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Chancellor's Autumn Statement 2016

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The Autumn Statement 2016

The last Budget on 16 March now seems a distant memory from a past era. Back then the Chancellor was George Osborne, the Prime Minister was David Cameron, the UK looked likely to remain a member of the EU after 23 June and Donald Trump was not considered a serious US presidential candidate. Wind forward just over eight months and there is a new Chancellor, a new Prime Minister and the UK is preparing for Brexit by March 2019 as President-elect Trump prepares to take office.

The economics have changed more than a little, too, confounding a wide variety of expert forecasts:

- Whereas in March the Office for Budget Responsibility (OBR) was projecting that government borrowing would be £55.5bn in 2016/17, it is now forecasting £68.2bn. The leap is hardly surprising: seven months into the fiscal year the government had already borrowed £48.6bn.

- The aim of achieving a Budget surplus in 2019/20, which had required considerable fiscal gymnastics on Mr Osborne's part in the Spring Budget, has been thoroughly abandoned. The goal remains to eliminate the deficit, but the timing – "as soon as practicable" – is now uncertain. There is no surplus in sight in the OBR's projections, which run to 2021/22.

- Economic growth has been much better than most Brexit-based projections and superior even to some earlier forecasts based on a Remain vote. Year-on-year growth to the end of the third quarter was 2.3%, of which 1.6% has been in 2016. The OBR's Budget 2016 estimate of 2.0% for the current year (assuming no Brexit) has now been *increased* to 2.1%, but for next year the OBR has moved down its estimate from 2.1% to 1.4%. Overall the OBR believes that Brexit will cost the UK 2.4% in GDP growth by 2021.

- Inflation has reappeared. At the time of the March Budget the annual inflation on the Consumer Prices Index (CPI) measure was running at 0.3%, the highest level since January 2015. In March the OBR forecast for inflation in 2016 was 0.7%, whereas the October 2016 CPI came in at 0.9%. The consensus forecast is that the Bank of England's 2% target will be breached next year, with some pundits suggesting a peak around 4%. The OBR sees inflation reaching 2.5% in 2018.

- Sterling has weakened considerably in the wake of the Brexit vote. At the time of the Budget a pound would buy $1.43 and €1.27, the corresponding rates are now $1.24 and €1.18.

When Philip Hammond replaced George Osborne as Chancellor, there was talk of a 'fiscal reset'. The borrowing numbers suggested that he had little wriggle room, and in the event that proved to be the case. There were no giveaway rabbits-out-of-the-hat, hardly surprising

when the OBR is forecasting total borrowing to 2020/21 of £122bn more than its March estimate.

Income Tax

In the March Budget, the then Chancellor announced that the personal allowance would rise by £500 in 2017/18 to £11,500. The same Budget increased the basic rate limit to £33,500 (although Scotland will choose a lower figure for 2017/18, using its devolved powers). The higher rate threshold for 2017/18 will thus be £45,000 outside Scotland, still some way off the manifesto 2020/21 goal of £50,000, although it will at last overtake the level set in 2009/10.

The 0% starting rate band for savings will remain at £5,000. Both the £100,000 threshold for phasing out the personal allowance and the £150,000 starting point for additional rate tax are unaltered for 2017/18. The result is that the overall tax burden is little changed for basic rate taxpayers, but for once most higher rate taxpayers will see a useful boost. This starts to fade once the personal allowance is lost (at £122,000 of income in 2016/17 and £123,000 for 2017/18).

Income Tax Changes

Total Income £	2016/17 £	2017/18 £	Tax Saving £
Less than 11,000	0	0	0
15,000	800	700	+100
20,000	1,800	1,700	+100
30,000	3,800	3,700	+100
40,000	5,800	5,700	+100
50,000	9,200	8,700	+500
75,000	19,200	18,700	+500
100,000	29,200	28,700	+500
125,000	43,600	43,300	+300
150,000	53,600	53,300	+300
200,000	76,100	75,800	+300

Note: Assumes a non-Scottish taxpayer with all income taxed as earned income with personal allowance only and no child benefit tax charge.

The Chancellor confirmed the goals of a personal allowance of £12,500 and higher rate threshold of £50,000 by 2020, but also announced that after 2020 the personal allowance increase would be linked to the CPI rather than the National Minimum Wage (NMW), as previously proposed. The NMW will itself rise by 30p an hour to £7.50 from April 2017.

The married couple’s allowance (which is only available if you or your partner were born before 6 April 1935) will rise to £8,445 (minimum £3,260) because it is linked to the CPI. The married couple’s transferable tax allowance rises to £1,150.

