GUIDE TO THE

AUTUMN STATEMENT 2016

SUMMARY AND HIGHLIGHTS:
EVERYTHING YOU NEED TO KNOW

FINANCIAL GUIDE

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WELCOME

Autumn Statement 2016

Chancellor of the Exchequer, Philip Hammond, delivered his first and last Autumn Statement to Parliament on Wednesday 23 November 2016. He announced that after next Spring's Budget, the annual Budget will move to being held in the Autumn. A Spring Statement will be issued each year responding to the forecast from the Office for Budget Responsibility, but this will not bring any further changes.

In our guide to this final Autumn Statement 2016 we consider the key measures and outcomes and look at the impact on you, your family and your business. In the post-Brexit landscape, the Chancellor was keen to herald, and support, the fast-growing, high employment economy which he boasted was confounding commentators.

There was a firm focus on infrastructure and productivity, representing a government keen to brace the UK economy for the post-Brexit challenges that may lie ahead. Mr Hammond promised to 'chart a new future' and turn government into an unlocker of pent-up enterprise, whether in the tech sector to keep new firms in the UK, or as an enabler of new housing to ease problems of supply.

He also reiterated the government's plan to raise the tax-free allowance from £11,000 to £11,500 by April 2017 and to £12,500 by the end of the parliament, and restated his commitment to raising the top threshold to £50,000, but these were all simply confirming his support for George Osborne's previous announcements.

Mr Hammond admitted that the government is no longer seeking a budget surplus by the end of the parliament, instead making a more flexible claim that public finances will return to balance 'as soon as practicable'.

There were few new tax announcements affecting individuals, but a confirmation of pre-announced plans and measures protecting the tax base. The message to small and medium-sized businesses was one of encouragement, support, stability and certainty; more minor tweaks than major reforms.

DO YOU WANT TO DISCUSS THE IMPACT OF AUTUMN STATEMENT 2016 ON YOUR PERSONAL OR BUSINESS SITUATION?
If you would like to discuss how any of the announcements from Autumn Statement 2016 could have an impact of your personal or business situation, please contact us for further information and analysis.

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What the Chancellor had to say

NEW ECONOMIC FORECAST

The Office for Budget Responsibility (OBR) has forecast growth to slow and inflation to rise over the next two years.

But growth remains positive and employment continues to rise in each of the next five years, with half a million more people forecast to be in work by 2021.

DEBT FALLING BY 2020

The government has cut borrowing by nearly two-thirds since 2010, but will no longer aim for a budget surplus (where more tax is raised than is spent) by 2019.

New fiscal targets are needed to provide the flexibility to support the economy and create space for more investment in roads, rail, research and housing.

The government has therefore set new fiscal targets which aim for 2% underlying deficit and debt falling by 2020, and a balanced budget as soon as possible thereafter.

FUEL DUTY WILL REMAIN FROZEN FOR A SEVENTH YEAR

In 2017, fuel duty will remain frozen for the seventh successive year, saving drivers £130 a year on average.

NEW THREE-YEAR NS&I INVESTMENT BOND AVAILABLE FROM SPRING 2017

To support savers, NS&I will offer a new three-year Investment Bond with an indicative rate of 2.2% from spring 2017. The bond will offer the flexibility to put away between £100 and £3,000 and be available to those aged 16 or over.

PERSONAL ALLOWANCE WILL INCREASE TO £12,500 AND THE HIGHER RATE THRESHOLD TO £50,000 BY 2020/21

The Personal Allowance is the amount of income you can earn before you start paying income tax. It is currently £11,000 this year, and will rise to £11,500 in 2017/18. The point at which you pay the higher rate of income tax will increase from £43,000 this year to £45,000 in 2017/18.

Once the Personal Allowance reaches £12,500, it will increase in line with inflation.

NATIONAL LIVING WAGE AND THE NATIONAL MINIMUM WAGE WILL INCREASE FROM APRIL 2017

The National Living Wage for those aged 25 and over will increase from £7.20 per hour to £7.50 per hour.

