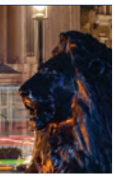
2016



AUTUMN STATEMENT

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The last Autumn Statement

Since the days of Gordon Brown, there have been two showpiece performances by the Chancellor in the Commons each year: the March Budget, concentrating on tax, and the Autumn Statement, concentrating on spending. The new Chancellor, Philip Hammond, finished his first one with a significant cut – he thinks there should only be one such speech a year, starting with the next tax year. For those who have to keep track of changes, that is welcome – but in 2017 it appears that we will have two Budgets, as the new combined event will take place in the autumn. After that there will still be a Spring Statement, but it will only involve a response to comments on the Budget, not an opportunity to make new policy announcements.

Mr Hammond's reputation is that he reads spreadsheets for enjoyment. In common with his predecessors, he started with lists of figures for GDP growth and borrowing. However, at one point he told MPs 'It's complicated, but it's good news' in order to spare them from reciting all the detail. As usual, there were references in the speech to matters that were covered in more depth in the documents released on the internet when he sat down. This report explains the more significant announcements on tax, and also includes a reminder of some of the measures that are coming into effect in the near future after having been announced some time ago.

The background to this round of policy-making is, of course, the decision to leave the EU. Mr Hammond said that estimates of economic growth were down and borrowing up as a result of that decision, and he has had to rewrite the Government's 'fiscal rules' as a result. He now aims to bring the public finances into balance in the next Parliament, not by the end of this one. He also stressed that the level of uncertainty about the forecast figures is higher even than it normally is. By this time next year, we are assured that the process of Brexit will have begun, and we may find that more radical policy changes will be required to keep the public finances on track.

Whatever happens, we will be ready to explain the rules and advise you on the effect on your personal or business finances. Once or twice a year, or however often we are needed.

Personal taxation

Allowances and rates

The Chancellor confirmed the income tax allowances and rates for next year that were announced at Budget 2016: the main tax-free personal allowance will be £11,500, and the threshold for 40% tax will be £45,000. Other allowances and rates are set out in the accompanying rate tables. The Chancellor also confirmed the Government's intention to raise the personal allowance to £12,500, and the 40% threshold to £50,000, by the end of this Parliament.

National Insurance Contributions

From 6 April 2017, the National Insurance thresholds for employers and employees are to be made consistent at £157 per week (they are currently £1 apart at £155 for employees, £156 for employers). Failing to increase the employers' threshold by the usual amount will increase the amount payable, but unifying the amounts should simplify administration.

Class 2 NIC are to be abolished from April 2018. As some benefit entitlements are dependent on these contributions, self-employed people will need to consider how they will continue to qualify. The Chancellor said that this could be achieved through paying Class 4 NIC on profits or voluntary Class 3 contributions (which are substantially more at present than Class 2 NIC).

From April 2018, the Government will remove NIC from the effects of the Limitation Act. This will align the time limits and recovery process for enforcing NIC debts with other taxes, and appears to be related to measures to collect tax on loans made in the past to beneficiaries of employee benefit trusts.

Additional income allowances

As previously announced, from 6 April 2017, new trading and property allowances of £1,000 each will be introduced for individuals with low levels of income from these sources. It will simplify the system for both taxpayers and HMRC if small amounts of income can legally be ignored, rather than requiring a tax return for a trivial liability. In 2017/18, a basic rate taxpayer will have separate tax-free allowances of £1,000 for savings income (bank interest), rental income and self-employed income, and £5,000 for dividends.

Tax-free childcare

New tax-free childcare accounts were announced in 2014 to replace the employer-provided childcare voucher scheme. Introduction has been delayed by legal disputes involving organisations involved in administering the existing scheme, but the new accounts will at last be introduced on a trial basis in early 2017 and rolled out across the country based on the results of the trial. The rules are complex, but where both parents work and earn £115 per week, they will be able to put up to £8,000 a year into an account which the Government will top up with 20p for every 80p contributed by the parents. This account can only be used to pay for childcare.

