Autumn Statement 2016

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Pensions | Personal tax | Savings and investments | Business issues | Tax avoidance

This summary has been prepared very rapidly and is for general information only. You are recommended to seek competent professional advice before taking or refraining from taking action on the basis of the contents of this publication.

Introduction

In the Autumn Statement, the Chancellor announced that the government will move to a single major fiscal event each year.

Following the spring 2017 Budget and Finance Bill, Budgets will be delivered in the autumn, with the first one taking place in autumn 2017. The Office for Budget Responsibility will produce a spring forecast from spring 2018 and the government will make a Spring Statement responding to that forecast. The Statement will review wider economic and fiscal challenges and launch consultations. The government will retain the option to make changes to fiscal policy at the Spring Statement if the economic circumstances require it.

We have summarised below the main areas of relevance to financial planning.

Pensions

Reducing the money purchase annual allowance (MPAA)

The Money Purchase Annual Allowance will be reduced to £4,000 from April 2017. The government does not consider that earners aged 55 and over should be able to enjoy double pension tax relief, such as relief on recycled pension savings, but does wish to offer scope for those who have needed to access their savings to subsequently rebuild them. The government will consult on the detail (a link to the consultation document is available at **https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/571622/Reducing_the_money_purchase_annual_allowance_consultation_web.pdf**).

Triple lock

To remain in place until 2020 and be reviewed at next Parliament.

Pension scams

As previously announced, the government will shortly publish a consultation on options to tackle pension scams, including banning cold calling in relation to pensions, giving firms greater powers to block suspicious transfers and making it harder for scammers to abuse 'small self-administered schemes'.

Salary sacrifice

From April 2017, employers and employees who use salary sacrifice schemes to receive various non-cash benefits in kind (BIK) will pay the same tax as if the BIK had been received as cash. However, salary sacrifice in lieu of employer pension contributions are excluded from this change (along with pensions advice, ultra-low emission cars, childcare and the cycle-to-work scheme). 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.

Pensions continued >

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. The government will also close specialist pension schemes for those employed abroad ("section 615" schemes) to new saving, extend from 5 to 10 years the taxing rights over recently emigrated non-UK residents' foreign lump sum payments from funds that have had UK tax relief, align the tax treatment of funds transferred between registered pension schemes and update the eligibility criteria for foreign schemes to qualify as overseas pensions schemes for tax purposes.

Personal tax

Personal Allowance and Higher Rate Threshold

The Personal Allowance is currently £11,000 this year and will rise to £11,500 in 2017/18. The point at which higher rate income tax kicks in 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 Insurance contributions: alignment Primary and Secondary Thresholds

The Primary and Secondary Thresholds for employee and employer NI contributions will be aligned at £157pw from April 2017 (once income exceeds this level, NI becomes payable).

Non-domiciled individuals

Reforms to the taxation of non-domiciled individuals:

- as previously announced, the government will end the permanency of non-domiciled tax status. From April 2017, non-domiciled individuals will be deemed 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. As previously announced, 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
- 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. This closes a loophole that has been used by non-domiciled individuals to avoid paying Inheritance Tax on their UK residential property
- the government will change the rules for the Business Investment Relief (BIR) scheme from April 2017 to make it easier for non-domiciled individuals who are taxed on the remittance basis to bring offshore money into the UK for the purpose of investing in UK businesses. The government will continue to consider further improvements to the rules for the scheme to attract more capital investment in British businesses by non-domiciled individuals

Personal tax continued >

Universal Credit taper

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. Three million households will benefit from this change:

- a single parent with one child and not receiving support with their housing costs earning £15,000 a year will benefit by £170 a year
- a couple with two children receiving support with their housing costs, where one parent earns £30,000 a year, will benefit by £425 a year
- a disabled person receiving support with their housing costs and earning £12,000 a year will benefit by £180 a year

Tax rates and thresholds for 2017/18

Full details of tax and tax credit rates and thresholds for 2017/18 are available at **https://www.gov.uk/government/publications/tax-and-tax-credit-rates-and-thresholds-for-2017-18/tax-and-tax-credit-rates-and-thresholds-for-2017-18**.

Savings and investments

Life insurance policies

As announced at Budget 2016 and following consultation, the government will legislate in Finance Bill 2017 regarding the disproportionate tax charges that arise in certain circumstances from life insurance policy part-surrenders and part-assignments. This will allow applications to be made to HM Revenue and Customs (HMRC) to have the charge recalculated on a just and reasonable basis. This will lead to fairer outcomes for policyholders. The changes will take effect from 6th April 2017.