The National Minimum Wage will also increase:

- for 21 to 24-year-olds – from £6.95 per hour to £7.05
- for 18 to 20-year-olds – from £5.55 per hour to £5.60
- for 16 to 17-year-olds – from £4.00 per hour to £4.05
- for apprentices – from £3.40 per hour to £3.50

THE GOVERNMENT HAS CUT BORROWING BY NEARLY TWO-THIRDS SINCE 2010, BUT WILL NO LONGER AIM FOR A BUDGET SURPLUS (WHERE MORE TAX IS RAISED THAN IS SPENT) BY 2019.

£4.3 million will be spent on:

- helping small businesses to understand the rules
- cracking down on employers who are breaking the law by not paying the minimum wage

UNIVERSAL CREDIT TAPER WILL BE REDUCED FROM 65% TO 63% FROM APRIL 2017

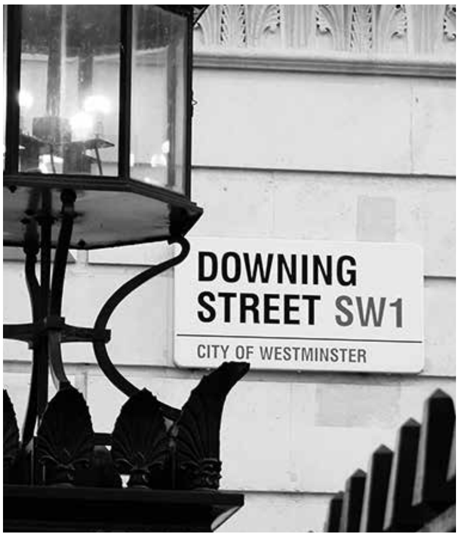
In Universal Credit, as a person's income increases, their benefit payments are gradually reduced. The taper rate calculates the reduction in benefits as a person's salary increases.

Currently, for every £1 earned after tax above an income threshold, a person receiving Universal Credit has their benefit award reduced by 65p and keeps 35p. They will now keep 37p for every £1, from April 2017.

BAN ON LETTING AGENTS CHARGING FEES TO RENTERS

Letting agents in England will be banned from charging fees to tenants under a policy announced in the Autumn Statement. They will no longer be able to charge renters fees, for example when they sign a new tenancy agreement for referencing to credit checks and 'administration' fees.

The government will consult on this in due course. Letting fees have already been banned in Scotland.



LETTING AGENTS IN ENGLAND WILL BE BANNED FROM CHARGING FEES TO TENANTS UNDER A POLICY ANNOUNCED IN THE AUTUMN STATEMENT.

CRACKING DOWN ON PENSIONS SCAMS

A consultation before Christmas will look at ways to tackle pensions scams, including banning businesses from cold calling someone about their pension. This includes scammers targeting people who inadvertently 'opt-in' to receiving third party communications.

NEW NATIONAL PRODUCTIVITY INVESTMENT FUND TO PROVIDE £23 BILLION OF ADDITIONAL SPENDING, TO ENSURE THE UK'S ECONOMY IS FIT FOR THE FUTURE

The National Productivity Investment Fund (NPIF) will provide major additional spending in areas that are key to boosting productivity: transport, digital communications, research and development (R&D), and housing.

£2.3 BILLION FOR A NEW HOUSING INFRASTRUCTURE FUND

The fund will be used for projects such as roads and water connections that will support the construction of up to 100,000 new homes in the areas where they are needed most.

On top of that, £1.4 billion will be used to provide 40,000 new affordable homes, including some for shared ownership and some for affordable rent. And another £1.7 billion will be used to speed up the construction of new homes on public sector land.

£390 MILLION INVESTMENT IN FUTURE TRANSPORT TECHNOLOGY

£390 million will go to future transport technology, including driverless cars, renewable fuels and energy efficient transport.

This will include:

- £100 million investment in testing infrastructure for driverless cars
- £150 million to provide at least 550 new electric and hydrogen buses, reduce the emissions of 1,500 existing buses and support taxis to become zero emission
- £80 million to install more charging points for ultra-low emission vehicles

MAJOR NEW INVESTMENT IN TRANSPORT INFRASTRUCTURE

As part of the National Productivity Investment Fund, this will cover:

- £1.1 billion to reduce congestion and upgrade local roads and public transport
- £220 million to tackle road safety and congestion on Highways England roads
- £27 million to develop an expressway connecting Oxford and Cambridge

There will also be a two-year 100% first year allowance for companies who install electric charge-points, coming in from today. This allows companies to deduct the cost of the charge-point from their pre-tax profits in that year.

