AUTUMN STATEMENT 2016

SUMMARY OF THE MAIN TAX CHANGES

ROBINSON RUSHEN

CHARTERED TAX ADVISORS
CHARTERED ACCOUNTANTS

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1. Introduction

Since 1997 there have been two showpiece performances by the Chancellor in the Commons each year with a March Budget concentrating on tax, and an Autumn Statement concentrating on spending. The new Chancellor, Philip Hammond, finished his first Autumn Statement yesterday by stating that this would be his first and last. He then went on to say that 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, one in the Spring and the new combined event in the Autumn. After that there will still be a Spring Statement, but it will only involve a response to comments on the Budget by the OBR, 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.

2. Personal Tax 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 tax rate tables at the end of this document. 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.

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 taxpayers and HMRC if small amounts of income can legally be ignored, rather than requiring a tax return for a trivial liability.

From 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.

3. National Insurance Contributions

As recommended by the Office of Tax Simplification, the National Insurance thresholds for employers and employees are to be aligned at £157 per week from April 2017. They are currently £1 apart at £155 for employees, and £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.

4. Employee Benefits And 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, with those for cars, accommodation and school fees 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.

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.

5. 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.

6. Off-Payroll Working Rules And IR35

Following consultation, the government will reform the off-payroll working rules in the public sector from April 2017 by moving responsibility for operating them, and paying the correct tax, to the body paying the worker's company. The government believes public sector bodies have a duty to ensure that those who work for them pay the right amount of tax.

This reform will help to tackle the high levels of non-compliance with the current rules and means that those working in a similar way to employees in the public sector will be taxed in the same way as employees.

In response to feedback during the consultation, the 5% tax-free allowance will be removed for those working in the public sector, reflecting the fact that workers no longer bear the administrative burden of deciding whether the rules apply.

7. Employee Shareholders

Employee shareholder status was introduced in 2013 allowing employees to 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 but shares already held will not be affected.

8. 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.

9. 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.

10. Offshore Funds

UK taxpayers investing in offshore reporting funds pay income tax on their share of a fund's reportable income, and Capital Gains Tax on any gain on disposal of their shares or units.

The government is to legislate to ensure that performance fees incurred by such funds, and which are calculated by reference to any increase in the fund's value, are not deductible against reportable income from April 2017 and instead reduce any tax payable on chargeable gains. This should equalise the tax treatment between onshore and offshore funds.

11. 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.

12. Pension Contributions

The limit on contributions to tax-advantaged pension schemes remains £40,000 per year for those with income up to £150,000 or £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.

13. 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.

14. Non Doms

As previously announced, there will be significant reforms of the tax treatment of non UK domiciled people from April 2017. Those who have been resident in the UK for 15 of the previous 20 years will lose their non UK domiciled status and will be taxed in the same way as UK domiciled individuals.

From April 2017, UK residential property held by a non UK domiciled individual through offshore structures [trusts and overseas companies] will become chargeable to Inheritance Tax.

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

15. Small Business Taxation

Small businesses with turnover up to £150,000 can register for the VAT Flat Rate Scheme under which they claim no input tax on expenses but keep some of the output tax charged 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 and 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.

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.

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.

16. Corporation Tax

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

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.

Banks and insurance groups will be subject to the rules in the same way as groups in other industry sectors.

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 from April 2017. A standalone company or group with profits up to £5 million will not suffer this restriction.

The government is considering bringing all non resident companies receiving UK source income [taxable] into the corporation tax regime. At Budget 2017, the government will consult on the case and options for implementing this change as it wants to deliver equal tax treatment to ensure that all companies are subject to the rules which apply generally for the purposes of corporation tax, including the limitation of corporate interest expense deductibility and loss relief rules.

As announced in the Summer 2015 Budget, the bank levy charge will be restricted to UK balance sheet liabilities from 1 January 2021.

Following consultation, the government confirms that there will be an exemption for certain UK liabilities relating to the funding of non UK companies and an exemption for UK liabilities relating to the funding of non UK branches. Details will be set out in the government's response to the consultation, with the intention of legislating in Finance Bill 2017-18.

The government will continue to consider the balance between revenue and competitiveness with regard to bank taxation, taking into account the implications of the UK leaving the EU.

Following consultation on the operation of the Substantial Shareholding Exemption, the government will make changes to simplify the rules, remove the investing requirement and provide a more comprehensive exemption for companies owned by qualifying institutional investors. The changes will take effect from April 2017.

The government is to modernise the rules on the taxation of dividend distributions to corporate investors in a way which allows exempt investors, such as pension funds, to obtain credit for tax paid by authorised investment funds and will publish proposals in draft secondary legislation in early 2017.

17. 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.

18. Other Tax Measures

'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.

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.

Following the recent issue of reviews by the OTS covering, in particular, the alignment of income tax and NICs, the government has asked the OTS to carry out reviews on aspects of the VAT system and on Stamp Duty on share transactions.

The government has announced that it proposes to introduce a new legal requirement to correct a past failure to pay UK tax on offshore interests within a defined period of time, with new sanctions for those who fail to do so.

In addition, it is to 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.

19. Income Tax Rates And Allowances

Allowances	2017/18	2016/17
Allowed at top rate of tax		
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).

† Up to 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.

20. 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
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; 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

Further announcements are expected in early December 2016 with the release of draft Finance Bill 2017 clauses.

ROBINSON RUSHEN
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