Employees

Salary sacrifice

Employees and employers have been able to gain a tax advantage from the different tax treatments of cash salary and benefits in kind. A 'salary sacrifice' scheme involves replacing cash salary with a benefit that is more advantageously taxed, resulting in a saving where such a benefit would otherwise have been purchased from after-tax cash pay. These tax and NIC advantages are to be withdrawn from 6 April 2017. Arrangements involving pensions, childcare, Cycle to Work and ultra-low emission cars will be excluded; existing arrangements will be protected for a transitional period until April 2018, and existing arrangements for cars, accommodation and school fees will be protected until April 2021.

The Chancellor has announced a wider review of the taxation of benefits, with the intention of making this area 'fairer and more coherent'. This appears likely to have a significant effect on any employee who is in receipt of benefits from their employer.

Making good

An employee who repays to their employer, or 'makes good', the cost of a benefit, avoids a tax charge. As previously announced, from April 2017 such making good will have to take place by 6 July in the following tax year if it is to be effective.

Disguised remuneration

HMRC has been concerned about individuals working through personal service companies and similar arrangements for two decades: they regard this as a way of avoiding PAYE and Class 1 NIC where 'in reality' (in HMRC's view) the individual is acting as an employee. Several different attempts have been made over the years to counter this, generally imposing a liability on the personal service company to account for tax on its income as if it was received by an employee (with a 5% deduction to allow for expenses). From 6 April 2017, the responsibility for paying this tax will be transferred to the employer where the person works in the public sector. The 5% deduction will not apply in these circumstances.

The Chancellor also announced that further measures will be introduced to counter disguised remuneration schemes used by self-employed people, and employers will be discouraged from contributing to such schemes by being denied a deduction for the expense unless tax and NIC are paid within a specified period.

Employee shareholders
Employee shareholder status was introduced in 2013: employees could enjoy certain tax exemptions on shares awarded by their employers in return for forgoing some of their employment rights. The Chancellor said that this appears to have been exploited by high earners, rather than giving benefits to those it was aimed at. From 1 December 2016, new shares issued under this scheme will not have Income Tax or CGT advantages (shares already held are not affected).

Termination payments
As announced in March, from April 2018 termination payments over £30,000, which are subject to Income Tax, will also be subject to employer's NIC. Tax will only be applied to the equivalent of an employee's basic pay if their notice is not worked. The first £30,000 of a genuine termination payment will remain exempt from tax and NIC.

Investment
ISA limits
From 6 April 2017, the ISA investment limit rises from £15,240 to £20,000 per year. The limits for Junior ISAs and Child Trust Funds will increase from £4,080 to £4,128. From the same date, the new Lifetime ISA is introduced: it will be possible to invest up to £4,000 each year in an ISA, qualifying for a 25% Government bonus (£1,000 for £4,000 invested up to the age of 50), as long as the money is either put towards a first home costing up to £450,000 or kept in the account until age 60.

Pension contributions
The limit on contributions to tax-advantaged pension schemes remains £40,000 per year for those with income up to £150,000 (£110,000 if the pension contribution is paid in addition to salary by an employer). The pension reforms introduced from April 2015 allow people over 55 to access their pension pots. Those who have done so and taken 'flexible income drawdown' – more than the tax-free 25% of the pot – are subject to a lower limit if they make further pension contributions. This has been £10,000 for the first two years of the new system, but will fall to £4,000 from April 2017.

Buy-to-let
The changes to taxation of let property, announced last year, will begin to be phased in from April 2017. Tax relief for interest paid will be restricted to basic rate rather than the taxpayer's marginal Income Tax rate, with substantial disadvantages for landlords who have borrowed to buy their properties. For the first year, 25% of the interest will be relieved at basic rate and the remainder at marginal rate; by 2020/21, all the interest will be restricted to basic rate relief only.

National Savings
The Chancellor announced the issue of a new 'market leading' National Savings product for 12 months from spring 2017 to compensate for low prevailing interest rates. The 3-year bonds will have a minimum investment of £100 and a maximum of £3,000. The indicative interest rate is 2.2%, but further details will be announced later.

Foreign domiciled people
As previously announced, there will be significant reforms of the tax treatment of foreign domiciled people from April 2017. Those who have been resident in the UK for 15 of the previous 20 years will lose their foreign domiciled status and will be taxed in the same way as UK domiciled individuals. In addition, UK residential property held by a foreign domiciled individual through offshore structures becomes chargeable to Inheritance Tax.