In addition, £450 million will also be spent on trialling railway digital signalling technology, which will expand capacity and improve reliability.

£1 BILLION TO INVEST IN FULL-FIBRE BROADBAND AND TRIALLING 5G NETWORKS
Investment will support the private sector to roll out more full-fibre broadband by 2020/21. Funding will also support trials of 5G mobile communications.

From April 2017, the government will also provide a new 100% business rates relief for new full-fibre infrastructure for a five-year period.

£2 BILLION MORE PER YEAR IN RESEARCH AND DEVELOPMENT FUNDING BY 2020/21
A major increase in research and development funding for universities and businesses with R&D projects to help the UK remain an attractive place for businesses to invest in innovative research.

This will back scientific research and development of technologies such as robotics, artificial intelligence and industrial biotechnology.

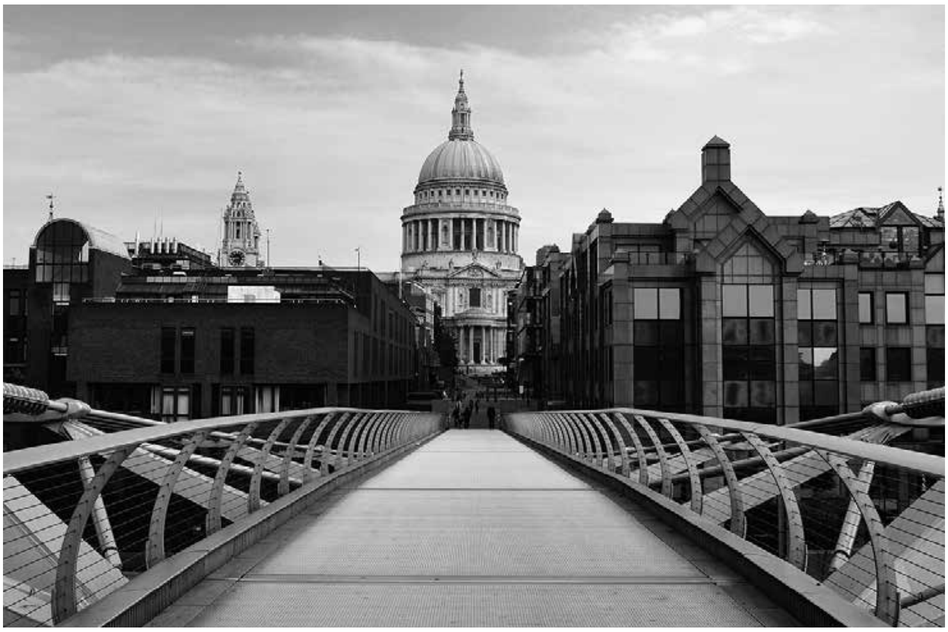
MORE MONEY FOR SCOTLAND, WALES AND NORTHERN IRELAND
Scotland, Wales and Northern Ireland will receive more money which can be spent on infrastructure projects, with each devolved administration deciding where this will be spent.

This will be an increase of over £800 million for the Scottish Government, over £400 million for the Welsh Government and over £250 million for the Northern Ireland Executive.

INVESTMENT WILL SUPPORT THE PRIVATE SECTOR TO ROLL OUT MORE FULL-FIBRE BROADBAND BY 2020/21. FUNDING WILL ALSO SUPPORT TRIALS OF 5G MOBILE COMMUNICATIONS.

COMMITMENT TO CUTTING CORPORATION TAX TO 17% BY 2020
The main rate of corporation tax has already been cut from 28% in 2010 to 20%, and will be cut again to 17% by 2020.

£400 MILLION THROUGH THE BRITISH BUSINESS BANK TO INVEST IN GROWING INNOVATIVE FIRMS
The funds will be invested in innovative small businesses with potential for growth, to provide the finance that they need to expand. This will support up to £1 billion of new investment.



RURAL RATE RELIEF WILL INCREASE TO 100%
Rural Rate Relief will increase from 50% to 100% in April 2017.

