DIXON WILSON
CHARTERED ACCOUNTANTS

AUTUMN STATEMENT 2016

Introduction

In recent years Autumn Statements have been used to announce several major new tax changes. As many had hoped, the chancellor did not follow this approach this year. Most of the announcements were confirmation or clarification of previously publicised plans.

One surprise is that the Budget, traditionally delivered in March, will move to the autumn starting from autumn 2017, meaning there will be no more Autumn Statements. 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.

Non-UK domiciled individuals

No update on the reform of the "non-dom" regime was expected as part of the Autumn Statement. The next major announcement on this will be the release of the draft legislation expected on 5 December 2016. For the latest position with regards to these reforms, please see our previous update here, although note that we expect there to be further changes included in the draft legislation.

Personal tax

Allowances

The Personal Allowance will increase to £11,500, and the basic rate band to £33,500, from 6 April 2017. The government intend to increase these to £12,500 and £37,500 respectively by the end of this Parliament, and then in line with CPI thereafter.

As announced at Budget 2016, two new tax-free allowances will be introduced from 6 April 2017 of £1,000 each. These allowances can be set against income from property and income from trading. The trading income allowance will now also apply to certain miscellaneous income from providing assets or services.

ISAs

The ISA subscription limit will increase to £20,000 from 6 April 2017, which was previously announced at Budget 2016. The subscription limit for Junior ISAs and Child Trust Funds will increase in line with CPI, to £4,128.

Foreign pensions

The tax treatment of foreign pensions will be more closely aligned with the UK domestic pension tax regime by bringing foreign pensions and lump sums fully into tax for UK residents, to the same extent as domestic ones. Usually under current rules only 90% of a foreign pension is subject to UK tax. We expect this relief will be removed.

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.

It is not currently clear when these changes will take place.

Life insurance policies

Where a disproportionate tax charge arises due to part-surrenders or part-assignments of a life insurance policy from 6 April 2017, it will be possible to apply to HM Revenue & Customs to have the charge recalculated on a reasonable basis. This follows the outcome of the recent tax case Lobler v HMRC.

Currently where a policyholder has control over the underlying investments of a life insurance policy, the policy will be treated as a "personal portfolio bond" and be subject to particularly harsh tax charges. This can catch out individuals moving to the UK, most frequently from the continent where life insurance policies are commonly held. However, a policy is not a personal portfolio bond provided the underlying investments fall within certain categories. As announced at Budget 2016 and following consultation, the list of categories will be extended. The changes will take effect on Royal Assent of Finance Bill 2017.

Employment taxes

Benefits

The government confirmed its intention to restrict the benefits which can attract tax advantages when combined with a salary sacrifice scheme. This will take effect from 6 April 2017 but will not affect pensions, childcare, the Cycle to Work scheme 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.

At Budget 2017 the government will publish a consultation on employer-provided living accommodation and a call for evidence on the valuation of all other benefits in kind. With regards to accommodation, it is reasonable to expect the consultation to broadly follow the recommendations of the Office of Tax Simplification. This was to remove anomalies, for example starting from open market rental value to calculate the amount of the benefit, and to frame the exemption more closely around the accommodation being necessary for the job.

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.

Termination payments

As announced at Budget 2016, from 6 April 2018 termination payments over the £30,000 exemption, which can sometimes apply, will also be subject to employer NICs. Also, tax will only be applied to the equivalent of an employee's basic pay if their notice is not worked, making it simpler to apply the new rules.

Employee shareholder shares

These shares are being abolished from 1 December 2016 as the government has concluded that the rules have not had the desired effect ("supporting a more flexible workforce") but have instead simply been used for tax planning. Arrangements entered into before 1 December 2016 will still benefit from the rules and in particular the exemption from capital gains tax on disposal of the shares. That exemption is limited by a lifetime cap of £100,000 of gains for shares acquired on or after 17 March 2016.

National Insurance

Employee and employer National Insurance thresholds will be equalised at £157 per week from 6 April 2017.

As expected, class 2 National Insurance will be abolished from 6 April 2018.

Business taxes

Corporation tax rate

The corporation tax rate will be reduced to 19% from 1 April 2017 and to 17% from 1 April 2020.

Tax deductibility of interest for companies

The new rules in relation to tax deductibility of interest for companies will be brought in from 1 April 2017, despite calls for the implementation to be delayed. These rules may restrict the UK net interest expenses of large groups where this exceeds 30% of UK taxable earnings. These measures will apply to groups where UK net interest expenses exceed £2 million.

