

## **BUDGETS 2017 and 2018**

The Chancellor of the Exchequer Phillip Hammond delivered his first Budget speech in 2017. Littered with lame jokes, "Spreadsheet Phil" tried to shake off his reputation as a plodding bore. However, everything unravelled very rapidly and within a week he was forced to make a statement in the Commons announcing an embarrassing U-turn, with the abandonment of his plan to break a manifesto pledge and raise National Insurance contributions paid by the self-employed. Justifiably accused by Comrade Catweazle of creating "chaos", Hammond must have realised he had really messed things up.

So perhaps it was not altogether surprising that Hammond's subsequent two financial statements, the November 2017 Autumn Budget and the Spring Statement this March, contained little of any immediate significance for the majority of our clients. Most of the pressing issues facing our economy have been conveniently ignored for the time being, with tough decisions deferred.

The key points that clients should be aware of are as follows:

### **1) Personal allowance**

The personal allowance for 2018/19 will be £11,850.

### **2) Tax rates**

The main rates of Income Tax remain unchanged at 20%, 40% and 45%. In the 2018/19 year, the higher rate threshold (40%) will be £46,350.

### **3) Savings**

For the 2018/19 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 £2,000 of dividend income will be tax free (reduced from £5,000) 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 annual ISA allowance will remain at £20,000 for the 2018/19 year.

### **5) VAT**

The VAT registration threshold has been frozen at £85,000 and will remain unchanged until 2020. The Treasury has launched a consultation on the effect of the current VAT registration threshold (which is the highest in the EU) and how the disincentive of exceeding the threshold can be lessened.

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) Landlords**

The second phase of the removal of tax relief on mortgage interest payments for higher rate taxpayers comes into force for the 2018/19 tax year. For this year half of the mortgage interest will be deductible in full against the rental income, with a basic rate deduction (20%) on the other half. Please contact us if you have any queries regarding your individual circumstances.

### **7) MTD (Making Tax Digital)**

The Government remains committed to the idea that in future taxpayers will be forced to record all business transactions using approved accounting software, as close as possible to the time when the

transaction occurred. The software will then transfer summary totals derived from the raw data directly to HMRC on a quarterly basis. The (flawed) rationale behind this idea is that this will improve the quality of the records kept and the accuracy of the information sent to HMRC and that tax revenues will increase. The tax gap (the theoretical difference between the tax due and the tax collected) will, according to Treasury predictions, reduce substantially.

We have previously explained our opposition to these misguided proposals. Additional annual software and hardware costs will arise, our hugely complex tax system is incompatible with these plans, computer records can and often do contain just as much inaccurate or incomplete data as manual records, the HMRC computer systems are unlikely to be sufficiently robust and inevitable data security issues will arise. The self-employed and landlords will be forced to have more frequent and unnecessary interaction with HMRC, productivity for micro businesses will diminish and in all likelihood the “informal” economy will grow. However, it appears that the dullards at the Treasury are determined to press ahead.

In the 2017 General Election the Minister with responsibility for HMRC lost her seat and in July 2017 the new Minister, Mel Stride, announced a revised and significantly less ambitious timetable for the introduction of MTD. Much of the detail of how the system will (or won't) work has yet to be determined.

We have written to clients who may be impacted by these changes and will continue to monitor the proposals so that we can recommend the optimum solution when the rules are finalised.

#### **8) Employment status consultation**

The Government has launched a consultation in order to gather views and information regarding the treatment and classification of workers. This consultation follows the Taylor Review, which looked in detail at the issues and consequences of flexible working and the so called “gig” economy.

The Taylor Review recommended that in addition to the two regular categories of worker (employee and self-employed) a third category should be recognised, being “dependent contractors”. Workers in this category would become entitled to some rights associated with being an employee, without being employed in the traditional sense.

No doubt some exploitation has taken place, where huge organisations have been able to maximise profitability whilst largely ignoring any responsibility to their workers. Deliveroo, Uber and DPD are often mentioned in this context. However, it is worth bearing in mind that these businesses have been hugely successful as they provide services consumers want and tens of thousands of workers are happy with the flexible working arrangements and conditions. In reality, the Government is more concerned about the reduction in tax revenues rather than workers' rights.

We are concerned that any future law changes could have unintended consequences where genuine self-employment is challenged. For many of our clients, particularly in the construction industry, the flexibility of using self-employed subcontractors is a fundamental part of their business model. Businesses and consumers alike could lose out if a heavy-handed, inflexible approach is adopted. Substantive changes are unlikely to be introduced until 2020. We shall keep you updated.

## OUR VIEW

It is astonishing to remember that it was just under twelve months ago when Theresa May decided to call a snap General Election. Bolstered by polls showing the Tories held a 20 point lead over Labour, her intention was to secure a large majority in order to “make Brexit a success”.

After a thoroughly inept Conservative campaign, with unpopular manifesto pledges and policy U-turns which made the “Strong and Stable” strapline appear a bad joke, she managed not only to lose the Tory majority but also to allow Jeremy Corbyn and his coterie of loons to win an additional thirty seats. The Tories did make significant gains in Scotland at the expense of the SNP, but May’s gamble turned out to be a disaster. By the time the Brexit negotiating team arrived back in Brussels, the smarmy EU negotiators could barely hide their glee.