This business rate relief is available to businesses in rural areas with a population under 3,000, where that business is:

- the only village shop or post office with a rateable value of up to £8,500, or
- the only public house or petrol station with a rateable value of up to £12,500

CRACKING DOWN ON TAX AVOIDERS AND THOSE WHO HELP THEM
A new penalty is being introduced for those helping someone else to use a tax avoidance scheme. Tax avoiders are hit with significant bills when HM Revenue & Customs (HMRC) defeats their avoidance scheme. This new penalty will ensure that those who help them will also face the consequences.

Also tax avoiders will not be able to claim as a defence against penalties that relying on non-independent tax advice is taking reasonable care.

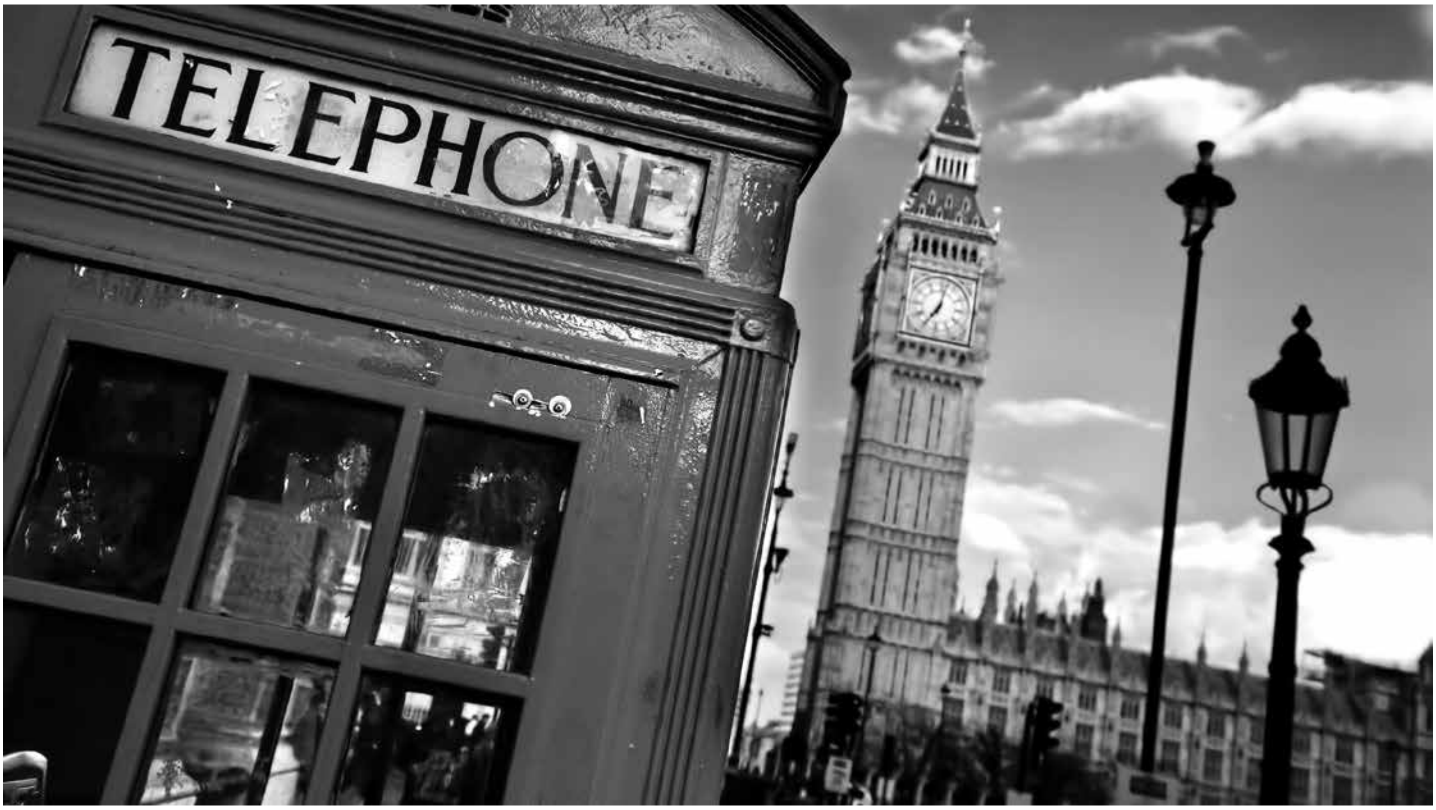
SALARY SACRIFICE SCHEMES TAX CHANGES
From April 2017, most salary sacrifice schemes will be subject to the same tax as cash income.

