Autumn Statement 2016

Introduction

The first major economic statement since the EU referendum focused on measures to "prepare our economy to be resilient as we exit the EU".

Unsurprisingly, the Office for Budget Responsibility (OBR) forecasts for growth have changed since the last figures were published in March. The prediction for 2016 is 2.1%, slightly higher than the 2% forecast in March 2016.

However, in 2017 growth is expected to slow to 1.4%, lower than the 2.2% predicted at the Budget in March.

Aside from economics, chancellor Philip Hammond's first Autumn Statement was light on new announcements.

There was a focus on investment in infrastructure and innovation with money allocated for R&D, homebuilding and transport.

He also confirmed various measures announced at Budget 2016 including:

- an £11,500 personal allowance from April 2017
- corporation tax will fall to 17% by 2020.

The end of the Autumn Statement

The main surprise was that this was the final Autumn Statement.

From 2018 the Budget will move to the autumn. A statement responding to OBR forecasts will follow in the spring but the chancellor was keen to stress that it will not be a "major fiscal event".

The following report summarises the announcements made by chancellor Philip Hammond during the 2016 Autumn Statement on 23 November 2016.

At a glance

Business

Corporation tax
Main rate to reduce to 17% by 2020.

Salary sacrifice
Schemes taxed at the same rate as cash income.

Infrastructure
Increased funding for housing, transport and R&D.

Personal

Personal allowance
Allowance to increase to £11,500 in April 2017.

National living wage
Increase to £7.50 an hour from April 2017.

National insurance
Employees and employers thresholds aligned.

Pensions
Money purchase annual allowance reduced to £4,000.

Savings bond
New NS&I savings bond to be launched.

Other

Fuel duty
Frozen for another year.

Broadband
£1 billion investment in full-fibre broadband and 5G.

Local Growth Fund
£1.8 billion for different regions.

Autumn Statement
Autumn Budget from 2017 and Spring Statement from 2018.

Business

Corporation tax

Chancellor Philip Hammond confirmed the government's commitment to cut the main rate of corporation tax to 17% by 2020.

Business rates

To remove the inconsistency between rural rate relief and small business rate relief, it was announced that the government will increase rural rate relief from 50% to 100% from 1 April 2017.

To support the rollout of full-fibre broadband and facilitate trials of 5G communications, a new 100% business rates relief will be introduced over a 5-year period with effect from 1 April 2017. This will apply to new full-fibre infrastructure.

VAT flat rate scheme

The chancellor announced the introduction of a new 16.5% flat rate of VAT for ‘businesses with limited costs’.

From 1 April 2017, businesses will be required to determine whether they meet the definition of a limited cost trader at the same time as establishing their applicable VAT rate, based on their trade sector. This also applies to existing users of the VAT flat rate scheme.

A limited cost trader will be one whose VAT inclusive expenditure on goods is either:

- less than 2% of their VAT inclusive turnover in a prescribed accounting period
- greater than 2% of their VAT inclusive turnover but less than £1,000 per annum, providing the accounting period is 1 year.

Anti-forestalling legislation was published on 23 November 2016 to prevent any trader from continuing to use a lower flat rate by issuing an invoice or receiving a payment before 1 April 2017 for services supplied after that date.

Reform of loss relief

From April 2017, there will be a restriction in the amount of profit that can be offset by carried forward losses to 50%, while allowing greater flexibility over the types of profit that can be relieved by losses incurred after that date.

The restriction will be subject to a £5 million allowance for each standalone company or group. These rules are being introduced following the consultation process conducted after Budget 2016.

It was confirmed that the government will take steps to address any unintended consequences identified in the reform process and to simplify the administration of the new rules.

Tax deductibility of corporate interest expense

Following consultation, the government has confirmed that new rules will come into force from 1 April 2017 to limit the tax deductions that large groups can claim for their UK interest expenses.

The rules will seek to limit deductions where a group has net interest expenses of more than £2 million, 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.

National living wage

For those aged 25 or over, the national living wage will increase from £7.20 to £7.50 per hour with effect from April 2017.

National minimum wage

The government has also announced the new national minimum wage rates that will apply from April 2017 will be as follows:

- 21 to 24 year old: £7.05 per hour
- 18 to 20 year olds: £5.60 per hour
- 16 to 17 year olds: £4.05 per hour
- apprentices: £3.50 per hour.

