Trick or treat? The Chancellor calls the 2018 Budget for late October

The 2018 Budget has been set for Monday 29 October, setting a deadline for speculation and proposals. Mr Hammond, however, has indicated that he won't end the long spell of austerity measures, despite improving public finances.

Proposals raised by think tanks and professional bodies include overhauls of income and inheritance tax, 'pension tax relief simplification', and scrapping entrepreneur's relief to help fund NHS costs.

But every proposal is overshadowed by Brexit, and the uncertainty of what will happen on 29 March 2019.

What's coming?

Alongside measures announced in the draft Finance Bill, the following areas could see change:

The NHS – The NHS Foundations's ten-year plan may not be published in time for the Budget, so the Chancellor could be limited to general spending priorities. Mr Hammond said a digital services tax or 'Google tax' is coming – with or without European allies. This income could be dedicated to the NHS.

Inheritance tax (IHT) – The IHT review from the Office of Tax Simplification (OTS) may be published ahead of the Budget. It was tasked to look at making IHT less complex, focusing especially on trusts, administrative issues and business and agricultural property reliefs. Calls for a complete overhaul in favour of a 'lifetime receipts', 'property' or 'wealth tax' seem unlikely from a Conservative government.

Stamp duty – After introducing new reliefs for first-time buyers, focus has shifted to 'last time' buyers, with calls to incentivise older homeowners to downsize. The Prime Minister has also indicated that an additional 1-3% duty could be levied on foreign property buyers to help control rising house prices and tackle homelessness.

Business – Business rates are due to increase next year, with business groups calling for action. The Chancellor's conference speech outlined changes to the apprenticeship levy to help build training and skills for SMEs, and appeared to boost commitment to the business sector.

The environment – We are likely to see a dedicated plastics packaging tax. Initial reports indicated the costs would be borne by manufacturers rather than consumers. However, we may also see an increase to the plastic bag levy from 5p to 10p and roll out to all shops, not just firms with over 250 employees.

In this most turbulent of times, facing pressure from many groups, perhaps the only clear thing is that Mr Hammond has an unusually tricky balancing act to pull off.

Losing interest in cash ISAs

The popularity of cash ISAs is continuing to wane, according to new statistics from HMRC. With inflation persistently above interest rates, it's not hard to imagine why.

The bank of England recently increased the interest rate to 0.75%, but inflation was 2.7% in August 2018. This means, if you are holding cash in an ISA or considering topping up an existing account, you need ask yourself two questions:

1. What interest rate are you earning? You could be earning less than the current 0.75% base rate, particularly if the account is not open to new investors.
2. Do you need a cash ISA at all? The personal savings allowance means you can earn interest of £1,000 tax-free per tax year if you are a basic rate taxpayer, or £500 if you pay tax at the higher rate.

For a variety of reasons, not least cheap funding available from the Bank of England, competition in the cash ISA market has waned. For example, the Halifax is offering only 0.6% to new ISA investors for 12 months (and just 0.2% thereafter – the rate for existing Instant ISA Saver investors). Also, last month National Savings & Investments cut the rate on its Direct ISA to 0.75%, defying August's increase in the Bank of England base rate.

In April 2018, there was over £270,000 million sitting in cash ISAs, and during 2017/18 they attracted nearly £40 billion in new money according to HMRC's statistics released at the end of August. However, the total value of cash ISAs rose by less than £80 million over the year, including accrued interest. This balance of new money and withdrawals followed a similar pattern to 2016/17.

Whilst historically cash ISAs have offered competitive rates for savings, with interest rates stuck below inflation it could be worth reviewing your options. For advice on all your ISA investments, including transfer opportunities, please talk to us.

Class 2 NICs here to stay

The Chancellor has changed his mind – again – on National Insurance Contributions (NICs) for the self-employed. The Treasury has revealed that Class 2 NICs will remain for at least the rest of this Parliament.

The Treasury's justification was that, without Class 2 NICs, "A significant number of self-employed individuals on the lowest profits would have seen the voluntary payment they make to maintain access to the state pension rise substantially."

