dte business advisers

2016 AUTUMN STATEMENT

Highlights

- **Salary sacrifice schemes** The tax and NIC advantages of most salary sacrifice schemes will be removed from April 2017 as previously proposed, but there will be some transitional protections. Arrangements relating to pensions will not be affected.
- **The pensions money purchase annual allowance** (MPAA) will be reduced from £10,000 to £4,000 from April 2017. This limit applies to people who have accessed their pensions flexibly and under the current rules may be obtaining tax relief on up to £10,000 of recycled pensions income.
- **Foreign pensions** and lump sums of UK residents will be fully taxed to the same extent as their domestic equivalents. Specialist pension schemes (s.615 schemes) for people employed abroad will be closed to new saving. There will also be other significant changes to the tax rules for pensions of people who move overseas.
- **The tax changes for non-domiciled individuals** will proceed as planned from April 2017.
- **Corporation tax** The government renewed its commitment to reduce the rate of corporation tax to 17% by 2020. It will also limit the tax deductions that large groups can claim for UK interest expenses from April 2017.
- **Insurance premium tax** will be increased from 10% to 12% from 1 June 2017.
- **Anti-avoidance and evasion provisions** were plentiful as usual, including a new legal requirement to correct a past failure to pay UK tax on offshore interests within a defined period of time. There will also be consultation on a new requirement for intermediaries who arrange complex structures for clients holding money offshore to notify HM Revenue & Customs (HMRC) of those structures and to provide lists of clients.

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INTRODUCTION

"Our task now is to prepare our economy to be resilient as we exit the EU."
Philip Hammond

Philip Hammond's first Autumn Statement will also be his last. In 2017 there will be a Spring Budget followed by an Autumn Budget. In early 2018 there will be the first Spring Statement. The Chancellor presented his Autumn Statement against a background of reduced growth forecasts and the 'urgent' need to tackle the long-term weaknesses of the UK economy. His declared ambition is to make UK 'match-fit' for Brexit.

The emphasis of the Chancellor's speech was on increased infrastructure spending, a stop on further new welfare savings measures and an acceptance that government borrowing will be significantly higher than previously projected.

Non-tax provisions included a proposed ban – as in Scotland – on letting agents charging fees to renters, a continuing freeze on fuel duty, and a 30p an hour increase in the national living wage from April 2017 to £7.50.

ECONOMIC BACKGROUND

Five months to the day from the Brexit referendum, the economic numbers look significantly different from the government's projections in the March 2016 Budget.

In what proved to be his Budget finale, George Osborne had made great efforts to hang on to his one surviving fiscal target – ending the budget deficit in 2019/20. He then abandoned his 2020 target shortly after the Brexit vote and shortly before Theresa May abandoned him.

It did not take long for the new Chancellor, Philip Hammond, to start talking about a 'fiscal reset', which he would reveal in the Autumn Statement. The latest data on government borrowing show why: just seven months into the financial year the deficit is already £48.6bn – only a little less than the Office for Budgetary Responsibility (OBR) Spring Budget projection for the whole of the 2016/17 deficit of £55.5bn.

Mr Hammond's reset is arguably no more than a recognition of current reality. The OBR now forecasts the 2016/17 deficit will be £68.2bn, with 2019/20 producing a deficit of £21.9bn.

In the space of less than a year, £122bn has been added to total government debt figures by the end of 2020/21. The first surplus has disappeared from view. Mr Hammond's new fiscal targets carefully leave "significant flexibility to respond to any headwinds the economy may encounter".

The heightened level of borrowing was an inevitable constraint on the Chancellor's action. Nevertheless, this Autumn Statement – the last of its type – contained a range of important measures.

"…firmly committed to seeing the public finances return to balance as soon as practicable."
Philip Hammond

SAVINGS AND PENSIONS

Starting rate for savings

The band of savings income that is subject to the 0% starting rate will remain at its current level of £5,000 for 2017/18.