The government will also invest additional funds to strengthen enforcement of national minimum wage legislation and help small businesses understand and comply with the rules.

Company car taxation

In an effort to encourage the purchase of ultra low emission vehicles, new company car tax bands for the lowest emitting cars will be introduced for the 2020/21 tax year.

The percentage for cars with emissions greater than 90 g/km will also be increased by 1% in 2020/21.

Capital allowances: electric charge point equipment

Expenditure on the acquisition of new and unused electric charge point equipment will benefit from a 100% first year allowance. The new measure will have effect for expenditure incurred on, or after, 23 November 2016 and will expire on 31 March 2019 for corporation tax and 5 April 2019 for income tax purposes.

Non-resident companies' UK income

The government is considering bringing all non-resident companies receiving taxable income from the UK into the corporation tax regime.

At Budget 2017, the government will consult on the case and options for implementing such a change.

Substantial shareholding exemption

The government will simplify the substantial shareholding exemption rules by removing the investing requirement and provide a more comprehensive exemption for companies owned by qualifying institutional investors.

Museums and galleries tax relief

The scope of the museums and galleries tax relief announced at Budget 2016 will be broadened to include permanent exhibitions so that it is accessible to a wider range of institutions across the country.

The new rate of relief will be set at 20% for non-touring exhibitions and 25% for touring exhibitions from April 2017. The relief will be capped at £500,000 of qualifying expenditure per exhibition.

Personal

Income tax

The personal allowance for 2017/18 will increase by £500 to £11,500 and the higher rate threshold to £45,000.

The intention is for the personal allowance to increase to £12,500 and the higher rate threshold to £50,000 by the end of this parliament.

After the personal allowance reaches £12,500, it will rise in line with CPI in future years.

National insurance

The employee and employer class 1 national insurance thresholds are to be aligned from April 2017. This means that both employees and employers will start paying national insurance on weekly earnings above £157.

As announced at Budget 2016, class 2 national insurance contributions are to be abolished from April 2018. The Autumn Statement confirms that self-employed contributory benefit entitlement will instead be accessed through the payment of class 3 or class 4 national insurance contributions.

All self-employed women will be able to access the standard rate of maternity allowance.

The government will remove national insurance contributions from the effects of the Limitation Act 1980 and Northern Ireland equivalent from April 2018. This will mean that national insurance debts may be collected in the same manner as other tax debts.

Off-payroll working rules

The government will reform the off-payroll working rules in the public sector from April 2017. The responsibility for operating the rules, and paying the correct tax, will move to the body paying the worker's company.

This will mean that an individual operating through a company in the public sector may be forced to pay the same tax as a directly employed individual.

Termination payments

Termination payments over £30,000 which are subject to income tax after April 2018 will also be subject to employer national insurance contributions.

Following technical consultation, income tax will only be applied on the equivalent of an employee's basic pay if the employee has not worked the notice period.

The first £30,000 of a termination payment will remain exempt from income tax and national insurance, subject to the existing rules on eligibility for the exemption.

Benefits in kind and expenses

The government will consider how the taxation of benefits in kind and expenses could be made more equitable in the following areas:

The tax and employer national insurance advantages of salary sacrifice schemes will be removed from April 2017, except for arrangements relating to pensions, 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.

The government will consider how benefits in kind are valued for tax purposes, publishing a consultation on employer-provided living accommodation and requesting evidence on the valuation of other benefits.

A call for evidence will be published at Budget 2017 on the use of income tax relief for employees' business expenses, including those that are not reimbursed by their employer.

Pensions and savings

The ISA limit will be increased to £20,000 from 6 April 2017.

The band of savings income that is taxed at the starting rate of 0% will remain at £5,000 in 2017/18.

A new 3-year NS&I investment bond will be introduced from spring 2017, with an indicative rate of 2.2%. The bond will offer the flexibility to save between £100 and £3,000 and will be available to those aged 16 or over.

The money purchase annual allowance will reduce to £4,000 from April 2017. This is to prevent double pension tax relief being obtained when pension savings are recycled.

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.

A number of other changes are being made to foreign pensions, which include the closure of specialist pension schemes, for those employed abroad, to new saving.

Capital gains tax

The tax advantages linked to shares issued under the employee shareholder status will be abolished for arrangements entered into on, or after, 1 December 2016. The measure will remove the income tax reliefs and the capital gains tax exemption.

