with non EU countries and this is increasing. 85% of the world economy is outside the EU and is growing far faster than the sclerotic, stagnating Eurozone. I suppose it is just possible that the powerful French and German industrial lobbies, mindful of their huge surpluses with the UK, might overrule the posturing politicians, but this seems unlikely. So, I expect it will be in our best interests to listen politely for a while and as soon as it becomes clear that the negotiations towards a free trade deal are little more than an attempt to publicly beat us, we should change direction and start negotiating a deal structured on World Trade Organisation (WTO) rules. The UK’s current annual £10 billion net contribution to the EU equates roughly to a 7% tariff on exported goods and under WTO rules this would fall to an average of 3%. However, without a sensible agreement being reached, real problems might arise in relation to non-tariff barriers and Customs cooperation.

**U** is for **Unfunded Public Sector Pension and other Schemes**. A report issued by the Adam Smith Institute in 2016 computed that future taxpayers in the UK will be called upon to fund eye-watering unfunded public sector pension liabilities. The liabilities, estimated at £1.23 trillion, arise in relation to the 4.2 million people employed full time by the government (NHS workers, teachers, civil servants, soldiers and policemen etc.). These liabilities are not included in the official national debt figures. When the estimated £39 billion of unrecoverable student loan debt is added in, along with losses on state bank shares, these “hidden” liabilities rise to £1.85 trillion. This means the genuine UK national debt is in the region of £3.45 trillion, or over £53,000 for every man, woman and child in the UK. Ouch.

**V** is for **Vendetta**, which can be defined as a long and violent argument between people or groups, in which one group tries to harm the other for things that happened in the past. The EU, the ultimate protectionist organisation, has made it clear that its primary objective is to punish the UK and to make an example of us in order to deter any other members from trying to escape from the “open prison”. What a great club, where members must be threatened in order to stay.

**W** is for **Welfare spending** which according to OBR figures accounts for approximately 64.5% of UK government spending. The term “welfare” is misleading, as this total includes spending on health, education, social services, public service pensions and housing, as well as social security payments, including state pensions, and tax credits. Given that successive governments have consistently failed to make any meaningful savings in these areas, it seems inevitable that we will continue to run substantial annual deficits for years to come. In 2016-17, the government spent almost exactly £1 billion a week more than it received. This is what is known as intergenerational theft.

**X** is for **Xi Jinping, President of China**, who was granted a full state visit to the UK in 2015. The visit included a traditional ceremonial welcome and gun salute, lunch with the Queen, an address to Parliament, visits to Buckingham Palace, Downing Street and Chequers and the chance to enjoy a pint of IPA and eat fish and chips with David Cameron in a pub. The visit received much media coverage and was deemed to be a diplomatic success. President Xi Jinping was “elected” in 2013 receiving a whopping 2,952 votes (two thousand nine hundred and fifty two). The National People’s Congress didn’t bother to ask any of the 1.3 billion population of China what they thought. Xi Jinping presides over a country with one of the worst human rights records on earth, with widespread religious persecution, torture, detention without trial, non-existent workers’ rights and restricted internet access. Rather bizarrely, I cannot recall a fervent campaign by the self-appointed moral arbiters back in 2015 opposing this visit. And yet, when the idea of a state visit from the President of the United States, democratically elected with a paltry 62,979,636 votes (sixty two million, nine hundred and seventy nine thousand, six hundred and thirty six), who presides over a country with a Constitution which protects the rights of individuals, our virtuous cyber warriors sprang into action organising endless protests and petitions. It’s almost as if these people are ill-informed, bandwagon jumping imbeciles.

**Y** is for **Young people** (18-24 year olds) who were, we were told, the demographic with the highest proportion of Remain voters. One report suggested that on the actual day of the referendum, 26% of this group voted to Remain and 10% voted to Leave. If these figures are correct, 64% didn’t vote at all. We will never know whether the missing voters didn’t understand how democracy works, felt that spouting gibberish on social media counted in some way, or whether they were just bone idle. Obviously, it is genuinely disappointing and divisive if a significant number of young people feel that their future prospects have been damaged. However, with quite inhumane youth unemployment levels in many EU countries (over 40% in Italy, Spain and Greece and over 26% in France and Portugal) caused by the pernicious effects of the Euro, it seems that the European technocrats do not care a huge amount about them anyway and are more than happy to limit the life chances of many of their generation in order to keep their doomed project alive.

**Z** is for **Zero tax**. I imagine there is about as much chance as Elvis riding Shergar to victory in this year’s Epsom Derby, but it would be so refreshing if our policymakers could come up with some genuine tax based incentives to promote business start-ups. The “Start-Up NY” programme in New York State offers new and expanding businesses the opportunity to operate tax-free for 10 years on or near eligible campuses in New York State, working alongside educational establishments. I am not suggesting that this model could be transplanted to the UK (and I understand that initial job creation has been slow), but some sign that policymakers understand wealth creation would be so welcome. Of course this sort of idea is anathema to the Treasury employees, who succumb to the worst type of groupthink and continue to believe that a nation can tax its way to prosperity by fleecing private sector businesses.