This means that over three million people will continue to pay the tax, providing more revenue for the Chancellor at a time that he certainly needs it. However, as many as 300,000 self-employed people earning less than the Small Profits Threshold (£6,032 a year) could have seen their NIC payments rise from £2.95 a week to £14.65 a week.

Mr Hammond originally proposed a reform of National Insurance Contributions (NICs) for the self-employed in his March 2017 Budget. The 2017 proposal was to increase the main rate of Class 4, from 9% to 10% in 2018/19 and again to 11% in 2019/20, bringing it closer to the employee rate of 12%.

The idea lasted less than a week before it was buried under a welter of backbench criticism and *The Sun* newspaper's campaign. Some months later, the Treasury quietly announced that the end of Class 2 NICs would be deferred a year. Now they could survive until 2022, based on the current deadline for the next General Election.

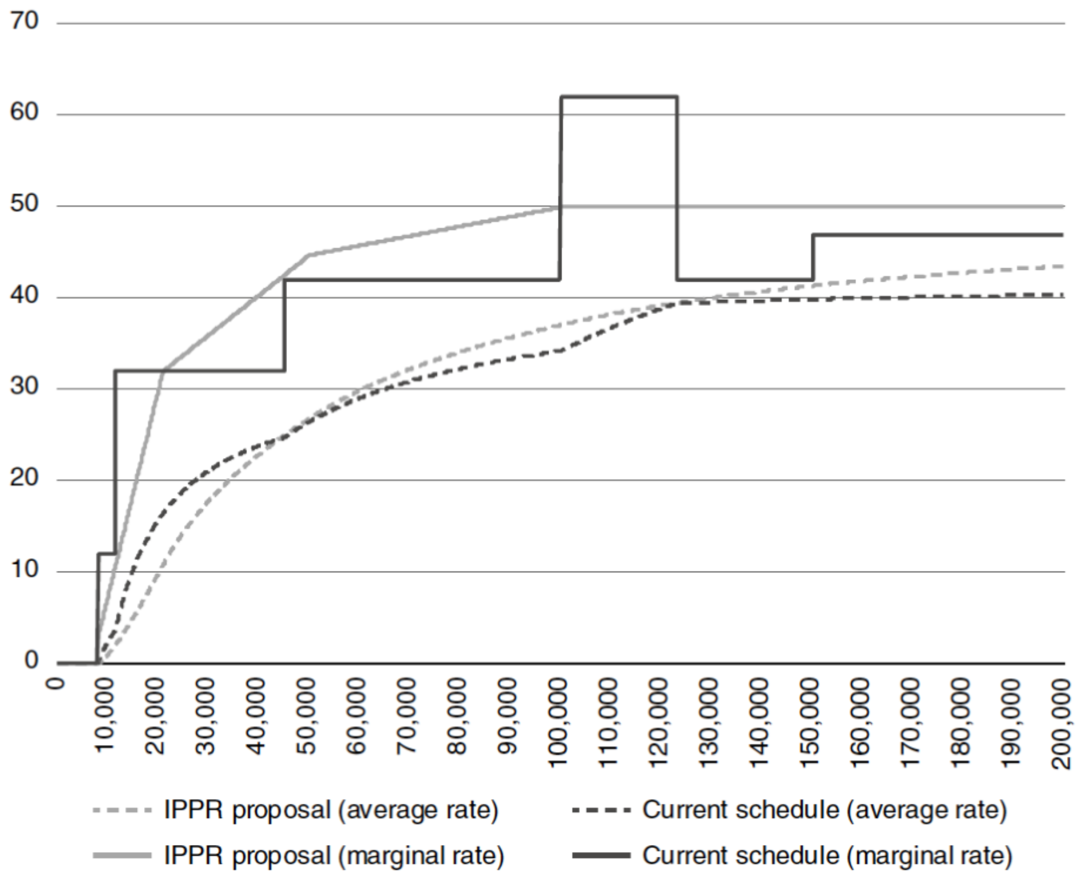
The decision, announced well ahead of the Budget in October, is a reminder of the financial and political constraints faced by the Chancellor. It should also jog your memory about pre-Budget planning – the Chancellor does not appear to be in a position to give anything away.

