The Autumn Statement

After two Budgets so far in 2015, it might have been thought that the Chancellor had little new to say this time around. However, that was never going to be the case. For a start, the Autumn Statement was a late addition to the main announcement scheduled for 25 November; the outcome of the latest five year spending review covering £4,000bn of government expenditure. Then Mr Osborne had to deal with the fallout from the House of Lords' rejection of his proposed tax credit cuts, which would normally have almost warranted a fresh Budget in its own right. Although the planned reforms received little attention when announced back in July, they represented just over half of the £9.075bn additional net income the Exchequer was projecting for 2016/17.

Fortunately for the Chancellor, the balance of economic changes since July have moved marginally in his direction, giving him some wriggle room:

In the summer, the Office for Budget Responsibility (OBR) increased its estimate of government borrowing costs because of market expectations of faster interest rate increases. However, over the past four months the markets have become more cautious on UK interest rate rises, allowing the OBR to reduce its borrowing cost assumptions, freeing up £4bn for Mr Osborne in 2017/18 and over £5bn by 2020/21.

Inflation has virtually disappeared: the annual Consumer Prices Index (CPI) measure has not been above 0.1% since February. However, the index may pick up in coming months, as the effect of last autumn's drop in oil prices falls out of the yearly comparison.

Earnings have been growing strongly, with the latest reading showing 3% annual increases (including bonuses). This is good news for the Chancellor in terms of income tax receipts, but is partially countered by the cost of the 2.9% 'triple lock' increase to basic state pensions. Other state pensions, most benefits and some tax allowances will remain unchanged, thanks to the absence of inflation.

The unemployment rate has fallen from 6.0% to 5.3% over the past year to September, according to the Office for National Statistics. The reading is the lowest since spring 2008.

Economic growth has slowed during 2015, with the third quarter first estimate coming in at 0.5%. The clouds gathering over China and still anaemic Eurozone economies (third quarter growth just 0.3%) suggest there will be little pick up in the near term. Even so, the OBR did marginally increase its UK growth estimates for the next two years.

In the first seven months of the year net government borrowing was £54.3bn, down 10.9% on 2014/15. However, the OBR's July Budget forecast for the whole of 2015/16 was £69.5bn, a 22.9% drop

The Electric Works,
Sheffield Digital Campus
Sheffield
S1 2BJ
0845 2501271

on last year. It now projects a further small fall for the current year, although the OBR's calculations were made before the latest disappointing borrowing figures.

The constraints imposed by disappointing government borrowing numbers and the need to 'fix' tax credits meant that the Chancellor's third set piece performance of 2015 was going to be challenging . Nevertheless, with the help of a £27bn boost to the underlying five year forecast from the OBR, he managed to marginally improve on his £10bn surplus target for 2020/21. At the same time Mr Osborne made a variety of interesting announcements, even if some had more than a tinge of déjà vu:

Income Tax

In his July Budget, the Chancellor announced that the personal allowance would rise by £400 in 2016/17 to £11,000, a £200 increase over the amount he announced in March. The Autumn Statement left the allowance unchanged, as was the basic rate band at £32,000. The starting rate band for savings remains at £5,000. The higher rate threshold for 2016/17 will therefore be £43,000, some way off the Chancellor's 2020/21 goal of £50,000 and still £875 below the level of 2009/10.

Mr Osborne potentially had two other previously announced tax changes due from 6 April 2016 to talk about, neither of which received a mention, possibly because they are not quite as generous as they might appear at first sight:

The personal savings allowance, worth a tax saving on interest of up to £200 for basic and higher rate taxpayers, but nothing for additional rate taxpayers. The continuation of low interest rates will limit the number who gain the maximum benefit.

The £5,000 dividend allowance, accompanied by new (higher) tax rates on dividend income above that level. While most taxpayers will gain from this change, the impact on the minority of losers – such a private company directors – is enough to add about £2bn a year to Exchequer's income in the medium term.

Both the £100,000 threshold for phasing out the personal allowance and the £150,000 starting point for additional rate tax remain the same for 2016/17. The result is that the overall tax burden is little changed: the greatest gain is for higher rate taxpayers with total income of up to £121,200 (the level at which all personal allowance is lost in 2015/16

The Electric Works,
Sheffield Digital Campus
Sheffield
S1 2BJ
0845 2501271

Income Tax Changes

Note: Assumes all income taxed as earned income and individual is aged under 78 by 5/4/2017 with personal allowance only and no child benefit tax charge.

