

Budget Summary 2013

Chancellor of the Exchequer George Osborne delivered his fourth budget this afternoon at 12:30pm. All agree that he had very little wiggle-room to offer very much relief or help to struggling families and small businesses.

There was about 15 minutes of political posturing before Mr Osborne began giving any detail. In response, Leader of the Opposition Ed Milliband failed (in my view) to answer effectively very many of the Chancellor's points. Instead he resorted to the same tactic as last time: finger pointing and point-scoring.

Mr Osborne said the country needed to "hold to the right track", reinforcing that though the forecasts for growth were significantly lower than he had bargained for, he believes his strategy for deficit-reduction is still the right way to go.

He called this a "budget for an aspiration nation" - promising to reward those who wanted to get on and work hard.

This summary is not intended to be a political exercise! Here are the main points announced this afternoon, along with some comment about how they might affect you.

Growth forecasts

The Chancellor had to preface his budget with updated figures from the Office of Budget Responsibility about the state of the UK economy. They made for grim reading.

The growth forecast for this year has been cut in half, to a figure of just 0.6%. Future year growth rates have also been cut:

2014: 1.8%

2015: 2.3%

2016: 2.7%

2017: 2.8%

Pleasingly, the OBR reckons the UK will avoid a second consecutive quarter of contraction in the economy. In other words they don't think a 'triple-dip' recession is on the way.

Lower growth means less tax paid to the Exchequer; less money for the Chancellor to spend. In these straitened times, if growth is lower than forecast, it throws the Chancellor's plans into disarray.

The fact remains that the outlook is bleak. The Chancellor said that our outlook is better than that of some of our European neighbours. The ongoing problems in the Eurozone and the wider EU affect us directly as 40% of our exports go to Europe.

Borrowing

The Chancellor announced that the government's annual borrowing has reduced from 11.4% of GDP to 7.4% this year. It is forecast to fall to 5% of GDP by 2015/16, the end of this parliament. It will be £114Bn this year, higher than the forecast of £108Bn

The total amount borrowed is still rising of course and is forecast to be up to 85.6% in 2016/17.

Taxation

Good news for taxpayers. The long-awaited £10,000 personal allowance will arrive in April 2014 – this is a year earlier than planned and will take 3 million people out of paying income tax altogether. The personal allowance will be £9,440 for the 2013/14 tax year.

It is important to understand though that this personal allowance only applies to Income Tax. National Insurance is still payable by employees on income over £7,748 for the 2013/14 tax year.

The Chancellor announced further measures to combat aggressive tax avoidance, including naming and shaming those promoting tax-avoidance schemes. New agreements with Jersey, Guernsey and the Isle of Man will recoup £3Bn of tax into the Exchequer.

Stamp duty for investors in shares on 'growth' markets like the Alternative Investment Market (AIM) will be scrapped.

The cost of childcare will be subsidised by tax relief of 20% on costs up to £6,000 per child from 2015.

Duties

The proposed 3p fuel duty planned for September has been scrapped.

Also, the 3p rise in beer duty scheduled for April has been scrapped and indeed the duty will be cut by 1p per pint from Sunday.

Duty rises on wine, cider and spirits however were kept in place.

Cigarette duty is unchanged, increasing by inflation +5%

Infrastructure

Mr Osborne announced several measures to boost the country's infrastructure:

An extra £15Bn for new construction, road and rail projects will be found.

The Capital Gains Tax holiday on investments into Seed Enterprise Investment Schemes, designed to encourage investing into startup companies will be extended.

A headline-grabbing announcement was the introduction of the Help-to-Buy scheme, echoing the flagship Thatcher-era policy of the Right to Buy scheme. Help-to-Buy is designed to boost the housing market by helping people to get on to, or move up the housing ladder. There are two aspects to it:

- The government will provide shared-equity loans for homebuyers purchasing new-build properties valued up to £600,000. The loans will be for up to 20% of the purchase price and will be interest-free for five years.
- Also, there will be guarantees to underpin £130Bn of new mortgage lending. This will come into force from 2014 and will run for three years.

I would rather the Chancellor had scrapped Stamp Duty altogether, but the fact that I am currently hoping to move house may colour my view on that somewhat!

Business

Corporation tax will be cut to 20% from 2015.

A very important measure is a new Employment Allowance, which will cut employer's National Insurance bill by up to £2,000. Apparently this will mean 450,000 employers will pay no National insurance at all.

As an employer myself, this is very good news. Hopefully, this will encourage businesses to expand by hiring their first employee – good news for the economy.

There will be tax allowances for investment in shale gas, and incentives for ultra-low emission cars.

The Government will be increasing their procurement from small businesses five-fold.

Pensioners

The long-anticipated flat rate pension of £144 per week has been brought forward one year, and will now be in place from 2016.

The recently announced cap on social care costs was confirmed. More details on that in this video. Bear in mind though that these measures were also brought forward a year – welcome news indeed.

Other measures

Public sector pay increases will be capped at 1% for a further year to 2015/16. This is of course a cut in real terms, with inflation as measured by CPI currently standing at 2.8%.

There will be a revised mandate for the Bank of England. The idea is for the Bank to focus not just on controlling inflation but on promoting growth too. The Bank's inflation target will be more fluid in times of difficulty.

The Chancellor announced that he was in discussions with the Bank to extend the Funding for Lending scheme. This has had a dramatic effect on savings interest rates recently, as described in this video. The Bank's Quantitative Easing policy will also stay in place for the foreseeable future.

There will be £5,000 ex-gratia payments made to those Equitable Life policyholders who bought their policies before 1992.

Our conclusion

This budget was fiscally neutral; the chancellor has no extra money to play with. We are pleased to see some relief for businesses and some positive moves towards boosting housebuying.

Importantly, very little announced today will come into force immediately. The cut in the top rate of income tax from 50% to 45% announced last year will happen in a couple of weeks, as will some fairly sweeping cuts in benefits. But today's good news is deferred for between one and three years, tempering our enthusiasm a little.

This budget was really all about the growth forecasts and the borrowing levels. Unless the economy gets moving, things are going to be tight for a while, and we'll just see further tinkering rather than dramatic change for the rest of this parliament.

If you have any questions about the budget and how it affects your personal financial planning, please get in touch by emailing pete@meaningfulmoney.tv or using the contact page here.