A different view on tax reform

A leading think tank has proposed a radical shake up of the UK tax system.

The Institute for Public Policy Research (IPPR) is a centre-left think tank that has a long history of influencing Labour Party policy. So, its ideas on tax reform published in the final report of its 'Commission on Economic Justice' are of more than just academic interest.

Income tax and national insurance – The IPPR propose combining income tax and national insurance contributions (NICs) into a single tax, applicable to all income, including investment income. They would replace the current system of incremental tax bands with a gradually rising rate applied to all taxable income, capped at a maximum 50% marginal rate above £100,000. Their proposal would smooth out inconsistent marginal rates, as the graph shows.



Source: IPPR

Inheritance tax (IHT) **–** The IPPR supports the recent proposals from the Resolution Foundation to abolish IHT. The IPPR would replace IHT with a lifetime gifts tax, payable by the *recipient* of a gift or legacy (other than a spouse or civil partner) – currently IHT is usually paid by the estate. Income tax rates would apply once a lifetime receipts allowance of £125,000 has been reached. According to the IPPR, this tax structure would raise much more than IHT, as it would largely remove the benefit of making gifts during lifetime.

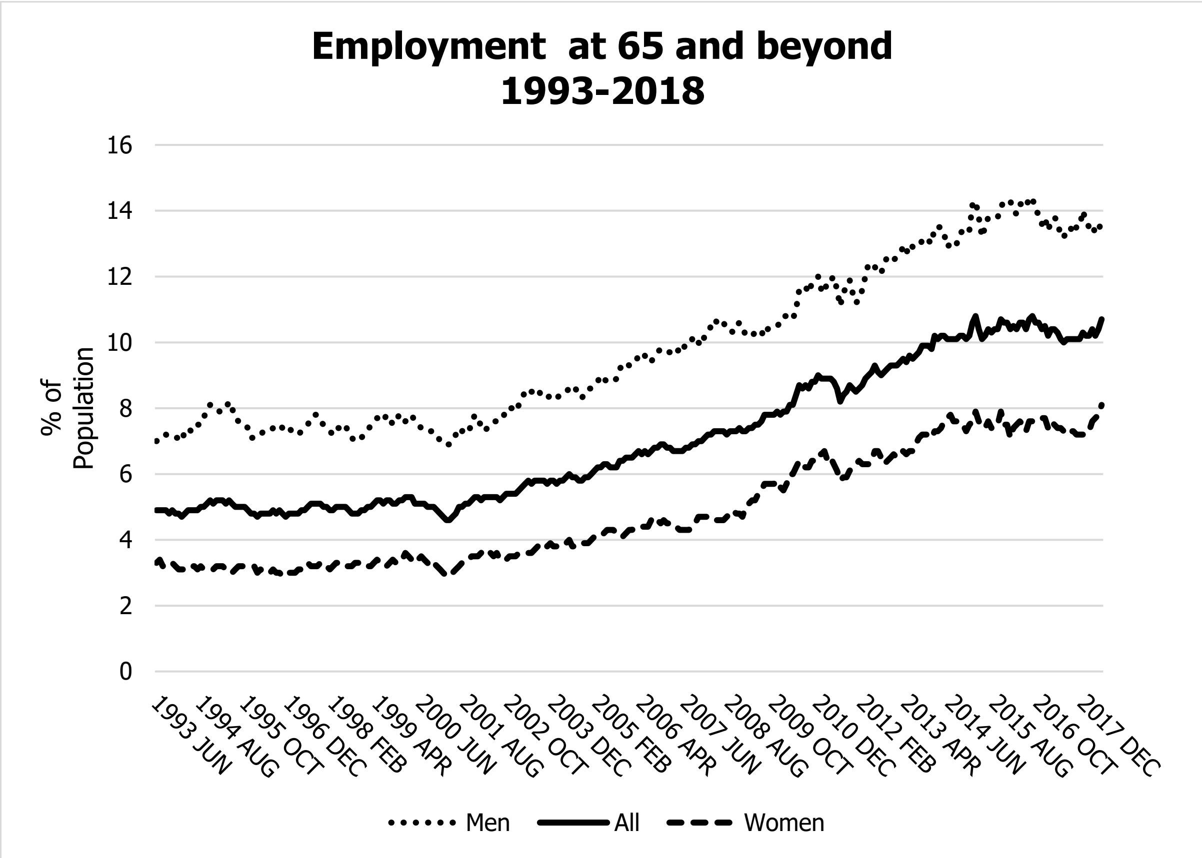
Capital gains tax – The IPPR propose abolishing "most exemptions", other than for the main residence. Capital gains would instead be taxed at income tax rates, implying a maximum marginal rate of 50% under their proposed income tax structure. Taxing capital gains as income is not a new idea – it was a practice previously introduced in the late 1980s, by the Conservative Chancellor, Nigel Lawson.