The phasing out of age-related personal allowances that started in 2013/14 means the personal age allowance disappears completely in 2016/17. The married couple's allowance (which is only available if you or your partner were born before 6 April 1935) will be unchanged at £8,355 (minimum £3,220) because it is now linked to the CPI. The transferable tax allowance for married couples and civil partners rises to £1,100.

On the company car tax front, somewhat predictably Mr Osborne stopped what would have been the abolition of the 3% diesel surcharge, due from next April. This has now been rescheduled to disappear from 2021/22, usefully bringing in about £275m a year in extra revenue.

The fact that next year's higher rate threshold remains below that 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 are prepared for next tax year's changes to the tax treatment of dividends and interest income.

Tax credits

One of the big surprises of the Autumn Statement was the Chancellor's U-turn on tax credits. In July he had announced plans to raise over £4.5bn by tax credit reductions, due to take effect from 2016/17. However, the House of Lords rejected his proposals in October and left Mr Osborne with a large budgetary hole to fill. He was widely expected to water down his summer cuts, but in the event he abandoned nearly all of the measures, leaving the main taper rate and income thresholds unchanged.

National Insurance

The 2016/17 National Insurance Contribution (NIC) thresholds will generally stay unchanged in the absence of inflation, with the exception of the upper earnings/profits limit which rises to £43,000 in the line with the higher rate threshold. There is no change in the main employer and employee rates for 2016/17, both of which were protected by the 'tax triple lock' announced before the election. However, post election it emerged that this pledge will not apply to self-employed NIC rates.

Class 2 contributions (currently £2.80 a week and, in 2015/16, collected via self-assessment) will ultimately disappear, but survive unaltered into 2016/17. The Class 3 voluntary rate also remains unchanged, despite the introduction of the single tier pension from next April.

The Electric Works,
Sheffield Digital Campus
Sheffield
S1 2BJ
0845 2501271

The previous and current governments both made much of "taking people out of tax" by increasing personal allowances. Yet in 2016/17 an employee working 30 hours a week at the new national living wage (£7.20 per hour) will pay £381 in NICs (and £46 in income tax). With the combined rate of employer's and employee's NICs up to 25.8% of your earnings at the margin, salary sacrifice arrangements continue to be an attractive option for taxpayers and even some non-taxpayers.

Capital Gains Tax

The capital gains tax (CGT) annual exempt amount for 2016/17 was not announced in the Autumn Statement but, with zero inflation, it is likely it will remain at £11,100.

From April 2019, a payment on account of any CGT due on the disposal of residential property (eg a second home or buy-to-let investment) will have to be made within 30 days of the disposal.

The 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 next tax year's changes to the treatment of dividends. By realising gains in this tax year and 2016/17, you could take profits of up to £22,200 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 Budget will not start until 2017/18, and then only at a level of £100,000 (it reaches £175,000 just before the next election is due).

There were two small pieces of good news on the IHT front:

No action will be taken over the use of deeds of variation to make post-death amendments to wills. Mr Osborne had announced a consultation on the subject in the March Budget, but this was seen mainly as a pretext for a joke at the expense of the then Labour leader, Ed Miliband, who was reported to have used a deed of variation on his father's death.

The legislation on pension plans in drawdown is to be clarified to ensure normally no IHT is payable on funds remaining at death. This will have retrospective effect to April 2011.

According to Nationwide, the average UK property price has increased by 29.6% since April 2009. While the forthcoming residence nil rate band will help to counteract this, the fact remains that in 2014/15

IHT raised 60% more than in 2009/10. Estate planning remains essential if you want to minimise the impact of IHT on your family.

Individual Savings Accounts

For 2016/17 the ISA investment limit will remain unchanged at £15,240, with the Junior ISA (JISA) and Child Trust Fund limits also unchanged at £4,080.

As previously announced, from next April new rules will allow you to replace cash you have withdrawn from your account earlier in a tax year, without this replacement counting towards that year's annual ISA limit. In practice the role of cash ISAs is expected to diminish from 2016/17 because of the new personal savings allowance, which will allow many people to obtain tax-fee interest without the use of an ISA.