In salary sacrifice schemes, employees exchange some of their salary for a non-cash benefit in kind (such as a mobile phone). Both the employer and employee make a tax saving, because the benefit is taxed less than a salary or not taxed at all.

This will affect types of salary sacrifice schemes differently:

- pensions, pensions advice, childcare, Cycle to Work and ultra-low emission cars will be exempt
- all arrangements in place before April 2017 will be protected for up to a year, and arrangements in place before April 2017 for cars, accommodation and school fees will be protected for up to four years

INSURANCE PREMIUM TAX WILL INCREASE BY 2% FROM 1 JUNE 2017
Insurance Premium Tax (IPT) will increase from 10% to 12% – IPT is a tax on insurers.



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Key announcements at a glance

ECONOMY

- Office for Budget Responsibility (OBR) growth forecast upgraded to 2.1% in 2016 – from 2.0% – then downgraded to 1.4% in 2017, from 2.2%
- Forecast growth of 1.7% in 2018, 2.1% in 2019 and 2020, and 2% in 2021
- Government no longer seeking a budget surplus in 2019/20 – committed to returning public finances to balance 'as soon as practicable'

PUBLIC FINANCES

- Government finances forecast to be £122bn worse off in the period until 2021 than forecast in March's Budget
- Debt will rise from 84.2% of GDP last year to 87.3% this year, peaking at 90.2% in 2017/18
- OBR forecasts borrowing of £68.2bn this year, then £59bn in 2017/18, £46.5bn in 2018/19, £21.9bn in 2019/20 and £20.7bn in 2020/21
- Public spending this year to be 40% of GDP – down from 45% in 2010
- Departmental spending plans set out in 2015 Spending Review to remain in place
- Government will meet commitments to protect budgets for key public services, defence, overseas aid and the pension 'triple lock' until the end of this Parliament

WELFARE

- Universal Credit taper rate to be cut from 65% to 63% from April at a cost of £700m
- No plans for further welfare savings in this Parliament

HOUSING

- End of upfront fees charged by letting agents in England 'as soon as possible'
- £2.3bn housing infrastructure fund to help provide 100,000 new homes in high-demand areas
- £1.4bn to deliver 40,000 extra affordable homes

Taxation

- Income tax threshold to be raised to £11,500 in April 2017, from the current £11,000 threshold
- Higher rate income tax threshold to increase to £50,000 by the end of the Parliament
- National Insurance (NI) thresholds – the employer (secondary) NI threshold and the employee (primary) NI threshold will be aligned from April 2017 – both employees and employers will start paying NI on weekly earnings above £157 – Class 2 NICs abolished from April 2018
- Tax savings on salary sacrifice and benefits in kind are to be stopped, with exceptions for ultra-low emission cars, pensions, childcare and cycling
- Commitment to increase the tax-free Individual Savings Allowance (ISA) savings limit from £15,240 to £20,000 in April 2017
- National Living Wage to rise from £7.20 an hour to £7.50 from April 2017
- Insurance Premium Tax (IPT) to rise from 10% to 12% from June 2017

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Business matters

- Main rate of corporation tax will be cut to 17% by 2020
- New rules introduced from April 2017 to limit the tax deductions that groups can claim for UK interest expenses
- Doubling of the UK's Export Finance capacity
- £400m into venture capital funds through the British Business Bank to unlock £1bn in finance for growing firms
- Legislation introduced to restrict the use of carried-forward losses to 50% of profits in excess of £5m. New rules apply from 1 April 2017. Special rules continue to apply for banks
- Government considering bringing all non-resident companies receiving taxable income from the UK into the corporation tax regime. A consultation will be published on the case and options for implementing this change
- From April 2017, changes will be made to simplify the Substantial Shareholder Exemption (SSE) rules, removing the requirement for the investing company to be a trading company or a member of a trading group, and provide a more comprehensive exemption for companies owned by qualifying institutional investors
- Government to review the tax environment for Research & Development (R&D) to look at ways to build on the introduction of the 'above the line' R&D tax credit to make the UK an even more competitive place to do R&D
- Income tax and capital gains tax (CGT) reliefs on shares issued to an employee under an Employee Shareholder Status (ESS) agreement made on or after 1 December 2016 will be withdrawn. Tax relief in respect of shares issued under ESS agreements made before that date is not affected

