2014 Autumn Statement

On Wednesday 3 December the Office for Budget Responsibility (OBR) published its updated forecast for the UK economy.

Chancellor Osborne responded to that forecast in a statement to the House of Commons later that day. In this briefing, we look at the major announcements.

Our summary is split into the following categories:

- Personal tax
- Corporate tax
- Capital allowances
- Pension changes

Personal Tax

The personal allowance will be increased from £10,000 to £10,600, for those aged under 65.

Personal allowances will continue to be reduced for those with an adjusted net income of over £100,000. Where net adjusted income exceeds £121,200 (2015/16), no allowance will be available.

Tax Bands & Rates (2015/16)

Income tax bands remain at 20% and 40%. The threshold where 40% applies will rise from £41,865 to £42,385, effective from 2015/16 onwards.

Where taxable income exceeds £150,000, 45% tax rate applies.

Dividend income, (where taxable income is greater than £150,000), will continue to be taxed at 37.5%. No changes were announced to the tax rates applicable to dividend income which falls into the basic rate band (10%) or the high rate band (32.5%).

New Individual Savings Accounts (NISAs)

From 6 April 2015, the overall NISA savings limit will be increased from £15,000 to £15,240. In addition, when an ISA saver dies, spouses will be able to invest the inherited funds into their own ISA, on top of their usual allowance. This measure applies for deaths from 3 December 2014.

Junior ISA and Child Trust Funds (CTF)

From 6 April 2015, the annual subscription limit will increase from £4,000 to £4,080. Transfers from CTFs to Junior ISAs will be possible from 6 April 2015.

Personal Tax (contd.)

Peer-to-Peer Lending

The recent growth of this alternative source of funding was recognised by the Chancellor:

- Peer-to-Peer loans are to be included within NISAs (subject to further consultation – no start date announced).
- The government will introduce a new relief to allow individuals lending through Peer-to-Peer platforms to offset any losses from loans which go bad against other Peer-to-Peer income. It will be effective from 6 April 2016 and, through self-assessment, will allow individuals to make a claim for relief on losses incurred from 6 April 2015.

Pensions

In Budget 2014, George Osborne announced 'pensioners will have complete freedom to draw down as much or as little of their pension pot as they want, anytime they want'. Some of the changes have already taken effect but the major changes come into effect on 6 April 2015 for individuals who have money purchase pension funds.

The tax consequences of the changes are contained in the Taxation of Pensions Bill which is currently going through Parliament.

Under the current system, there is some flexibility in accessing a pension fund from the age of 55:

- Tax free lump sum of 25% of fund value.
- Purchase of an annuity with the remaining fund, or
- Income Drawdown.

For income drawdown there are limits, in most cases, on how much people can draw each year.

An annuity is taxable income in the year of receipt. Similarly, any monies received from the income drawdown fund are taxable in the year of receipt.

From 6 April 2015, the ability to take a tax free lump sum and a lifetime annuity remain, but some of the current restrictions on a lifetime annuity will be removed to allow more choice on the type of annuity taken out.

The rules involving drawdown will change. There will be total freedom to access a pension fund from the age of 55.

It is proposed that access to the fund will be achieve in one of two ways:

- Allocation of a pension fund (or part of a pension fund) into a 'flexi-access drawdown account' from which any amount can be taken over whatever period the person decides.
- Taking a single or series of lump sums from a pension fund (known as 'uncrystallised funds pension lump sum').

When an allocation of funds into a flexi-access account is made, the member will typically take the opportunity of taking a tax free lump sum from the fund (as under current rules).

Pensions (contd.)

The person will then decide how much or how little to take from the flexi-access account. Any amounts that are taken will count as taxable income in the year of receipt.

Access to some or all of a pension fund without first allocating to a flexi-access account can be achieved by taking an uncrystallised funds pension lump sum.

The tax effect will be:

- 25% tax free.
- Remainder taxable as income.

Changes to Tax Relief for Pension Contributions

The government is cognisant of the possibility of people taking advantage of the new flexibilities by 'recycling' their earned income into pensions, then immediately taking out amounts from their pension funds. Without further controls being put into place, an individual would obtain tax relief on pension contributions but only be taxed on 75% of the funds immediately withdrawn.

Currently, an 'annual allowance' sets the maximum amount of tax efficient contributions. The annual allowance is £40,000 (but there may be more allowance available if the maximum allowance has not been utilised in the previous years).

Under the proposed rules from 6 April 2015, the annual allowance for contributions to money purchase schemes will be reduced to £10,000 in certain scenarios. There will be no carry forward of any of the £10,000 to a later year if it is not used in the year.

The main scenarios in which the reduced annual allowance is triggered are when:

- Any income is taken from a flexi-access drawdown accounts, or
- An uncrystallised funds pension lump sum is received.

Taking a tax free lump sum when funds are transferred into a flexi-access account will not trigger the £10,000 rule.

Business Tax

Corporation Tax Rates

The main rate of corporation tax, currently 21%, will be reduced to 20% from 1st April 2015. This will result in a harmonisation of corporation tax rates for all companies.

Research and Development (R&D) Tax Credits

The government will increase the rate of the 'above the line' credit from 10% to 11% and will increase the rate of the SME scheme from 225% to 230% from 1 April 2015.