Since the General Election it is remarkable just how little has changed. The news headlines have been endlessly dominated by Brexit stories with almost exclusively negative predictions about the negotiations and how the UK will burn in Hell the day after we leave the EU. The issues that have traditionally dominated the news agenda such as the economy, interest rates, the NHS, welfare, foreign policy and law and order have had less coverage than ever before. Only a handful of issues, such as the North Korean nuclear threat, the Salisbury spy poisoning and the “Beast from the East” have managed to displace the seemingly endless, exceptionally dull and generally speculative Brexit “news” stories.

A highly vocal and persistent group of Remainers continue to refuse to accept the referendum result and are actively doing everything they can to derail the process. No doubt they are delighted with the media obsession with Brexit and the opportunities presented for endless media appearances. Their aim is to ensure Britain is offered as bad a deal as possible by the EU, so that either by way of a second referendum or a General Election (following a no confidence vote), they can use “Project Fear Mark 2” to force enough of the plebs to agree with their clearly superior views. Some of the most vocal Remainers are:

Tony Blair - the discredited warmonger with the Messiah complex

Lord Adonis - the ironically named, never elected, promoter-in-chief of HS2

Sir Nick Clegg - rejected by the electorate in 2017, knighted in 2018

Alistair Campbell - master of the dodgy dossier

Gary Lineker - retired goal hanger now paid £1.75 million per annum by the BBC for reading an autocue

No doubt democracies derive their strength and legitimacy from entertaining different views and as such some may admire the fervour with which these individuals continue to oppose the result. However, they appear to have three main problems. Firstly, they are almost all reviled by a significant proportion of the population. Secondly, they lack any sort of democratic mandate. Thirdly (and most importantly), they appear completely unable or unwilling to make a POSITIVE case for remaining in the EU. It is blindingly obvious that the process of leaving the EU, after 45 years of integration, will be complex and difficult, but that on its own is not sufficient reason to remain and to be absorbed into the EU superstate.

Perhaps I haven’t been listening closely enough, but I have yet to hear any of these individuals talk about anything other than these difficulties. I think the general public would be significantly more inclined to listen to them if they could explain why they are in favour of the UK moving towards ever greater EU integration (it is widely accepted that maintaining the status quo was never an option).

Can they rebut the claims that the EU is anti-democratic, protectionist and by extension anti-consumer? Do they marvel at the protectionism that favours German manufacturers and French farmers and ensures our food prices are artificially high? Do they love the EU tariffs that prevent African farmers and Caribbean sugar producers from selling their cheaper produce to the EU? Or is it the economic damage of the fatally flawed single currency that they love, trapping the southern European nations in permanent debt enslavement with criminal levels of youth unemployment? Or perhaps it is the ongoing surrender of national sovereignty to a distant and undemocratic body? Or affection and respect for those upstanding, honest EU operators Juncker, Tusk, Draghi, Barnier, Verhofstadt etc.?

The UK's ineffectual Brexit negotiating team appear to have failed to set the agenda at any stage of the negotiations and have been continually outflanked by the EU negotiators. The EU is determined to achieve not only containment, to discourage any other member States from choosing a similar path, but also retribution, with an openly stated aim to make Britain less well-off and make UK citizens suffer.

Although the EU may "win" the Brexit negotiations, it may well be that problems closer to Brussels will eventually result in the EU "Project" being recalibrated. Anti-EU sentiment is on the rise across the continent. At the recent Italian election, over 50% of the popular vote was secured by the openly Eurosceptic Five Star Movement and Lega parties. In Germany the seemingly omnipotent Angela Merkel was humbled in September with the Alternative for Germany (AfD) entering the Bundestag, upsetting Germany's post-war political order. Similar democratic expressions of protest have occurred in Holland, Austria, Poland and the Czech Republic. In France, Emmanuel Macron may have triumphed on a largely pro EU agenda (turkeys don't vote for Christmas, do they?) but his attempts to reform the country's labour laws and generous welfare benefits are already running into concerted opposition. When the French people protest, they usually win. Macron's honeymoon may soon be over.

The European Central Bank has injected 2.2 trillion Euro into the Eurozone through Quantitative Easing and some modest growth has resulted. In reality however, huge economic imbalances persist between many member states which will come to the fore when the next economic downturn arises. These problems are intractable and cannot be resolved without the further erosion of democracy in the EU.

Many people have justifiable concerns about the ability of Theresa May and the Government to deal with the complexities of Brexit and at the same time deal with the multitude of other pressing issues facing the UK. Are they capable of controlling the deficit and the inexorable growth in welfare spending? Can they keep the UK secure following the ill-advised and naïve reduction in our defence capabilities? Will they tackle the overly complex tax system, reduce regulation, provide incentives to entrepreneurship and rein in the perennially incompetent Treasury? Will they have the vision and courage to tackle the permanently crisis-ridden NHS? It seems unlikely that they will be able to resolve many (or perhaps any) of these issues, but they are likely to make less of a mess than a Labour Government of Corbyn, McDonnell, Abbott, Thornberry, Watson and the other economically illiterate, hate-filled morons who have taken control of the Labour party.

I suspect that in years to come people will look back on the Brexit furore and wonder why the country became so obsessed with this. Britain's future economic prosperity will be hugely influenced by our ability to adapt to massive technological change and to trade with dynamic and emerging markets around the world. Let us hope that our policymakers recognise this and position the UK so that we can benefit in years to come.