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INVESTMENT BULLETIN

Published
April 2016

In association with 'Dobson & Hodge Ltd'

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BUDGET 2016—A MIXED BAG

George Osborne's eight Budget as Chancellor of the Exchequer proved something of a mixed bag, in which tax breaks for small businesses and savers appeared alongside a downbeat assessment of the global economy and the UK's financial position.

According to the Office for Budget Responsibility (OBR), prospects for the global economy have deteriorated 'materially' and the UK is not immune to slowdowns or shocks. A decline in productivity growth has undermined the UK's economic expansion, and the OBR has cut its forecasts for the UK economic growth to 2% this year, 2.2% next year and 2,4% in 2018.

Although debt has fallen by £9 billion in cash terms, the nominal size of the UK economy has also fallen and therefore debt as a percentage of GDP remains ahead of target. Although the UK's deficit is still on course to be eradicated by 2019/20, this now only appears possible through further public spending cuts worth £3.5 billion.

The headline rate for corporation tax will be reduced from its current level of 20% to 17% by 2020. From April 2017, 250,000 smaller businesses will have their rates cut, while 600,000 small companies will pay no rates at all. However, the Chancellor increased the standard rate of insurance premium tax, and announced a levy on the total sugar content of soft drinks. He also tightened tax loopholes used by multinational companies.

The annual Individual Savings Account (ISA) allowance was increased from £15,240 to £20,000 from April 2017. The Chancellor also revealed a new 'Lifetime ISA' especially targeted at people under 40 years old. Meanwhile , lower-paid workers are set to benefit from a new 'Help to Save' scheme that will provide a 50% government bonus on up to £2,400 of savings.

The Chancellor increased the threshold at which individuals begin paying 40% income tax from £42,385 to £45,000 from April 2017. He also raised the tax-free personal allowance from £11,000 in April 2016 to £11,500 in April 2017. Elsewhere, the higher rate of capital gains tax will fall from 28% to 20% from April 2016, and the basic rate will fall from 18% to 10%.

Looking ahead, the Chancellor warned of a "dangerous cocktail of risks" - turbulent financial markets, low productivity growth, and a weak outlook for the global economy– and warned that the UK should "act now so we don't pay later."

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BREXIT : UNCHARTED TERRITORY

Speculation over Britain's future within the European Union (EU) gained fresh momentum following the announcement of a referendum that will take place on Thursday 23 June 2016. The UK-wide referendum will ask voters whether Britain should remain in the EU of opt for a 'Brexit.'

The EU's single market is intended to facilitate free movement of people, goods services and capital throughout all member states. Although the EU remains the most important single export market for the UK, its importance has declined over the last decade as exports to other areas of the world have risen. According to think-tank Open Europe, about 60% of the UK's trade is conducted through its EU membership.

At this stage, the economic effect of a Brexit is difficult to calculate because the impact would hinge on any trade pacts the UK manages to agree– both with the EU and the rest of the World. More than one-third of UK-exported goods to the EU are concentrated in industries on which the EU imposes high tariffs. At the same time, a Brexit could well affect the UK's labour market and its productivity levels.

2016 is shaping up to be a challenging year for investors. Sentiment has already been undermined by high levels of instability in financial markets, caused by concerns over China, falling commodity prices, interest rate policy and wider geopolitical anxieties. The build-up to the Brexit referendum is likely to provide fresh fuel for continued share and bond market volatility.

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