Money purchase annual allowance

The money purchase annual allowance (MPAA) applies to individuals who have drawn any income benefits under the current pension flexibility rules. It was designed to limit pension income being recycled as fresh, tax-relieved pension contributions. The MPAA was initially set at £10,000 and will be reduced to £4,000 from April 2017, but there may be some exemptions following consultation.

Foreign pensions

The tax treatment of foreign pensions will be more closely aligned with the UK's domestic pension tax regime by:

- Bringing foreign pensions and lump sums fully into tax for UK residents, to the same extent as domestic ones.
- Closing specialist pension schemes to new saving for those employed abroad (s.615 schemes).
- Extending from five to ten years the period for UK taxing rights over recently emigrated non-UK residents' foreign lump sum payments from funds that have had UK tax relief.
- Aligning the tax treatment of funds transferred between registered pension schemes.
- Updating the eligibility criteria for foreign schemes to qualify as overseas pensions schemes for tax purposes.

"We can also help those who rely on income from modest savings to get by."
Philip Hammond

Social investment tax relief (SITR)

From 6 April 2017, the amount of investment that social enterprises can raise through SITR will increase to £1.5m if they are no more than seven years old. Certain activities, including asset leasing and on-lending, will be excluded. Investment in nursing homes and residential care homes will be excluded initially, but the government intends to introduce an accreditation system to allow these investments to qualify in the future. The limit on the number of employees will be reduced to 250 full-time equivalent.

Offshore funds

Performance fees incurred by offshore funds will not be deductible against reportable income from April 2017 and instead they will reduce any tax payable on disposal gains.

National Savings and Investments (NS&I) bond

For one year from April 2017, NS&I will offer a new 'market leading' three-year savings bond. The indicative rate is 2.2% but this may be adjusted to reflect market conditions at launch. The bond will be open to people aged 16 and over, subject to a minimum investment of £100 and a maximum of £3,000.

Life insurance policies

Legislation will be introduced in the Finance Bill 2017 and will be effective from 2017/18, to counter the disproportionate tax charges that can currently arise in certain circumstances from life insurance policy part surrenders and partial assignments. This has been previously announced.

Personal portfolio bonds

The government will create the power to amend by regulations the list of assets in which life insurance policyholders can invest without triggering tax anti-avoidance rules. The changes will be in the 2017 Finance Bill and will take effect from Royal Assent.

ISA, Junior ISA and Child Trust Funds

The annual subscription limit for Junior ISAs and Child Trust Funds will increase to £4,128. The main ISA subscription limit will increase to £20,000, as previously announced.

PERSONAL TAXATION

Personal allowance and higher rate threshold

The personal allowance will rise to £11,500 and the higher rate threshold to £45,000 for 2017/18. The higher rate threshold is likely to be lower for Scottish taxpayers because the Scottish government has said that it intends to increase it by no more than the rate of inflation.

"We will deliver on our commitment."
Philip Hammond

The Chancellor re-confirmed the goal of a £12,500 personal allowance and £50,000 higher rate tax threshold by 2020. After that date the personal allowance will rise in line with the CPI rather than the national minimum wage, as previously proposed.

National insurance contributions (NICs)

The primary and secondary NIC thresholds for employees and employers will be aligned at £157 a week in 2017/18.

Class 2 NICs will be abolished from April 2018. For 2018/19 onwards, benefit entitlement for the self-employed will be based on their Class 3 and Class 4 NIC records.

Termination payments

From April 2018 termination payments to employees of over £30,000 (that are subject to income tax) will also be subject to employer NICs. This has been previously announced. Tax will only be applied to the equivalent of an employee's basic pay if they have not worked their notice. The first £30,000 of a termination payment will normally remain exempt from income tax and NICs.

Off-payroll working rules

The 'off-payroll working' rules will change in the public sector from April 2017, with the responsibility for operating them and paying the correct tax moving to the body paying the worker's company. As a consequence, the 5% tax-free allowance will be removed for those working in the public sector who are paid through companies.