New corporation tax loss relief rules

As expected, new rules will apply from 1 April 2017 restricting the amount of profit that can be offset by carried forward losses to 50% of the profit, where loss relief within a group exceeds £5 million per year. The new loss relief rules will also allow greater flexibility for use of carried forward losses including the availability to surrender losses arising after 1 April 2017 through group relief.

Substantial shareholding exemption (SSE) rules

These will be simplified with effect from 1 April 2017 to remove the investing requirement and provide a more comprehensive exemption for companies owned by qualifying institutional investors.

Non-resident companies

The government is considering bringing all non-resident companies which receive taxable income from the UK into the corporation tax regime. For example, non-resident companies receiving UK rental income are currently taxed under income tax rules. There will be a consultation on the case and options for implementing this change at Budget 2017. The government wants to deliver equal tax treatment to ensure that all companies are subject to the rules which apply generally for the purposes of corporation tax, including the limitation of corporate interest expense deductibility and loss relief rules.

VAT Flat Rate Scheme

A new 16.5% flat rate percentage will be introduced from 1 April 2017 for businesses with limited costs. This is defined as businesses where VAT inclusive expenditure on goods is either less than 2% of their VAT inclusive turnover or £1,000. Anti-forestalling provisions will apply.

VAT groups

The government will consult on the possibility of including entities other than companies in VAT groups.

Research & Development (R&D) tax environment

The government will review the tax environment 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 for R&D.

Clarification of tax treatment for partnerships

Draft legislation will be published for technical consultation, with the intention of clarifying and improving certain aspects of partnership taxation.

ATED

The annual charges for the Annual Tax on Enveloped Dwellings (ATED) will rise in line with inflation for the 1 April 2017 to 31 March 2018 chargeable period. The current charges range from £3,500 for a property valued between £500,000 and £1 million to £218,200 for a property valued at more than £20 million. It is important to note that the charges are currently based on the value of the property as at 1 April 2012 for properties which were owned on or before 1 April 2012. These properties will need revaluing as at 1 April 2017 for the purposes of the 5 chargeable years starting from 1 April 2018. This could result in the charge significantly increasing where the property has increased in value since 1 April 2012.

Avoidance

A consultation on introducing penalties for enablers of tax avoidance closed last month. An enabler includes anyone who develops, designs, promotes or markets tax avoidance arrangements or schemes. Draft legislation will be issued shortly.

The government announced reforms to tackle the use of disguised remuneration avoidance schemes at Budget 2016. Steps will be taken to further restrict the tax relief on employers' contributions to disguised remuneration schemes, and to extend the measures to cover similar schemes used by the self-employed.

The government will introduce a new legal requirement to correct a past failure to pay UK tax on offshore interests within a defined period of time, with new sanctions for those who fail to do so.

There will be consultation on a new legal requirement for intermediaries arranging complex structures for clients holding money offshore to notify HM Revenue & Customs of the structures and the related client lists. There are already provisions in place meaning that notification is required where an intermediary assists a UK domiciled (or deemed domiciled) settlor to settle a non-UK resident trust.

Gift Aid

As announced at Budget 2016, the government will give intermediaries a greater role in administering Gift Aid, simplifying the Gift Aid process for donors making digital donations.

Fuel duty

The rate of fuel duty will remain unchanged for the seventh successive year.

Insurance premium tax

The standard rate of Insurance Premium Tax will rise to 12% from 1 June 2017. This follows several increases in recent years. The rate was 5% in 2010.

Minimum wage

National Living Wage was increased from £7.20/hour to £7.50/hour with effect from April 2017. This was the increase expected in light of the recent pay growth figures. This applies to workers aged 25 and over. The lower rates of National Minimum Wage apply to workers aged below 25. These minimum rates do not apply in certain circumstances including a worker who lives in the employer's home, shares in the work and leisure activities, is treated as one of the family and isn't charged for meals or accommodation.

Letting agents' fees

The government will consult and then bring in legislation to ban letting agents' fees to tenants to improve competition in the private rental market. Any fees will instead have to be charged to landlords.

Making Tax Digital

Making Tax Digital is a government initiative aiming for a fully digital tax system by 2020. This has been subject to consultations, with many respondents calling for the timetable to be relaxed, especially in relation to the digital record keeping and quarterly reporting requirements for businesses. The government will publish its response to the consultations in January 2017.

Museums and galleries tax relief

The government will broaden the scope of the museums and galleries tax relief announced at Budget 2016 to include permanent exhibitions so that it is accessible to a wider range of institutions across the country. The rates of relief will be set at 25% for touring exhibitions and 20% for non-touring exhibitions and the relief will be capped at £500,000 of qualifying expenditure per exhibition.

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