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Autumn Statement 2016

The Forbes Dawson Top 10
23 November 2016

Experts in keeping things simple

Income tax

1

Further increases to thresholds and allowances

By the end of this Parliament, the personal allowance will increase to £12,500 and the higher rate tax threshold to £50,000. This is in line with current rates of increase – next year, the personal allowance will rise to £11,500 and the higher rate tax threshold to £45,000. Once the personal allowance reaches £12,500 it will then rise in line with the Consumer Price Index, as the higher rate threshold already does.

Class 1 National Insurance secondary (employer) threshold and primary (employee) thresholds will also be aligned from April 2017. Both employees and employers will start paying National Insurance on weekly earnings above £157. This will simplify the payment of National Insurance for employers.

Our View

Further increases to the personal allowance and the threshold beyond which individuals pay higher rates of tax are good news and linking the personal allowance to the CPI ensures that the benefits are future-proof.

Whilst the reform to NI amounts to a £7 increase in the cost per annum for each employee by their employer it has to be weighed up against the benefits of simplification.

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Corporation Tax

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Corporation Tax changes confirmed

Philip Hammond announced that he would stick to his predecessor's plans for reducing Corporation Tax. The rate will fall, as planned, to 19% from 1 April 2017 and 17% from 1 April 2020.

He also confirmed that the Government will proceed with reforming the rules for corporate loss relief next April. Much of this was announced at the March Budget, but in essence it will become easier going forward for companies and groups of companies, other than the largest businesses, to obtain relief for their historic losses.

Finally, there is mention in the Chancellor's statement that there will be reforms to the Substantial Shareholdings Exemption – which allows companies to sell their subsidiaries without incurring a tax charge – to "remove the investing requirement and provide a more comprehensive exemption for companies owned by qualifying institutional investors".

Our View

The reduction in corporation tax is part of the Government's plan to have the lowest tax rate in the G20; although watch this space – during the Presidential Election Donald Trump signalled his intention to cut US corporate taxes to as low as 15%. Will we see a race to the bottom?

It is pleasing to see that the Government is making corporate loss relief rules more flexible, as these changes have been widely supported.

The reforms to SSE also sound welcome, and we await further details.

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Employee Shareholder Status

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End of the road for ESS

The Employee Shareholder Status ('ESS') was unveiled with much fanfare by George Osborne in 2013 with the aim of fostering an employee stakeholder culture. Today the Chancellor announced plans to scrap it.

Under ESS, employees were able to receive up to £50,000 of shares in their employer company in exchange for giving up certain statutory rights (e.g. right to redundancy). On a disposal ESS shares qualified for exemption from CGT (although for schemes implemented from 16 March 2016 only the first £100,000 of gain was exempt).

From 1 December 2016 new schemes will not qualify for the tax benefits, and the scheme itself will be abolished at the next legislative opportunity. Existing schemes are unaffected.

Our View

This is an unsurprising announcement, and follows on from the significant curtailment of the scheme earlier this year. The reality is the advantages of ESS were mainly being utilised by the professional services and private equity sectors rather than the industries the government was probably intending it for.

For companies which qualify, the EMI scheme will offer the best route to incentivising employees (which was always the preferred option over ESS in any case, where available).

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Salary sacrifice schemes

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"Salary sacrificed"

Following consultation the chancellor has announced that the tax and National Insurance advantages of salary sacrifice schemes will be removed from April 2017.

Salary sacrifice allows employees to waive part of their salary in exchange for a benefit, which itself may be exempt from tax and NIC. Under a salary sacrifice arrangement the same exempt benefit rules still apply and there is a tax and NIC saving for both the employer and employee.

The government's position is that benefits in kind effectively paid for by employees themselves by way of a deduction from gross salary should not come at a cost to the exchequer and is therefore removing the tax advantages.

Schemes relating to pensions, child care and Cycle to Work will be unaffected. Current arrangements in place before April 2017 will be protected for 12 months to April 2018, and a further three year period of grace to April 2021 where those arrangements relate to cars, living accommodation and school fees.

Our View

This is certainly not good news for those employers and employees that currently have salary sacrifice arrangements. Although salary sacrifice will still be available, without the tax and NIC savings there will no longer be an incentive to continue with the scheme, even more so in cases where the normally exempt benefit now becomes taxable. One small saving grace is that pension benefits have not been attacked.

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Incorporations

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Increased exemption and thresholds

The Chancellor announced that the tax take has been lower due to business owners incorporating their businesses. He explained that there would be a consultation on this subject which would lead to a possible change in tax rules. At a basic level he is clearly keen to limit the ability of Entrepreneurs to shelter profits in companies (subject to a low rate of corporation tax) rather than facing income tax rates of 45% in their hands.

The main people who should be concerned about this rather vague statement are landlords (and particularly residential landlords). Many landlords have been incorporating so as to escape the punitive regime that will deny them full tax relief on finance costs by 2020/2021. This statement supports our suspicion that the door will shortly be closed on property incorporations.

Our View

One obvious action would be to deny capital gains tax relief on incorporations (section 162 incorporation). This will prevent business owners from deferring gains on a disposal of their business into shares issued by a company. This would be a sledgehammer blow to entrepreneurs who have started off as sole traders with a view to incorporating at a later date. It would be advisable for such individuals to at least think about accelerating an incorporation now.