The list of qualifying investments for the new Innovative Finance ISA (providing investment in peer-to-peer lending) will be extended in Autumn 2016 to include debt securities offered via crowdfunding platforms. The government will also continue to consider extending this type of ISA to include equity crowdfunding.

In an extension to last year's creation of 'inheritable' ISAs, there will be a consultation on legislation to extend ISA tax benefits to the period of estate administration – at present normal tax rules apply between the date of death and transfer to the surviving spouse/civil partner.

The Housing Market

Last year's Autumn Statement saw an unexpected reform of the stamp duty land tax (SDLT) rules for residential property which has already resulted in a slowing down of the prime property market. In July Mr Osborne turned his attention to buy-to-lets, with the replacement of the wear-and-tear allowance and a phased reduction in tax relief on financing costs to 20% only.

In his Autumn Statement, Mr Osborne returned to both topics, announcing that from 1 April 2016 the rate of SDLT on purchases of "additional residential property" (eg second homes and buy-to-let) will increase by three percentage points.

He also revealed further initiatives for homebuyers, promising a total of 400,000 affordable housing starts by 2020/21, half of which would be starter homes sold with a 20% discount to young first-time buyers.

The Electric Works,
Sheffield Digital Campus
Sheffield
S1 2BJ
0845 2501271

Pensions

Until a few weeks ago, it had been expected that the Autumn Statement would reveal Mr Osborne's future plans for pension tax relief, following a curiously thin consultation paper issued in July. In October the Chancellor's response to a parliamentary question revealed that a final decision would have to await the next Budget. Meanwhile two changes introduced by the July Budget are due to take effect next April:

A further 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 for those with high incomes.

While making no fresh major pension tax announcements, the Chancellor did execute a subtle cut to the cost of pension tax relief for the government by pushing back six months the dates on which auto-enrolment contributions will increase. The rise from 2% to 5% total contributions will now occur in April 2018, with the final move to 8% a year later.

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

Changes to EU State Aid rules in 2014 have worked their way through to new measures in the Finance (No 2) Act 2015. The Treasury took advantage of the need to make amendments to tighten the qualifying company eligibility criteria for Venture Capital Trusts (VCTs) and Enterprise Investment Schemes (EISs), with some late further changes added just before the Act received Royal Assent.

VCT and EIS promotors are absorbing the impact of these new rules and it seems probable that there will be a limited supply of fresh offerings at the end of this tax year. Several VCTs have already withdrawn their dividend reinvestment schemes.

Tax Avoidance

In spite of the well-publicised problems faced by HMRC, the Chancellor predictably announced new clampdowns on tax avoidance and evasion. "Accelerated payments" have now raised over £1bn and Mr Osborne's new targets included offshore evasion and large companies, among others. In all the Chancellor hopes to raise around an extra £200m a year from 2016/17 under the heading of "avoidance, evasion and tax planning". The Chancellor also promised an extra £800m to HMRC' for "the fight against tax evasion".

The Electric Works,
Sheffield Digital Campus
Sheffield
S1 2BJ
0845 2501271

Business taxes

The main rate of corporation tax is currently 20% and will fall to 19% from April 2017.

For those running their own business the low corporate tax rates (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 for 2016/17 by the new tax rules for dividends, on which more information is still awaited. The best choice for any particular business depends on the facts and it is important to take more than just tax into account when deciding on the appropriate trading vehicle.

The Chancellor once again extended the small business rate relief for a year. The long-called for reform of business rates was set in train a year ago, with the announcement of a review due to report by the time of the 2016 Budget. However, any changes will be 'fiscally neutral", so winners will be matched by losers. For the longer term, the Chancellor announced that councils will receive the full benefit of business rates at the price of losing their main local government grant and gaining more expenditure responsibilities.

Apprenticeship levy

The levy was announced in the summer Budget, but it was not until the Autumn Statement that the rate was revealed. From April 2017 it will be 0.5% of an employer's payroll, with an offsetting allowance of £15,000. As a result, only employers with a payroll exceeding £3m will pay any levy – 98% of employers will pay nothing. Even so, the levy will raise £2.8bn in 2017/18, rising to nearly £3.1bn by 2020/21. The new levy is already being criticised in some quarters as tantamount to an increase in National Insurance contributions for large employers.

The Electric Works,
Sheffield Digital Campus
Sheffield
S1 2BJ
0845 2501271