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Creasey Alexander & Co
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# Autumn Statement 2016

Welcome to the special Autumn Statement 2016. We hope you enjoy reading this tax newsletter and find it useful.

November 2016

## GETTING THE UK "MATCH FIT" FOR BREXIT

The Chancellor Philip Hammond announced that his first Autumn Statement will also be his last. In future the main Budget announcements will be made in the autumn rather than the spring. We were not expecting that many tax announcements and many that were made we already knew about. He could not afford too many give-aways as he expects the economy to have a bumpy ride during the BREXIT transition.

There will still be a Budget next March but thereafter the annual Budget will be in the Autumn to allow longer consideration of the announcements and draft legislation before enactment the following summer.

### KEY TAX ANNOUNCEMENTS:

- Personal allowance to increase to £11,500 in 2017/18, rising to £12,500 by 2020/21
- Higher rate tax threshold to increase to £45,000 in 2017/18, rising to £50,000 by 2020/21
- National Insurance threshold to be raised to £157 a week for employees and employers
- Corporation tax rate to reduce to 17% in 2020
- Business tax "roadmap" to continue, in particular new rules for company losses
- Insurance premium tax to increase from10% to 12% from 1 June 2017
- More anti-avoidance measures, in particular a new VAT flat rate percentage for "limited cost traders"

## HELP FOR THOSE JUST ABOUT MANAGING (JAM)

The Chancellor made a number of announcements that were intended to help those families that are just about managing, given the acronym - JAM. Raising the personal allowance to £11,500 and higher rate threshold to £45,000 will mean they pay less income tax and keep more of what they earn.

This group will also benefit from the increase in the National Living Wage to £7.50 an hour and the changes to Universal Credit.

The Universal Credit taper rate will be cut from 65% to 63% from April 2017 which will mean that fewer benefits will be clawed back as claimants' income increases. The planned reductions in the overall benefits caps will however go ahead.

## CORPORATE AND BUSINESS TAX CHANGES

Many of the corporate tax changes had already been announced and are set out in the business tax "roadmap" which details the government tax strategy for the life of this Parliament and beyond.

The currently 20% corporation tax rate is planned to fall to 19% from 1 April 2017 and then to 17% on 1 April 2020. The government is committed to keeping the UK corporate tax rate the lowest in the G20 and there is talk of a rate as low as 15% in the future.

The Chancellor raised concerns that there continues to be a rise in tax-driven incorporations as there are still tax savings compared to unincorporated businesses operating at a similar level of profit. That may suggest that the government is still considering the introduction of a new "look through entity" suggested by the Office of Tax Simplification so that the tax treatment will be the same, thereby creating a level playing field.

The new flexible corporate tax loss rules announced in the spring budget have been subject to consultation and will go ahead from 1 April 2017.

## CAPITAL ALLOWANCES

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.

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## HIGHER RATE TAX RELIEF FOR PENSIONS CONTINUES

There has been much speculation that the government would further limit tax relief for pension contributions by removing higher rate tax relief. That measure would save the country £34 billion in tax but the only change announced concerns a new lower limit on amounts that can be saved in a pension when individuals have started drawing down from their private pension.

Currently the net effect of pension tax relief for a higher rate taxpayer is that saving £10,000 in a pension costs £6,000. The taxpayer pays £8,000 into their pension and the government tops this up by £2,000 with a further £2,000 deducted from the individual's income tax liability, reducing the net cost to £6,000. For additional rate taxpayers the net cost would be just £5,500.

Remember that there is currently an annual pension input limit of £40,000 which caps the combined contributions by an individual and his or her employer. For those with high income this is tapered and can be as low as £10,000.

One new pension restriction that was announced was a measure to limit pension "recycling". Those individuals who have started drawing down their personal pension will in future only be able to reinvest up to £4,000 in their pension.

## SALARY SACRIFICE RULES TO BE TIGHTENED UP

Many employers now provide flexible remuneration packages that allow employees to give up some of their contractual salary in exchange for benefits in kind. This can have the effect of saving tax and national Insurance contributions for both the employee and employer, particularly where the benefit provided is exempt from tax.

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, and existing arrangements for cars, accommodation and school fees will be 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.

## OTHER EMPLOYEE BENEFIT CHANGES

### MAKING GOOD

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.

## CHANGES TO TERMINATION PAYMENTS TO GO AHEAD

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.

## "ABUSE" OF THE VAT FLAT RATE SCHEME

The VAT flat rate scheme is a simple scheme that enables small businesses to calculate and pay their VAT based on a flat rate percentage of total takings rather than deducting input tax on purchases and expenses and deducting that from total output tax on sales in the period. HMRC believe that the scheme is being abused by certain traders who have minimal costs who charge 20% VAT to their customers and then pay a lower percentage over to HMRC.

The flat rate percentage varies depending on the nature of the trade, ranging from 4% for food retailers up to 14.5% for IT consultants and labour only construction workers. A new 16.5% rate will apply from 1 April 2017 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. Any business affected will almost certainly be better off returning to the normal VAT system with effect from that date. If you are currently using the flat rate scheme please contact us to check whether this change is likely to affect your business.

**Please contact a member of our team if you would like to discuss any of the issues raised.**

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