Legal support

From April 2017, employees called to give evidence in court will no longer need to pay tax on the legal support from their employer.

Taxation of remuneration

Three measures have been announced on the treatment of remuneration other than in the form of a cash salary:

- ***Salary sacrifice*** The tax and NIC advantages of salary sacrifice schemes will be removed from April 2017, except for arrangements relating to pensions (including advice), childcare, cycle to work schemes 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.
- ***Valuation of benefits in kind*** The government will publish a consultation on employer-provided living accommodation and will also ask for evidence on the valuation of all other benefits in kind in the 2017 Budget.
- ***Employee business expenses*** There will also be a call for evidence on tax relief for employees' business expenses, including those that employers do not reimburse.

"...take action now to reduce the difference between the treatment of cash earnings and benefits."

Philip Hammond

New tax allowances for property and trading income

From April 2017 two new income tax allowances of £1,000 each will cover trading income and property income, as announced in Budget 2016. Individuals with trading or property income below the allowance will not need to declare or pay tax on that income. The trading income allowance will now be extended to apply to certain miscellaneous income from providing assets or services.

Non-domiciled individuals

From April 2017, non-domiciled individuals will be deemed to be 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. Non-domiciled individuals who have a non-UK resident trust set up before they become deemed-domiciled in the UK will not be taxed on income and gains arising outside the UK and retained in the trust.

Also from April 2017, inheritance tax will be charged on UK residential property when it is held indirectly by a non-domiciled individual through an offshore structure, such as a company or a trust. The new rules were announced previously.

Inheritance tax reliefs

Inheritance tax relief for donations to political parties will be extended to parties with representatives in the devolved legislatures. This change will take effect from Royal Assent of the Finance Bill 2017/18.

BUSINESS TAXES

Corporation tax rates

The Chancellor reconfirmed the planned reductions in the rate of corporation tax to 17% in 2020. The rate of corporation tax from 1 April 2017 will be 19%.

"In return for our competitive rates, the tax base must be sustainable."
Philip Hammond

Tax deductibility of corporate interest

From April 2017, there will be limits on the tax deductions that large groups can claim for their UK interest expenses. These rules will apply where a group has net interest expenses of more than £2m, net interest expenses exceed 30% of UK taxable earnings and the group's net interest to earnings ratio in the UK exceeds that of the worldwide group. The provisions originally proposed will be amended to protect investment in public benefit infrastructure.

Reform of loss relief

The profit that businesses can offset against carried-forward losses will be restricted to 50% from April 2017, while greater flexibility will be allowed on the types of profit that can be relieved by losses incurred after that date. The restriction will be subject to a £5m allowance for each standalone company or group.

Non-resident companies

The government is considering bringing all non-resident companies receiving taxable income from the UK into the corporation tax regime. A consultation will be launched in Budget 2017.

Substantial shareholding exemption (SSE)

The rules for the SSE will be changed from April 2017. The SSE provisions allow a gain on a disposal of shares by a company to be exempt from corporation tax. The investing requirement will be removed and there will be a wider exemption for companies owned by qualifying institutional investors.

"Insurance premium tax is lower than in many other European countries."
Philip Hammond

Authorised investment funds

The rules on the taxation of dividend distributions to corporate investors will be amended to allow exempt investors, such as pension funds, to obtain credit for tax paid by authorised investment funds. Draft legislation will be issued in early 2017.

Museums and galleries tax relief

The scope of the museums and galleries tax relief announced in the 2016 Budget will be extended to include permanent exhibitions. The rates of relief will be set at 25% for touring exhibitions and 20% for non-touring exhibitions, and the relief will be capped at £500,000 of qualifying expenditure per exhibition. The relief will take effect from 1 April 2017, and there will be a sunset clause under which the relief will expire in April 2022 if it is not renewed after a review scheduled for 2020.