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Tax Free Childcare

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New childcare scheme announced

The average cost of sending a child to nursery full time is now £217.57 per week. At the moment, you can either get help with the cost of childcare through your employer via childcare vouchers or through help from the government via the childcare element of the Working Tax Credit.

Tax Free Childcare will be introduced from early 2017 and the aim is to replace the existing Childcare Voucher Scheme.

Tax Free Childcare will cover 20% of the childcare costs. For every 80p transferred into a dedicated online account (administered through the Government website) the Government will top this up with 20p, capped at £2,000 per year per child. The new initiative will be available to working parents, working single parents and now self-employed parents.

Some people are not eligible for the scheme, however. These include couples where one parent is not working, parents who claim for children older than 12 years old, and those earning over £100,000 annually.

Our View

People who will benefit from the new scheme will include working single parents, families where both parents work, and self-employed parents. However, employers will lose out as they will no longer save money with lower National Insurance Contributions.

It is important for those people who may not be eligible for the new Tax Free Childcare scheme to register with the current Childcare Voucher Scheme before the closing date of April 2018.

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Research & Development

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Further government backing for R&D

The Autumn Statement confirmed the Government's support for innovation, including an additional £400 million boost for venture capital funds through the British Business Bank.

There is also suggestion within the Chancellor's announcement that he will also review the tax environment for companies who undertake Research & Development activities to make the UK an even more competitive place to do business. We expect to see further consultation on this soon, but the chances are that the rate of relief for R&D tax credits may increase at the next Budget and/or the format of the relief may be amended to enhance the benefits.

Our View

We are seeing far too many companies failing to take advantage of R&D tax relief, despite the fact that it continues to receive strong backing from the Government. With the promise of further measures on the horizon companies need to wake up to the potential advantages. Forbes Dawson provide free consultation to any companies who wish to find out whether they are eligible to make a claim.

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NSI bond and ISA Change

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Tax advantages for savers

The Chancellor pulled one of few rabbits out his hat at lunchtime with the announcement of a new government savings bond to be launched through National Savings & Investments which will allow savers to receive higher rates of interest for a three year period on a maximum contribution of £3,000. The bond is open to everyone aged 16 or over.

The Chancellor commented in his Statement today that this bond, will offer a "market leading" rate. Further details are due to be announced in the Spring when the bond is launched, but it is expected to be around 2.2%.

On £3,000 deposit the annual interest payable will be £66 (gross) which is well within the annual savings allowance for basic and higher rate tax payers. The current top paying three year bond offers 1.62% from Tesco Bank therefore the proposed bond would be a market leader if it was launched today.

In addition, it is worth remembering that the ISA allowance is also being increased to £20,000 from 6 April 2017. This £20,000 limit includes any amounts paid into the new "Lifetime ISA" which is being introduced from April 2017.

Our View

As savings rates continue to be reduced by all major banks this bond provides a safe haven for savers to deposit some funds and will be of interest to seasonal savers (although the returns are relatively small).

The ISA limit increase is a benefit for savers as it increases the amount of monies individuals can contribute into the ISA's tax free environment and will be welcomed by all.

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Pensions

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Even more changes to pension rules

The Chancellor announced a consultation to restrict the amounts that individuals who are already taking pension benefits can put back into a pension scheme with tax relief.

The amount that an individual can contribute to a pension per annum is set at a maximum of £40,000, with the ability to carry forward unused allowances for a three year period.

Individuals that have already taken income from their pension under the new flexi-access drawdown rules are currently restricted to contributing up to £10,000 per annum, with no ability to carry forward any allowances. However, this still allows £10,000 to be extracted with the benefit of a 25% tax free lump sump and reinvested for further tax relief of up to £1,125.

Whilst the government wants to provide flexibility to be able to add monies back to the pension if personal circumstances change, they want to remove the incentive to 'recycle' funds just to obtain the tax relief by restricting the annual amount that can be contributed to a pension where flexi-access drawdown has taken place to £4,000. This will reduce the maximum potential tax saving to £90 per annum for an additional rate taxpayer.

Our View

This was a convoluted but neat route to obtain a small tax advantage which in reality benefitted few people. Separate rules already exist to restrict recycling of funds where only the lump sum has been taken i.e. no flexi-access drawdown.

We are pleased there have not been further changes to more fundamental principles of pension tax reliefs.

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Anti-avoidance schemes

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Further closing in on tax avoidance schemes

In Budget 2016, ex-chancellor George Osborne announced significant changes to 'disguised remuneration' tax avoidance schemes undertaken by employers and employees. These typically involved an employer paying into an EBT or EFRBS, which in turn provided benefits such as loans to employees. This has now been extended to include the self-employed.

Furthermore, the Autumn Statement suggests that Corporation Tax deductions may no longer be allowed for an employer's contributions to disguised remuneration schemes, unless tax and National Insurance are paid within a specified period. This would represent a change from the current position, where corporation tax relief is generally allowed when benefits are provided under 'fiscal symmetry' principles.

Our View

We are supportive of the Government's proactive stance on tackling tax avoidance. Individuals and companies with historic schemes are likely to need advice on where they currently stand.

In addition to the above announcements, users of EBT/EFRBS need to be wary of the tax charge on outstanding loans coming in from April 2019. We are able to advise on these issues and the options for reaching settlement with HMRC.

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To discuss how we can help you, please get in touch with us.

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