**Budget Reaction 2016**

In this Budget, The Chancellor has prioritised long term economic stability above all else. His plan to support economic growth in spite of low productivity and turbulence in financial markets is based upon incentivising people to save harder and make sufficient provision for retirement. As such, the main winners of this year’s Budget are savers, pensioners and small business owners.

The newly introduced ‘Lifetime ISA’ will be welcomed by many young people who are struggling to buy a home and save for their retirement. It offers savers financial incentives from the Government and unlike a pension, will allow them to release tax free funds at retirement. Furthermore, the current ISA limit will also increase to £20,000 from next April which allows savers to really make the most of their tax free earnings.

Small business owners are also set to benefit as they will now enjoy lowered corporation tax, cuts in stamp duty for commercial premises and reduced business rates whereas larger businesses are set to be left picking up the tab. National Insurance Contributions are also set to be cut for the self employed from 2018 which will be applauded by a considerable percentage of the working population.

Similarly, existing pensioners will make considerable savings as they will be immune from the new tax band which will apply at a much higher income level than expected. They are also likely to continue to benefit from favourable changes to taxation on savings and investments.

As a result of the lack of tax relief on contributions, for a 40% tax payer it will now cost almost twice as much gross income to save the same level of retirement fund using an ISA compared to using a pension. At the net level the difference increases to over 287%. For a basic rate tax payer this difference falls to 156% of net income. As such, the Chancellor has further incentivised working people to prepare sufficiently for their retirement.

The decision to exclude more tax payers from the higher rate tax band is highly strategic as it will make retirement savings more palatable to a larger number of voters while still benefitting the Exchequer. Taking more people out of higher rate income tax will also benefit the economy if the tax savings are spent rather than saved. This is likely to improve the receipts from indirect taxes, particularly if rates are increased.’

**ends…**