The Government will change the rules for the Business Investment Relief scheme, also from April 2017, to make it easier for non-domiciled individuals who are taxed on the remittance basis to bring offshore money into the UK for the purpose of investing in UK businesses.

Small businesses

VAT Flat Rate Scheme

Small businesses with turnover up to £150,000 can register for the VAT Flat Rate Scheme. This is a simplification: they claim no input tax on their expenses, but keep some of the output tax they charge to customers in order to compensate for this. The amount they keep depends on the type of business. Most of those who join the scheme do so because they have calculated that it saves them money – in some cases a considerable amount. The Government has decided that this constitutes 'aggressive abuse', and will negate it from 1 April 2017 by introducing a new flat rate of 16.5% for businesses spending less than 2% of their turnover or less than £1,000 per year on goods, excluding capital goods, food, vehicles and fuel. As the output tax collected from customers cannot exceed 16.67% of turnover, any business affected will almost certainly be better off returning to the normal VAT system with effect from that date.

Business rates

Rural rate relief is available to businesses in rural areas with a population of less than 3,000 – for example, the only shop in a village. To remove inconsistency with small business rate relief, rural rate relief will double to 100% from 1 April 2017.

Capital Allowances

From 23 November 2016 to 31 March/5 April 2019, businesses will be entitled to a 100% First Year Allowance (FYA) for the cost of installing electric charge-point equipment for electric vehicles. This measure is intended to complement the 100% FYA available for low CO_2 emission vehicles and to encourage their uptake.

Large businesses

Corporation Tax rates

The Chancellor confirmed the Corporation Tax rates previously announced: 19% for three years from 1 April 2017, then 17% from 1 April 2020.

Reform of tax reliefs

From April 2017, there will be significant changes to the corporate tax reliefs for interest payments and for losses brought forward. There will be a restriction for large groups, which have net interest expenses of more than £2 million, net interest expense of more than 30% of UK taxable earnings, and a UK net interest to earnings ratio that is greater than that of the worldwide group.

From the same date, there will be a restriction on the amount of profits that can be offset by brought forward losses. Only 50% of current profits will be eligible for relief, but there will be greater flexibility over the types of profit that can be relieved by losses incurred after April 2017. A standalone company or group with profits up to £5 million will not suffer this restriction.

Other measures

Insurance Premium Tax

From 1 June 2017, Insurance Premium Tax rises from 10% to 12%. This is supposed to raise most of the money to pay for spending measures in the Autumn Statement. Possibly to offer some balance for this unwelcome increase, the Chancellor also announced an intention to crack down on fraudulent whiplash claims, which he suggested would reduce the average motorist's insurance premiums by £40.

Tax administration

Making Tax Digital

'Making Tax Digital' is a planned reform of the administration of tax that will replace the annual tax return system with online quarterly reporting. According to present Government plans, it will apply to income tax from 6 April 2018, affecting nearly all individual landlords and self-employed people, as well as many others. This will have a huge impact on taxpayers and on HMRC, and many are concerned that it is being introduced too quickly. The Government ran consultations on the proposals earlier this year, and will publish the responses in January 2017.

New penalties

As announced in March, the Government will introduce a new penalty for 'enabling' tax avoidance schemes that are later held to be ineffective. This is aimed at promoters of such schemes. It is likely to apply from Royal Assent to the Finance Bill 2017.

There will also be a new penalty for a person who 'knew or ought to have known' that their transactions were connected with fraud. This is aimed at the so-called 'carousel' fraud that has exploited the VAT system over the last two decades, but it may be applied more widely.

Tax Rate Changes

Income Tax Rates and Allowances

Allowances	2017/18	2016/17
Personal Allowance *†	£11,500	£11,000
Blind Person's Allowance	2,320	2,290
Allowed only at 10%		
Married Couple's Allowance (born before 6/4/35) **	8,445	8,355
Income limit for age-related allowances	28,000	27,700
Dividend and Savings Allowances §		
Dividend Tax Allowance (DTA)	5,000	5,000
Personal Savings Allowance (basic rate taxpayer)	1,000	1,000
Personal Savings Allowance (higher rate taxpayer)	500	500

* Personal Allowance (PA) will be withdrawn at £1 for every £2 by which 'adjusted income' exceeds £100,000. There will therefore be no allowance given if adjusted income is £123,000 or more (2016/17: £122,000).