Personal Portfolio Bonds

As announced at Budget 2016 and following consultation, the government will legislate in Finance Bill 2017 to take a power to amend by regulations the list of assets that life insurance policyholders can invest in without triggering tax anti-avoidance rules. The changes will take effect on Royal Assent of Finance Bill 2017.

Junior Individual Savings Accounts (ISAs) and Child Trust Fund limit

The annual subscription limit for Junior ISAs and Child Trust Funds will be uprated in line with the Consumer Prices Index (CPI) to £4,128, alongside the ISA subscription limit increase from £15,240 to £20,000, which was previously announced at Budget 2016. This will be effective from 6th April 2017.

New National Savings bond

A new savings bond will be available through National Savings & Investment (NS&I) in spring 2017. The detail will be announced in March but the bond is expected to have an interest rate of around 2.2% gross, and a term of three years. This return might be adjusted to reflect market conditions when the product is launched. Savers over the age of 16 will be able to deposit up to £3,000, with a minimum investment of £100. The government expects around two million people to benefit from the new bond, which will be available for a year.

Business issues

Insurance Premium Tax (IPT)

IPT will increase from 10% to 12% in June 2017. IPT is a tax on insurers and it is up to them whether and how to pass on costs to customers.

National Living Wage / National Minimum Wage

The National Living Wage for those aged 25 and over will increase from £7.20 per hour to £7.50 per hour from April 2017. That means over £1,400 a year more for a full-time worker previously on the National Minimum Wage. The National Minimum Wage will also increase from April 2017:

- 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
- And £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

Letting agents charging fees to renters

Letting agents will no longer be able to charge renters fees, for example when they sign a new tenancy agreement. This will stop tenants being hit with fees averaging £223 per tenancy. The government will consult on this in due course.

Corporation tax

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.

Rural Rate Relief

Rural rate relief will increase from 50 to 100% in April 2017, saving a business up to £2900 a year. 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

Annual Tax on Enveloped Dwellings

The annual charges for the Annual Tax on Enveloped Dwellings (ATED) will rise in line with inflation for the 2017 to 2018 chargeable period.

Clarification of tax treatment for partnerships

Following consultation, the government will legislate to clarify and improve certain aspects of partnership taxation to ensure profit allocations to partners are fairly calculated for tax purposes. Draft legislation will be published for technical consultation.

Tax-advantaged venture capital schemes

In Finance Bill 2017 the government will amend the requirements for the tax-advantaged venture capital schemes – the Enterprise Investment Scheme (EIS), the Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCTs) to:

- clarify the EIS and SEIS rules for share conversion rights, for shares issued on or after 5th December
- provide additional flexibility for follow-on investments made by VCTs in companies with certain group structures to align with EIS provisions, for investments made on or after 6th April 2017
- introduce a power to enable VCT regulations to be made in relation to certain shares for share exchanges to provide greater certainty to VCTs
- a consultation will be carried out into options to streamline and prioritise the advance assurance service

The government will not be introducing flexibility for replacement capital within the tax-advantaged venture capital schemes at this time and will review this over the longer term.

Risk warning

It is important to note that VCT and EIS can be very high risk investments. There may be no market for the underlying shares at the time you wish to dispose of them, and there is a strong possibility of significant or complete capital loss. The tax reliefs available will depend on your personal situation, and are subject to change.

Tax avoidance

Helping someone else to use a tax avoidance scheme

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 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.

Disguised remuneration schemes

Budget 2016 announced changes to tackle use of disguised remuneration schemes by employers and employees. The government will now extend the scope of these changes to tackle the use of disguised remuneration avoidance schemes by the self-employed. This will ensure that self-employed users of these schemes pay their fair share of tax and National Insurance. Further, the government will take steps to make it less attractive for employers to use disguised remuneration avoidance schemes, by denying tax relief for an employer's contributions to disguised remuneration schemes unless tax and National Insurance are paid within a specified period.

How we can help

If there are any issues raised in the Autumn Statement that you would like to discuss in more detail, or if there is anything else we can help you with, please don't hesitate to contact us.

At Savings Champion we work with a number of financial specialists, with expertise in numerous fields ranging from inheritance tax planning to advice on pensions and of course, we can help you get the very best returns on your cash savings. Contact us to arrange a call with a financial expert, without obligation, on 0800 321 3581.

Important information

This summary has been prepared very rapidly and is for general information only. You are recommended to seek competent professional advice before taking or refraining from taking action on the basis of the contents of this publication. The guide represents our understanding of the law and HM Revenue & Customs practice as at 23 November 2016, which are subject to change.

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The Financial Conduct Authority does not regulate tax advice.

The content of this guide is for your general information and use only and is not intended to address your particular requirements. The content should not be relied upon in its entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of the content. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on an individual's personal circumstances.