Corporation tax – Instead of cutting the corporation tax rate from 19% to 17% in 2020, the IPPR proposes increasing the rate to 24%, with business reliefs and allowances 'simplified' (i.e. cut back) to broaden the tax base. To tackle multinational tax avoidance (a practice associated with the FAANS companies, Facebook, Apple, Amazon, Netflix and Google), the IPPR proposes an alternative minimum corporation tax, pro-rating global profits to the proportion of global turnover in the UK.

These wide-reaching proposals are unlikely to be implemented exactly as the report proposes. But if we do see a Labour government, the IPPR could become more relevant, quite quickly.

More people working past 65

Do you fancy working once you have reached age 65? The trend of rising employment levels is not limited to working-age people, according to the latest employment statistics from the Office for National Statistics.



Source: ONS 11/9/2018

The data reveals a growing number of people have working beyond what is still often thought of as male pension age since the start of the millennium. From May to July 2018, 10.7% of the population aged 65 or over were in employment. Women aged 65 or over are less likely to be working, but the proportion who are has increased to 8.1% from 4.7% in July 2008.

In fact, 65 will be women's state pension age (SPA) from November 2018, but only briefly. From December 2018 the next phase of SPA increases begins, reaching a SPA of 66 for both men and women by October 2020. These increases, with yet more rises by March 2028, make it almost certain the percentages will increase further.

Not everyone in work beyond age 65 is forced to do so for financial reasons. Some people enjoy work and there is a good case for saying a phased retirement is better than the traditional cliff edge approach.

Whichever camp you fall into, keeping your options open is important. Just because you currently think you will want to keep on working in your late 60s does not mean that your health, personal or economic circumstances will allow that to happen.

If you have not reviewed your retirement planning recently or just want to know when you will eventually see your state pension, you should check now. Late planning could lead to deferred retirement.

2018: The story so far

The third quarter of 2018 showed mixed results for global stock markets.

Index	2018 Change
FTSE 100	-0.7%
FTSE All-Share	-0.5%
Dow Jones Industrial	+7.0%
Standard & Poor's 500	+9.0%
Nikkei 225	+ 6.0%
Euro Stoxx 50 (€)	-3.0%
Shanghai Composite	-14.7%
MSCI Emerging Markets (£)	-6.2%

In the US, shares have continued to power ahead, despite another rise in interest rates in late September and Mr Trump's trade battles. It has been a different story in emerging markets, which have suffered from two key US factors: a strong dollar and those rising interest rates.

Japan has also performed well, with the Nikkei 225 reaching a 27-year high at the end of September. Meanwhile, Europe ended September on a down note, with worries about Italian government borrowing resurfacing just as the month closed. And for all the traumas of Brexit, the UK is marginally ahead of the rest of Europe across the first nine months of the year.

The mixed performances of the main markets serve as a reminder of the importance of asset allocation, and the dangers of focusing too heavily on the home market.

The final quarter of 2018 could provide a similar lesson, as another rise in US interest rates is expected, further supporting the dollar. The Brexit negotiations are also entering the final stages, which could have unpredictable effects on markets.

As ever, if you would like to discuss your investment options please get in touch.