† 10% of the PA (2017/18: £1,150; 2016/17: £1,100) can be transferred to a spouse or civil partner who is no more than a basic rate taxpayer, where both spouses were born after 5 April 1935.

** Married Couple's Allowance is reduced by £1 for every £2 by which adjusted income exceeds the income limit, down to a minimum of £3,260 (2016/17: £3,220).

§ The DTA taxes the first £5,000 of dividend income at nil rather than the rate that would otherwise apply – see rates below. The Personal Savings Allowance operates in a similar way for savings income (e.g. interest), but varies according to the level of the taxpayer's total income.

Rate bands	2017/18	2016/17
Basic	£33,500	£32,000
Higher	£33,501-£150,000	32,001-150,000
Additional	over 150,000	over 150,000

Rates	2017/18 & 2016/17		
Rates differ for General, Savings and Dividend income within each band:			
	G	S	D
Basic	20%	20%	7.5%
Higher	40%	40%	32.5%
Additional	45%	45%	38.1%

General income (salary, pensions, business profits, rent) uses personal allowance, basic rate and higher rate bands before savings income (interest). To the extent that savings income falls in the first £5,000 of the basic rate band, it is taxed at nil rather than 20%.

Dividends are taxed as the 'top slice' of income.

Tax Efficient Investments

Annual limits	2017/18	2016/17
Individual Savings Accounts (ISA)	£20,000	£15,240
Junior ISA	4,128	4,080
Child Trust Fund	4,128	4,080
No changes announced for investment limits in:		
Enterprise Investment Scheme	1,000,000	1,000,000
Venture Capital Trust	200,000	200,000
Seed Enterprise Investment Scheme	100,000	100,000
Registered Pension Schemes		
General limit	*† 40,000	*† 40,000
Reduced limit	** 4,000	** 10,000

* or 100% of earnings (if lower): in some circumstances unused relief of the previous 3 years can justify current contributions.

† Where income (including pension contributions) exceeds £150,000, the allowance may be tapered by £1 for every £2 of excess income, down to a minimum of £10,000.

** for individuals who have flexibly accessed a pension from 6 April 2015.

Child Benefit

Rates	2017/18	2016/17
First child rate	£20.70	£20.70
Rate for additional children	13.70	13.70

National Insurance Contributions

Rates and limits for 2017/18

Class 1	Employee	Employer
Main NIC rate	12%	13.8%
No NIC on first	£157pw	£157pw
Main rate charged up to	£866pw	no limit*
2% rate on earnings above	£866pw	N/A
Employment allowance per qualifying business	N/A	£3,000

* Nil rate of employer NIC for employees under the age of 21, or apprentices aged under 25, applies up to £866pw. The main rate applies above this threshold.

Employer contributions (at 13.8%) are also due on most taxable benefits (Class 1A) and on tax paid on an employee's behalf under a PAYE settlement agreement (Class 1B).

Class 2 (Self employed)	
Flat rate per week	£2.85
Small profits threshold	£6,025
Class 3 (Voluntary)	
Flat rate per week	£14.25
Class 4 (Self employed)	
On profits £8,164 – £45,000	9.0%
On profits over £45,000	2.0%

Employee Vehicle Benefits

	2017/18	2016/17
Car fuel benefit multiplier	£22,600	£22,200
Van fuel benefit	610	598
Van benefit charge	3,230	3,170

Working and Child Tax Credit

Rates and thresholds	2017/18	2016/17
Working Tax Credit		
Basic element	£1,960	£1,960
Couple and lone parent element	2,010	2,010
30 hour element	810	810
Disabled worker element	3,000	2,970
Severe disability element	1,290	1,275
Childcare element		
maximum eligible cost for one child	£175 per week	£175 per week
maximum eligible cost for two or more children	£300 per week	£300 per week
percentage of eligible costs covered	*70%*	*70%*
Child Tax Credit		
Family element	£545	£545
Child element	2,780	2,780
Disabled child element	3,175	3,140
Severely disabled child element	1,290	1,275
Income thresholds and withdrawal rates		
Income threshold	£6,420	£6,420
Withdrawal rate	*41%*	*41%*
Income threshold for those entitled to Child Tax Credit only	16,105	16,105
Income rise disregard	2,500	2,500
Income fall disregard	2,500	2,500