It is proposed to restrict qualifying expenditure for R&D tax credits from 1 April 2015 to exclude the costs of materials incorporated in products that are sold. There will be a package of measures to streamline the application process for smaller companies investing in R&D.

Business Tax (contd.)

Construction Industry Scheme (CIS) Improvements

The government announced their intentions to relax the compliance tests for Contractors applying for gross payment status. For established and/or multiple partner/director businesses, the turnover threshold could be reduced from £200,000 to as little as £100,000.

Class 2 National Insurance Contributions (NIC)

From 6 April 2015, liability to pay Class 2 NIC will arise at the end of each year, compared to the current weekly charge.

The amount of Class 2 NIC due will still be calculated based on the number of weeks of self-employment in the year, but will be determined when the individual completes their self-assessment return. It will therefore be paid alongside their income tax and Class 4 NIC. For those who wish to spread the cost of their Class 2 NIC, HMRC will retain a facility for them to make regular payments throughout the year. The current six monthly billing system will cease from 6 April 2015.

Those profits below a threshold will no longer have to apply in advance for an exemption from paying Class 2 NIC. Instead, they will have the option to pay Class 2 NIC voluntarily at the end of the year so that they may protect their benefit rights.

Corporation tax relief for goodwill on incorporation

Corporation tax relief is given to companies when goodwill and intangible assets are recognised in the financial accounts. Relief is normally given on the cost of the asset as the expenditure is written off in accordance with Generally Accepted Accounting Practice or at a fixed 4% rate, following an election.

An anti-avoidance measure has been announced to restrict corporation tax relief where a company acquires internally-generated goodwill and certain other intangible assets from related individuals on the incorporation of a business.

In addition, individuals will be prevented from claiming Entrepreneurs' Relief on disposals of goodwill when they transfer the business to a related company. Capital gains tax will be payable on the gain at the normal rates of 18% or 28% rather than 10%.

These measures will apply to all transfers on or after 3 December 2014, unless made pursuant to an unconditional obligation entered into before that date.

Creative Sector

Two new reliefs and a change to an existing relief are proposed:

- Children's Television Tax Relief – The government will introduce a new tax relief for the production of children's television programmes from 1 April 2015. The relief will be available at a rate of 25% on qualifying production expenditure.
- Orchestra Tax Relief – The government will consult on the introduction of an orchestra tax relief from 1 April 2016.
- High-End Television Tax Relief – The government will explore with the industry whether to reduce the minimum UK expenditure for high-end TV relief from 25% to 10% to modernise the cultural test, to bring the relief in line with film tax relief.

Employment Tax

Employer Provided Cars (Benefit in Kind)

The scale of charges for working out the taxable benefit for an employee who has use of an employer provided car are now announced well in advance. Most cars are taxed by reference to bands of CO_2 emissions. The percentage applied to each band has typically gone up by 1% each year with an overriding maximum charge of 35% of the list price of the car. From 6 April 2015, the percentage applied by each band goes up by 2% and the maximum charge is increased to 37%.

Employer National Insurance Contributions (NIC) For Under 21s

From 6 April 2015, employer NIC for those under the age of 21 will be reduced from the normal rate of 13.8% to 0%. For the 0% rate to apply, the employee must be under 21 when the earnings are paid.

The exemption will not apply to earnings above the Upper Secondary Threshold (UST) in a pay period. The weekly UST is £815 for 2015/16 which is equivalent to £42,385 per annum. Employers will be liable to 13.8% NIC beyond this limit.

NIC for Apprentices Under 25

The government will abolish employer NIC up to the Upper Earnings Limit for apprentices aged under 25. This will come into effect from 6 April 2016.

NIC Employment Allowance

The Employment Allowance was introduced from 6 April 2014. It is an annual allowance of up to £2,000 which is available to many employers and can be offset against their employer NIC liability.

The government will extend the annual £2,000 Employment Allowance for employer NIC to care and support workers. This will come into effect from 6 April 2015.

Capital Taxes

CGT Rates

The current rates of CGT were left unchanged by the Chancellor – 18% (rising to 28% if a high rate taxpayer), as was the CGT annual exemption (£11,000).

Stamp Duty Land Tax (SDLT)

The Chancellor announced a major reform to SDLT on residential property transactions. SDLT is charged at a single percentage of the price paid for a property, depending on the rate band within which the purchase price falls. From 4 December 2014, each new SDLT rate will only be payable on the portion of the property value which falls within each band. This will remove the distortion created by the existing system.

Where contracts have been exchanged but not completed on or before 3 December 2014, purchasers will have choice of whether the old or new structure and rates apply. This measure will apply in Scotland until 1 April 2015 when SDLT is devolved to the Scottish Parliament.

Stamp Duty Land Tax (Contd.)

The new rates and thresholds are:

Purchase Price of Property	New Rates Paid on the Part of the Property Price Within Each Tax Band
£0 - £125,000	0%
£125,001 - £250,000	2%
£250,001 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 and above	12%

In real terms, purchasers of residential property valued up to £937,500 will pay the same or in most cases, less than they would have paid under the old rules.

Contact us

If you would like to discuss the contents of our Autumn Statement briefing, please contact Nigel Morrow.

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