Employee shareholder status

The tax advantages linked to shares awarded under employee shareholder status will be abolished for arrangements entered into on or after 1 December 2016. The status itself will be closed to new arrangements at the next legislative opportunity.

Business rates

The rural rate relief will be doubled to 100% from 1 April 2017 in order to remove the inconsistency between rural rate relief and small business rate relief.

Insurance premium tax (IPT)

The standard rate of insurance premium tax will rise from 10% to 12% from 1 June 2017.

Value added tax

The government will consult on VAT grouping and provide funding with a view to digitising fully the Retail Export Scheme to reduce the administrative burden to travellers.

WELFARE

Universal credit

The taper rate that applies in universal credit will be reduced from 65% to 63% from April 2017. Universal credit operates a constant withdrawal rate on net earnings – the taper rate. Once claimants earn above the level of work allowances in universal credit, their income will be withdrawn at a rate of 63p for every extra £1 earned.

"Businesses cannot avoid tax by borrowing excessively in the UK to fund their overseas activities."

Philip Hammond

Support for refugees

Refugees and their families will be exempted from the Past Presence Test, as previously announced. This means that they will no longer have to be resident in the UK for two years before they can receive disability benefits.

Local housing allowance (LHA) rates in social housing

The cap on housing benefit and LHA rates in the social rented sector will now be implemented in April 2019.

Pay to stay

The government has decided not to implement pay to stay – as recently announced. Local authority tenants with taxable incomes over £31,000 (or £40,000 in London) would have been required to pay a market rent, or near market rent.

TAX AVOIDANCE, EVASION AND COMPLIANCE

The government claims that since 2010, it has secured around £130bn in additional tax revenue as a result of tackling avoidance, evasion and non-compliance.

Disguised remuneration

Budget 2016 announced changes to tackle the use of disguised remuneration schemes by employers and employees. The scope of these changes will be extended to tackle the use of such schemes by the self-employed to avoid income tax and NICs. Employers who use disguised remuneration avoidance schemes will be denied tax relief for their contributions to such schemes unless tax and NICs are paid within a specified period.

"We must constantly be alert to new threats to our tax base."
Philip Hammond

Strengthening tax avoidance sanctions and deterrents

There will be a new penalty for anyone who has enabled another person or business to use a tax avoidance arrangement that is later defeated by HMRC. This new regime was announced in the Spring Budget 2016 and draft legislation will be published shortly. Any person or business that uses tax avoidance arrangements will no longer be able to use the defence of having relied on non-independent advice as taking 'reasonable care' when considering penalties.

VAT relief on adapted cars for wheelchair users

The application of the VAT zero-rating for adapted motor vehicles will be clarified to stop the abuse of this legislation, while continuing to provide help for disabled wheelchair users.

VAT flat rate scheme

A new 16.5% rate will be available from 1 April 2017 for businesses with limited costs, such as many labour-only businesses. Guidance with the force of law was published on 23 November.

Requirement to correct

There will be a new legal requirement to correct a past failure to pay UK tax on offshore interests within a defined period of time and new sanctions will apply to those who fail to do so.

Requirement to register offshore structures

The government will consult on a new legal requirement for intermediaries who arrange complex structures for clients holding money offshore to notify HMRC of the structures and the related client lists.

Tackling the hidden economy

HMRC's data-gathering powers will be extended to money service businesses in order to identify those operating in the hidden economy.

The government will consult on the case for making access to licences or services for businesses conditional on registration for tax. The sanctions for those who repeatedly and deliberately participate in the hidden economy will also be strengthened. The Spring Budget 2017 will set out further details.