The tax treatment between onshore and offshore funds is to be equalised. Performance fees will not be deductible against reportable income from April 2017 and will instead reduce the tax payable on any disposal gains.

Social investment tax relief

From April 2017, a number of changes have been announced to social investment tax relief:

- the amount of investment social enterprises aged up to 7 years can raise through this scheme will increase to £1.5 million
- certain activities, such as asset leasing and on-lending will be excluded and an accreditation system will be introduced to allow nursing and residential care homes to qualify for relief in the future
- the limit on full-time equivalent employees will be reduced to 250
- the government will undertake a review of the scheme within 2 years of its enlargement.

Inheritance tax

Inheritance tax relief for donations to political parties will be extended to parties with representatives in the devolved legislatures, as well as parties that have acquired representatives through by-elections. This will be effective from the date of royal assent.

Legal support

All employees required to give evidence in court will no longer need to pay tax on legal support that they may receive from their employer from April 2017. They will be in the same position as those requiring legal support because of allegations having been made against them.

Non-UK domiciled individuals

Non-domiciled individuals will be deemed UK domiciled for tax purposes if they have been a UK resident for 15 of the past 20 years, or if they were born in the UK with a UK domicile of origin 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 trust or a company from April 2017.

The government will make it easier for non-domiciled individuals who are taxed on the remittance basis to bring offshore money into the UK to invest in UK businesses and to claim business investment relief from April 2017.

Property and trading income

As announced at Budget 2016, there are to be 2 new income tax allowances of £1,000 each for trading and property income. Individuals with trading income or property income below the level of the allowance will no longer need to declare or pay tax on that income.

The trading income allowance will now also apply to certain miscellaneous income from providing assets or services.

Other announcements

Fuel duty

Fuel duty will remain frozen for a seventh consecutive year.

Anti-avoidance

The government re-affirmed its commitment to increase its activity to counter avoidance and taking more cases through to litigation. Sanctions and deterrents will be strengthened, such as a new penalty for any person who has enabled another person or business to use a tax avoidance arrangement that is later defeated by HMRC.

Disguised remuneration schemes will also be tackled for employers, employees and extended to the self-employed.

Insurance premium tax

With effect from 1 June 2017, the standard rate of insurance premium tax will increase from 10% to 12%.

Soft drinks industry levy

On 5 December 2016, the government will publish draft legislation for the soft drinks industry levy.

Making tax digital

Further to previously announced changes and consultations, the government will publish its response and provisions to implement Making Tax Digital in January 2017.

Letting agent fees

The government will ban letting agents' fees to tenants. For example, when the tenants sign a new tenancy agreement. This measure is subject to consultation ahead of implementing legislation.

Universal credit

Universal credit payments are gradually reduced as a person's income increases. The taper rate calculates the reduction in benefits as the individual's income increases. The government has announced that this rate will be reduced from 65% to 63% from April 2017.

This means that for every £1 earned after tax above an income threshold, a recipient of universal credit should receive 37 pence, instead of 35 pence.

Air passenger duty

Given the strong interaction with EU law, the government does not intend to take any measures now in relation to the potential effects of air passenger duty devolution, but rather review this area again after the UK has exited from the EU.

Petroleum revenue tax

Following the government's decision to permanently zero rate petroleum revenue tax (PRT) from 1 January 2016, legislation will be introduced in Finance Bill 2017 to simplify the process for opting fields out of the PRT regime.

From 23 November 2016, the responsible person for a taxable oil field will simply be required to make an election and notify HMRC in writing, rather than complying with the conditions for opting out. This rule will apply for chargeable periods beginning on or after 1 January 2017.

A further consequence of the zero rating of PRT will result in the removal of the reporting requirements for the oil allowance, usually reported on form PRT 1 and 2, and tax instalment reporting on form PRT 6. These measures will be removed with effect from 23 November 2016.

Charities

The government will give intermediaries a greater role in administering gift aid, simplifying the gift aid process for donors making digital donations. This measure confirms the announcement made at Budget 2016.

A sum of £102 million in LIBOR banking fines will be used over the next 4 years to support over 100 projects in aid of armed forces personnel, veterans and their families, along with those that serve in the emergency services and museums and memorials.

Important information

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future. The information in this report is based upon our understanding of the chancellor's 2016 Autumn Statement, in respect of which specific implementation details may change when the final legislation and supporting documentation are published.

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