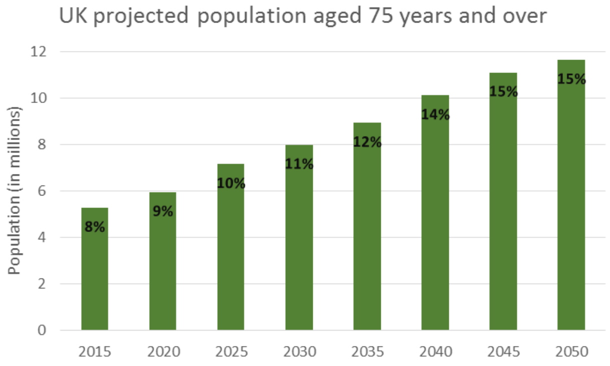
March 2017

Spring Budget 2017

On 8 March, the Chancellor of the Exchequer, Philip Hammond, presented his Spring Budget 2017 setting out the government's plans for the economy and public finances. This bulletin considers a number of the announcements most likely to be of interest, including social care and the personal injury discount rate.

Adult social care and demographic change

The Chancellor announced that the government will provide an additional £2 billion to councils in England over the next 3 years for adult social care services. Further targeted measures will be announced to identify and support certain authorities and to ensure more joined up working with the NHS. In his speech, the Chancellor said that the long-term challenge of funding care in older age sustainably requires a strategic approach. The government will set out its thinking on the options for the future financing of social care in a Green Paper later this year.



The social care package is announced in the context of the UK's ageing population. The graph[1] opposite illustrates the projected increase in the number of people aged 75 years and over from 5.3 million in 2015 to 11.6 million in 2050. Whilst adult social care may be needed at any age, demand is correlated with age. GAD published a paper on social care funding last autumn, exploring the concept of a cohort approach – developing solutions separately for each generational group.

The Spring Budget report notes that public finances will continue to be influenced by demographic trends, including the retirement of the 'baby-boomer' cohort[2] and increasing life expectancy.

The Office for Budget Responsibility's (OBR's) Fiscal sustainability report, published in January 2017, considers the implications of these demographic changes for policy and spending in age-related areas such as health, long-term care and the state pension. Their analysis is based on population projections produced by the Office for National Statistics. Alongside their report, OBR released an interactive tool which illustrates the uncertainty around these long-term projections.

Personal injury discount rate

The Ministry of Justice (MoJ) recently announced a reduction in the real (net of inflation) discount rate used by the courts in personal injury cases, to convert expected future losses into lump sum compensation. Reflecting changes in market conditions since the current rate of 2.5% a year was set in 2001, the discount rate will fall to -0.75% a year from 20 March 2017. MoJ also announced that a consultation will be launched before Easter to consider options for reforming how the personal injury discount rate is set.

OBR's 'Economic and fiscal outlook', published alongside the Spring Budget, comments that this change will "substantially increase the size of one-off settlement payments". In his speech, the Chancellor said that the NHS will be protected from the effects of the change in personal injury discount rate and that £5.9 billion has been set aside (over the next 5 years) to achieve this.

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[1] Data from the ONS 2014-based principal population projection for the UK
[2] Baby boomers currently range in age from their early 50s to their late 60s

National insurance contributions for the self-employed

The self-employed currently pay two classes of National Insurance Contributions (NICs):

- Class 2 NICs are flat-rate weekly contributions and give access to contributory benefits, including the State Pension
- Class 4 NICs are payable at a rate of 9% of net profits between certain limits (rising to 2% for higher levels of profits)

The government consulted on plans to reform these arrangements in December 2015. At Budget 2016, the previous Chancellor confirmed that Class 2 NICs would be abolished from April 2018. The government's consultation response in December 2016 confirmed that self-employed individuals will be able to gain access to contributory benefits based on a profits test in Class 4 NICs.

Reforms to the State Pension introduced in April 2016 improved provision for the self-employed. Spring Budget 2017 announced that, to reflect this change, the rate of Class 4 NICs will be increased to reduce the differential with rates paid by employees. The rate of class 4 NICs will rise from 9% to 10% in April 2018 and 11% in April 2019. A factsheet provides further background and details of the government's reforms.

Master trust pension schemes

To boost consumer protection and improve compliance, the government will amend the tax registration process for master trust pension schemes to align with The Pensions Regulator's incoming authorisation and supervision regime. This new regime is set out in the Pensions Schemes Bill, which is currently making its way through Parliament.

Other selected announcements

- As required by the Pensions Act 2014, the first statutory review of State Pension age will be published by 7 May 2017.

- Subject to certain exemptions, a 25% charge on transfers to Qualifying Recognised Overseas Pension Schemes (QROPS) has been introduced with effect from 9 March. HMRC has published guidance and draft legislation in respect of this measure.

- HMRC has published further details about a reduction in the Money Purchase Annual Allowance (MPAA). Announced at Autumn Statement 2016, and subsequently consulted on, the MPPA will reduce from £10,000 to £4,000 from 6 April 2017. Further details are set out in GAD's Technical Bulletin on Autumn Statement 2016.

- The NS&I Investment Bond announced at Autumn Statement 2016 will offer a rate of 2.2% over a term of 3 years and will be available for 12 months from April 2017. The maximum investment limit is £3,000.

- HMRC has published information and draft legislation in relation to the increase in Insurance Premium Tax announced at Autumn Statement 2016. The standard rate will rise from 10% to 12% from 1 June 2017 and the government will legislate to introduce anti-forestalling provisions.

- The government will launch a call for evidence on exemptions and valuation methodology for the income tax and employer NICs treatment of benefits in kind.

As announced at the Autumn Statement 2016, the Chancellor intends this to be the last Spring Budget. Going forward there will be a single fiscal event each year, an Autumn Budget. From spring 2018, a Spring Statement will respond to OBR's corresponding forecast and provide opportunity to launch consultations on future reforms.

If you would like to discuss any of these issues in more detail or have any questions please get in touch with your usual GAD contact.

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