PENSIONS

- Triple lock on the State Pension – which sees it increased annually by the highest of wage growth, inflation or 2.5% – to remain in place until the end of this parliament
- Pensions money purchase annual allowance will be reduced to £4,000 from April 2017
- Tax treatment of foreign pensions to be changed, bringing foreign pensions and lump sums fully into tax for UK residents, in the same way UK pensions are taxed

MORE THAN £1BN FOR DIGITAL INFRASTRUCTURE AND 100% BUSINESS RATES RELIEF ON NEW FIBRE INFRASTRUCTURE.

FUEL

- Fuel duty rise cancelled at a cost of £850m, saving the average car driver £130 and van driver £350 a year
- For the oil and gas sector, the Carbon Price Support capped until 2020 and business rates reductions worth £6.7bn

INFRASTRUCTURE, TRANSPORT AND REGIONS

- £1.1bn extra investment in English local transport networks
- £220m to reduce traffic pinch points
- £23bn to be spent on innovation and infrastructure over five years
- £2bn per year by 2020 for research and development funding
- £110m for East West Rail and commitment to deliver Oxford to Cambridge Expressway
- More than £1bn for digital infrastructure and 100% business rates relief on new fibre infrastructure
- £1.8bn from Local Growth Fund to English regions
- Rural Rate Relief to be increased to 100%, 'giving small businesses a tax break worth up to £2,900'

SALARY SACRIFICE SCHEMES

Paying the same tax as everyone else

Pension contributions escaped the new rules clamping down on the usage of salary sacrifice schemes. From April 2017, those paying into benefits in kind schemes 'will pay the same tax as everyone else,' Philip Hammond said.

Employers can choose to remunerate their employees in a range of different ways in addition to a cash salary. The tax system treats these different forms of remuneration inconsistently and sometimes more generously. The government will therefore consider how the system could be made fairer between workers carrying out the same work under different arrangements and will look specifically at how the taxation of benefits in kind and expenses could be made fairer and more coherent. The government will take the following action:

Salary sacrifice – following consultation, the tax and employer National Insurance advantages of salary sacrifice schemes will be removed from April 2017, except for arrangements relating to pensions (including advice), childcare, Cycle to Work and ultra-low emission cars. This will mean that employees swapping salary for benefits will pay the same tax as the vast majority of individuals who buy them out of their post-tax income.

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 consider how benefits in kind are valued for tax purposes, publishing a consultation on employer-provided living accommodation and a call for evidence on the valuation of all other benefits in kind at Budget 2017.

Employee business expenses – the government will publish a call for evidence at Budget 2017 on the use of the income tax relief for employees' business expenses, including those that are not reimbursed by their employer

The Treasury expects to gain £85m in revenue from the change next year, rising to £260m by 2021/22. The estimates make allowances for behavioural changes from both employers and employees.

The Treasury says: 'For example, employees may stop using salary sacrifice or employers may cease to operate the salary sacrifice arrangements.'

NEW SAVINGS BOND

Interest rate expected to be set at about 2.2%

The Chancellor announced that a new savings bond would be launched through National Savings and Investments (NS&I), with an interest rate expected to be set at about 2.2%.

The bonds will be known as Investment Guaranteed Growth Bonds. This new product will be available for 12 months from spring 2017 and the Chancellor said he expected two million people to benefit.

The bond will be open to those aged 16 and over, subject to a minimum investment limit of £100 and a maximum investment limit of £3,000. Savers must put in their money for three years.

Anyone investing the full amount can expect a total return of £202 at the end of three years, subject to tax.

THE BONDS WILL BE KNOWN AS INVESTMENT GUARANTEED GROWTH BONDS. THIS NEW PRODUCT WILL BE AVAILABLE FOR 12 MONTHS FROM SPRING 2017.

national savings & investments
ns&i

MONEY PURCHASE ANNUAL ALLOWANCE

Reduction to prevent inappropriate double tax relief

The Money Purchase Annual Allowance (MPAA), an annual amount individuals can contribute to defined contribution pensions after having previously accessed a pension flexibly, will be reduced from £10,000 to £4,000 and come into force from April 2017.