The fact that next tax year's higher rate threshold will only just overtake the level set at the end of the last decade is a reminder of how the income tax screw has been turned ever tighter. If you want to minimise your tax now rather than wait for that distant £50,000 higher rate threshold, check that you are making maximum use of today's allowances and bands and this tax year's reforms to the tax treatment of dividends and interest income.

National Insurance

The 2017/18 National Insurance Contribution (NIC) thresholds will generally rise marginally, thanks to the 1.0% September inflation number. There will be a welcome re-alignment of the starting points for employer's and employee's NICs at £157 a week – the two had been £1 apart. The upper earnings/profits limit will rise to £45,000, in line with the higher rate threshold. The result is an effective clawing back of part of the tax savings for those with higher rate taxpayers with earned income. There is no change in the main employer and employee NIC rates for 2017/18, both of which were protected by the 'tax triple lock' announced before the election and legislated for last year.

Class 2 contributions (currently £2.80 a week and now generally collected via self-assessment in January) will be £2.85 a week in 2017/18 and then disappear from 2018/19. The Class 3 voluntary rate will rise by £0.15 to £14.25.

From April 2018 employer's NIC will also be levied on employee termination payments to the extent that they exceed the normal £30,000 income tax-free ceiling.

Salary sacrifice

New rules will apply to salary sacrifice arrangements from 2017/18 which will largely negate the current income tax and NIC advantages of such arrangements. There will be exemptions for arrangements relating to pensions (including advice), childcare, Cycle to Work and ultra-low emission cars. Arrangements in place before April 2017 will be protected until April 2018, and arrangements for cars, accommodation and school fees will be protected until April 2021. These transitional provisions are likely to spur a rush of new arrangements being made before 6 April.

In 2017/18 an employee working 30 hours a week at the national living wage (£7.50 per hour) will pay £424 in NICs (and £40 in income tax). With the combined rate of employer's and employee's NICs up to 25.8% of your earnings at the margin, the salary sacrifice measures are no surprise. Fortunately, funding pension contributions will be unaffected by the reform.

Capital Gains Tax

The capital gains tax (CGT) annual exempt amount for 2017/18 was not announced in the Autumn Statement but, with 1.0% CPI inflation to September, it is likely it will rise to £11,300.

The current CGT annual exemption is worth up to £3,108 in the current tax year. Will you be taking advantage of it? You may want to rearrange your holdings in the light of the recent changes to the treatment of dividends. By realising gains in this tax year and 2017/18, you could take profits of up to £22,400 without any tax liability.

Inheritance Tax

The inheritance tax (IHT) nil rate band, which has been frozen at £325,000 since April 2009, will remain unchanged until at least April 2021. The new residence nil rate band announced in the July 2015 Budget starts in 2017/18, but only at a level of £100,000 (it rises by £25,000 a year for each of the following three tax years before becoming inflation-linked).

According to Nationwide, the average UK property price has increased by 35.6% since April 2009. While the forthcoming residence nil rate band will help to counteract this, the fact remains that in 2015/16 IHT raised 95% more tax revenue than in 2009/10. Estate planning remains essential if you want to minimise the impact of IHT on your family.

Individual Savings Accounts

For 2017/18 the ISA investment limit will rise to £20,000, with the Junior ISA (JISA) and Child Trust Fund limits increasing to £4,128.

National Savings & Investments Bond

National Savings & Investments (NS&I) will offer a new "market leading" three-year savings bond for 12 months from spring 2017. The bond will be open to anyone aged 16 and over, subject to a minimum investment of £100 and a maximum of just £3,000. The Chancellor pointed to an "indicative rate" of 2.2%, but warned this could be adjusted to reflect market conditions once the product is launched. At present the best three-year fixed rate bonds available are paying about 1.6%.

The Housing Market

In April 2016 Mr Osborne's attack on buy-to-lets began to take effect, with the replacement of the wear-and-tear allowance and a 3% hike in SDLT on second properties (mirrored by Scotland's increase in LBTT). From next April, the phased reduction in tax relief to 20% on financing costs begins, while two years later the timescale for paying CGT on residential property shortens to just 30 days after sale. There were no new measures directly aimed at landlords, but the move to bring in legislation banning letting agents from charging fees to tenants is likely to have an indirect effect.

The new Prime Minister has signalled a move away from the pre-referendum emphasis on home ownership. This has been backed up by the September statement from the Treasury confirming that the Help to Buy Mortgage Scheme will not be extended beyond the end of this year. The statement included the announcement of a £2.3bn Housing Infrastructure Fund covering 100,000 homes and £1.4bn "to deliver 40,000 additional affordable homes", seemingly at £35,000 per home.