PERSONAL TAXATION

Income tax allowances and reliefs

Income tax allowances and reliefs	2016/17	**2017/18**
Personal (basic)	£11,000	**£11,500**
Personal reduced by £1 for every £2 of net income over	£100,000	**£100,000**
Transferable tax allowance for married couples/civil partners	£1,100	**£1,150**
Married couples/civil partners (minimum) at 10%(1)	£3,220	**£3,260**
Married couples/civil partners (maximum) at 10%(1)	£8,355	**£8,445**
Blind person's allowance	£2,290	**£2,320**
Registered pension scheme		
• annual allowance(2)	£40,000	**£40,000**
• money purchase annual allowance	£10,000	**£4,000**
• lifetime allowance	£1,000,000	**£1,000,000**

Rates

Rates	2016/17	**2017/18**
Starting rate at 0% – on savings income up to(3)	£5,000	**£5,000**
Personal savings allowance at 0% tax: basic rate taxpayers	£1,000	**£1,000**
• higher rate taxpayers	£500	**£500**
• additional rate taxpayers	N/A	**N/A**
Basic rate of 20% on income up to(4)	£32,000	**£33,500**
Higher rate of 40% on income up to £150,000 above(4)	£32,000	**£33,500**
Additional rate of 45% on income over	£150,000	**£150,000**
Dividends		
Dividend allowance	£5,000	£5,000
Dividend rates:		
• basic rate taxpayers	7.5%	**7.5%**
• higher rate taxpayers	32.5%	**32.5%**
• additional rate taxpayers	38.1%	**38.1%**
Trusts		
• standard rate band generally	£1,000	**£1,000**
• dividends (rate applicable to trusts)	38.1%	**38.1%**
• other income (rate applicable to trusts)	45%	**45%**

Child benefit charge: 1% of benefit per £100 of income between £50,000 and £60,000

Notes

(1) Where at least one spouse/civil partner was born before 6/4/35. Reduced by £1 for every £2 of income over £28,000 (2017/18) or £27,700 (2016/17), until basic minimum reached.

(2) 50% taper down to £10,000 if threshold income over £110,000 and adjusted income over £150,000.

(3) Not available if taxable non-savings income exceeds the starting rate band.

(4) A different basic rate band may apply for 2017/18 for Scottish taxpayers.

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 (Employees)

	2016/17 Employee	2016/17 Employer	**2017/18 Employee**	**2017/18 Employer**
NIC rate	12%	13.8%	**12%**	**13.8%**
No NICs on the first:				
Under 21*	£155 pw	£827 pw	**£157 pw**	**£866 pw**
21 & over*	£155 pw	£156 pw	**£157 pw**	**£157 pw**
NICs rate charged up to	£827 pw	No limit	**£866 pw**	**No limit**
2% NICs on earnings over	£827 pw	N/A	**£866 pw**	**N/A**

*25 years for apprentices

Employment allowance	2016/17	**2017/18**
Payable per business	£3,000	**£3,000**

Not available if a director is the sole employee

Earnings limits or thresholds	2016/17 Weekly	2016/17 Annual	**2017/18 Weekly**	**2017/18 Annual**
	£	£	**£**	**£**
Lower earnings limit	112	5,824	**113**	**5,876**
Secondary earnings threshold	156	8,112	**157**	**8,164**
Primary earnings threshold	155	8,060	**157**	**8,164**
Upper earnings limit	827	43,000	**866**	**45,000**
Upper secondary earnings threshold (under 21)†	827	43,000	**866**	**45,000**

†Under 25 years for apprentices

Class 1A (Employers)

	2016/17	**2017/18**
Most taxable employee benefits	13.8%	**13.8%**

Class 2 (Self-Employed)

	2016/17	**2017/18**
Flat rate	£2.80 pw £145.60 pa	**£2.85 pw £148.20 pa**
Small profits threshold	£5,965 pa	**£6,025 pa**

Class 4 (Self-Employed)

	2016/17		**2017/18**	
On profits	£8,060–£43,000 pa	9%	**£8,164–£45,000 pa**	**9%**
	Over £43,000 pa	2%	**Over £45,000 pa**	**2%**

Voluntary

	2016/17	**2017/18**
Class 3 flat rate	£14.10 pw £733.20 pa	**£14.25 pw £741.00 pa**
Class 3A if state pension age before 6/4/16	amount depending on age	**amount depending on age**

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