This announcement will affect taxpayers (employees and self-employed) who have withdrawn amounts from their pension fund and then want to top the fund up again. The £10,000 limit was introduced in April 2015.

The Chancellor said the decision was taken 'to prevent inappropriate double tax relief,' and the government would consult on further details for the plans.

In a consultation released alongside the Autumn Statement, the government says: 'The government believes that an allowance of £4,000 is fair and reasonable and should allow people who need to access their pension savings to rebuild them if they subsequently have opportunity to do so.

'Importantly, however, it limits the extent to which pension savings can be recycled to take advantage of tax relief, which is not within the spirit of the pension tax system. The government does not consider that earners aged 55 plus should be able to enjoy double pension tax relief i.e. relief on recycled pension savings.'

THE TREASURY ANTICIPATES IT WILL RAISE £70M FROM THE REDUCTION DURING 2017/18, RISING TO £75M BY 2020/21.

This change will impact on those individuals who may have needed to withdraw funds unexpectedly and then want to top them up when their circumstances change. This may also lead to use of the new Lifetime ISA (LISA) available shortly as an alternative.

The Treasury anticipates it will raise £70m from the reduction during 2017/18, rising to £75m by 2020/21.

The 'annual allowance' is a limit on the amount that can be contributed to your pension each year, while still receiving tax relief. It's based on your earnings for the year and is capped at £40,000, which still remains unchanged following the Autumn Statement. The government has also left the 'lifetime allowance' – the amount you can save into a pension in total – unchanged at £1m.

FOREIGN PENSIONS TAX TREATMENT

More closely aligned with the UK's domestic pension tax regime

Specialist pension schemes for people working overseas will be closed to new savings. The so-called Section 615 schemes will end for those employed abroad from 6 April 2017.

Foreign pensions tax treatment will be more closely aligned with the UK's domestic pension tax regime. This will be achieved by bringing foreign pensions and lump sums fully into tax for UK residents, to the same extent as domestic ones.

Funds transferred between registered pension schemes will see the tax treatment also aligned and the criteria for foreign schemes to qualify as overseas pension schemes for tax reasons will be updated.

UK investors in overseas schemes will also not be able to deduct performance fees for tax purposes and there will be new penalties for people who fail to correct past offshore tax errors with HM Revenue & Customs.

INSURANCE PREMIUM TAX

Increase likely to fall on policyholders

The Chancellor is increasing Insurance Premium Tax (IPT) from 10% to 12%.

He said the impact of the increase would be offset in part by lower insurance costs as a result of restrictions on whiplash claims and commented that 'Insurance Premium Tax in this country is lower than in many other European countries, and half the rate of VAT.

'In order to raise revenue, which is required to fund spending commitments, it will rise from 10% currently, to 12% from next June.'

The standard rate of IPT applies to insurance premiums paid by individuals who have, for example, motor, home and contents insurance (IPT does not apply to life insurance).

It is also paid by most businesses, whether small or large, on their corporate insurance premiums. The increase in IPT is likely to fall on the policyholders rather than the insurance companies.

EMPLOYEE SHAREHOLDER STATUS

Planned abolition for arrangements

The tax advantages for shares awarded under the 'Employee Shareholder Status' will be abolished for arrangements entered into on, or after, 1 December 2016.

The capital gains tax exemption and the income tax and National Insurance contributions relief for shares awarded under Employee Shareholder Status agreements will be closed down.

The statement says: 'The status itself will be closed to new arrangements at the next legislative opportunity. This is in response to evidence suggesting that the status is primarily being used for tax planning instead of supporting a more flexible workforce.'

The Chancellor said, 'We will abolish the tax advantages linked to Employee Shareholder Status in response to evidence it is primarily being used for tax-planning purposes by high-earning individuals.'

According to the Treasury's Autumn Statement policy costings document, this measure will be positive, with £50m expected to be raised by 2021/22.

KEEP YOUR FINANCIAL PLANS ON TRACK AFTER AUTUMN STATEMENT 2016

This year's Autumn Statement marked the first major fiscal event since the UK voted to leave the EU. There were fewer surprises than we may have been expecting, but there were still some announcements that could derail your financial plans.

To review what action you may need to take to keep your plans on track, please contact us.

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