Pensions

Three important changes to pensions occurred on 6 April 2016:

- A further 20% reduction in the lifetime allowance from £1.25m to £1.m, with the introduction of two new transitional reliefs;
- The tapering of the annual allowance to as little as £10,000 for those with high incomes; and
- The start of the new single tier state pension system, marking the end of the basic state pension and state second pension for anyone reaching their state pension age after 5 April 2016.

Even with that major list of reforms imminent, the March Budget was preceded by a steady flow of rumours about an overhaul of the tax treatment of pensions. In the event, Mr Osborne made a last minute decision to leave matters unchanged. However, he did announce the Lifetime ISA (LISA to everyone but the Treasury), which was widely seen as a stalking horse for future pension reform. The LISA was not met with much enthusiasm and there were some doubts whether it would survive the change of Chancellor. In September the government surprised the naysayers by introducing the framework legislation for LISA, which the Chancellor confirmed would launch next April. Few providers are likely to be ready to offer a LISA at the start.

Ahead of the Autumn Statement there was some speculation that Mr Hammond would make the move to flat rate pension contribution tax relief that Mr Osborne had shied away from. Several commentators suggested it offered him a good opportunity to raise some revenue stealthily and meet Theresa May's "we'll prioritise not the wealthy" stance. However, Mr Hammond's pension measures took a different course:

He announced a reduction in the money purchase annual allowance (MPAA) from £10,000 to £4,000 for 2017/18 onwards. This measure is aimed at individuals drawing income under the pension flexibility rules and then recycling it as further tax-relieved pension contributions.

The tax treatment of overseas pensions, which includes QROPS, will be more closely aligned with the rules applying to UK pension arrangements. More details are awaited, but one significant measure was an extension from five to ten years of the UK's taxing rights over recently emigrated non-UK residents' overseas lump sum payments from funds that have had UK tax relief. This looks to be directly targeted at transfers to QROPS from UK schemes.

The latest cuts to the Annual Allowance and Lifetime Allowance mean that as the tax year end nears, reviewing pension contributions should be one of your priorities.

Venture Capital Trusts and Enterprise Investment Schemes

A year ago changes to EU State Aid rules worked their way through to a range of tighter qualifying company eligibility criteria for Venture Capital Trusts (VCTs) and Enterprise Investment Schemes (EISs). Promotors have been amending their investment approach to

comply with the new regime, which notably has stopped VCTs funding new management buy outs (MBOs). There were only minor technical changes revealed on this occasion, but it is already clear that some of the major VCT providers will be raising little or no fresh capital in 2016/17. Supply in the run up to the tax year end may therefore be restricted.

Non-domiciled individuals

The Chancellor confirmed that the much-discussed changes to the treatment of non-domiciled individuals will take effect from 2017/18. This will mean that non-domiciled individuals will be deemed UK-domiciled for tax purposes if they have been UK resident for 15 of the past 20 years, or if they were born in the UK with a UK domicile of origin. It will also bring UK residential property into the IHT net, even if it is held via an offshore structure.

Tax Avoidance and Evasion

In August HMRC issued two consultation papers, one covering promotion of tax avoidance schemes and the other historic offshore evasion. In both instances the proposals marked a strengthening of the existing rules. The Autumn Statement confirmed that the measures outlined in both papers will pass into legislation. There will also be a review of the case for making access to licences or services for businesses conditional on them being registered for tax.

Further consultation will cover a new legal requirement for intermediaries arranging complex structures for clients holding money offshore to notify HMRC of the structures and the related client lists.

Business Taxes

The main rate of corporation tax is currently 20% and will fall to 19% from April 2017. The Chancellor confirmed the goal of a 17% rate by 2020, but made no mention of the 15% rate hinted at by Theresa May to the CBI conference following Donald Trump's election victory.

For those running their own business, the low corporation tax rate (compared with the higher and additional rates of income tax) can make trading through a company an appealing option. However, the decision has been complicated in 2016/17 by the new tax rules for dividends, which give the Treasury a bigger share of large dividend payouts. Further out there is a risk of government action to limit the financial benefits of incorporation. The Chancellor referred to a projected £3bn loss of income tax revenues by 2020/21 and said that "…the government will consider how we can ensure that the taxation of different ways of working is fair between different individuals, and sustains the tax-base as the economy undergoes rapid change." As ever, the best choice for any business depends on all the facts and it is important to take more than just today's tax rules into account when deciding on the appropriate trading vehicle.

One widely expected move that never happened was a temporary increase in the annual investment allowance (AIA), which since its introduction in 2008 has changed with uncomfortable regularity in response to perceived economic conditions.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax and trust advice. This newsletter is provided strictly for general consideration only and is based on our understanding of law and HM Revenue & Customs practice as at 23 November 2016 and the Treasury and HMRC documents published alongside the Autumn Statement 2016. The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

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