The Orchard Practice

Chancellor’s Autumn Statement 2012

The Autumn Statement

After March's 'omnishambles' Budget - pasty taxes and all – George Osborne needed to give a solid, no-nasty-surprises performance when presenting his Autumn Statement. The background was not favourable.

Since Spring, the UK economy has not been growing as quickly as the Chancellor had hoped. The result would have been a borrowing overshoot of £5bn for 2012/13, were it not for what the Office for Budget Responsibility (OBR) coyly describes as "Policy decisions by the government and reclassifications", which have removed £16bn of debt. Despite this fiscal magic, Mr Osborne has had to accept he will miss the less significant of his two longer term budgetary targets – getting overall debt falling by 2015/16.

In the event, Mr Osborne delivered more of a mini-Budget than an Autumn Statement. A raft of relatively small measures was announced, with changes not only for the coming tax year, but also for the following two years.

Key announcements

Private Pensions

The Annual Allowance (AA) sets the maximum total tax-efficient contribution that can be invested in pension plans by you, or on your behalf, during the tax year. The AA was cut from £255,000 to £50,000 from 2011/12 and new provisions were introduced to allow the carry forward of unused AA from the immediately preceding three tax years.

If contributions – from whatever source – exceed your available AA (including carry forward) in the tax year, an annual allowance charge will be paid on the excess. This will mean all tax relief on the excess is effectively lost.

Rumours that the Chancellor would cut the AA again appeared before the 2012 Budget and again on the Financial Times front page in mid-November. This time around, the rumours were true - but only partially. The AA will indeed be cut to £40,000, as the FT predicted, but the axe will not fall until 2014/15.

Fortunately, the AA reduction will not apply to the carry forward rules for unused amounts for tax years before 2014/15. However, there appears to be no other transitional rules to cover the latest AA drop, so the complex pension input period rules mean care will be needed when making any contributions after 5 April 2013.

Should you be lucky enough to be a member of a final salary pension scheme, for any tax year from 2014/15 onwards, the new AA will mean that you could face a tax charge if your pension entitlement increases by more than about £2,500 a year above inflation. With earnings inflation currently at very low levels that may seem unlikely, but a promotion could change the picture.

In addition to the AA cut, the Chancellor revealed a reduction in the Lifetime Allowance, which sets the maximum total tax-efficient value of pension benefits. This will fall from £1.5m to £1.25m, also from 2014/15. One, or possibly two, new transitional reliefs will be introduced which you can claim if you could be affected by this further reduction.

One piece of good news was that there will be an increase in the maximum amount that can be taken under capped income drawdown each year - from 100% of the HMRC/GAD calculated rate to 120%. Details of how this improvement will operate are now awaited, but it looks unlikely to happen before 6 April 2013.

The cuts in the Annual Allowance and Lifetime Allowance are both reminders of the value of pension tax relief. If you're concerned that either (or both) of these reforms could affect you, the sooner you start to review your retirement planning, the better.

Income Tax

The personal allowance will rise by £1,335 in 2013/14 to £9,440 - £235 more than promised in the March Budget.

However, the increased allowance will be accompanied by a further shrinkage of £235 in the basic rate band, leaving the 2013/14 higher rate threshold – the starting point for 40% tax, assuming a full personal allowance is available – at £41,450. This is the same figure as was previously announced in the March 2012 Budget and represents a drop of £1,025 from the 2012/13 threshold. More information is available on this in the Income Tax Tables at the end.

In both 2014/15 and 2015/16, the higher rate threshold will increase by just 1% a year, less than half the OBR's projected rate of inflation. HMRC estimates that almost 14% of income tax payers pay tax at higher or additional rates. With these revisions to the higher rate threshold, even if you are not a higher rate taxpayer today, you may be in the next few years.

Age-related personal allowances will not increase for 2013/14 – the first step towards their phasing out – as was announced in the March 2012 Budget. The dates of birth for age allowance entitlements will also be frozen at before 6 April 1938 for the higher allowance (£10,660), and before 6 April 1948 for the lower figure (£10,500). However, the married couple's allowance (which is only available if you were born before 6 April 1935) will rise in line with RPI inflation.

The additional rate of tax for 2013/14 will fall from 50% to 45% (42.5% to 37.5% for dividends), as previously announced in March 2012. The £150,000 starting point for additional rate tax, and the £100,000 trigger point for the phasing out of the personal allowance, will be frozen for a third successive year.

No changes were made to the controversial Child Benefit tax, which takes effect from 7 January 2013.

Income Tax is by far the biggest source of revenue for the Treasury and, correspondingly, the largest drain on taxpayers. For all the government's efforts to counter tax avoidance, there remain many perfectly straightforward ways to reduce your contribution to the Exchequer.

Key announcements

National Insurance

The 2013/14 National Insurance Contribution (NIC) thresholds will generally increase in line with inflation but, perhaps surprisingly, the Class 1 upper earnings limit and Class 4 upper profits limit will fall because they are linked to the reduced higher rate threshold.

There is no change in the main rates for 2013/14, other than a 5p a week increase in Class 2 and a 30p increase in the Voluntary Class 3 rates.

At the margin, total NICs can amount to as much as 25.8% of your earnings. Salary sacrifice arrangements, notably in the area of pensions, can capture this cost for your benefit rather than the Treasury's.

Capital Gains Tax

It would appear that the Capital Gains Tax (CGT) annual exemption, which was frozen for 2012/13, will rise in line with inflation to £10,900 for 2013/14. The Chancellor promised an increase of 1% a year for the following two tax years, taking the exemption up to £11,100 in 2015/16.

The CGT annual exemption should be worth up to £3,052 in 2013/14. Will you be taking advantage of it?

Inheritance Tax

The Inheritance Tax (IHT) nil rate band, which has been frozen at £325,000 since April 2009, will be increased to £329,000 from April 2015.

This is a classic example of the Treasury using inflation to erode the value of a tax break, thereby increasing the need for tax planning. Were the nil rate band to have been index-linked in line with the RPI since April 2009, it would have risen to about £365,000 next April.

Individual Savings Accounts

For 2013/14 the investment limit will increase by £240 to £11,520, with the cash component rising correspondingly to £5,760. The so-far little-used Junior ISA will have its investment limit increased by £120 to £3,720, and there is a corresponding rise to £3,720 in the Child Trust Fund subscription limit.

Alongside these modest rises, the government will consult on including shares listed on the AIM within the stocks and shares element of ISAs.

This year's ISA limit is £11,280. If you have not yet used yours to the full, why wait for the end of year rush?

State Pensions

The Chancellor confirmed that from April 2013, the basic state pension will rise by a flat 2.5% under the 'triple lock' provisions introduced by the coalition government in 2010.

While the increase is above the rate of CPI inflation in September (2.2%) and earnings growth (1.8%) – the other two components of the trio – it is below September RPI inflation (2.6%). The increase will take the single pension to £110.15 a week.

The additional state pensions, such as SERPS and State Second Pension, will rise by 2.2%, in line with September's CPI.

Other Welfare Benefits

Rumours that 2013 increases to many non-pensioner benefits would stay below the level of inflation proved accurate, but did not go far enough.

Most working-age benefits, including Income Support, Employment and Support Allowance and Job Seeker's Allowance, will rise by 1% for each of the next three years. However, the carers', pensioners' and disability elements of these benefits will continue to be uprated in line with CPI.

Child Benefit will be frozen for 2013/14, as previously announced, but in both 2014/15 and 2015/16 it will rise by 1%.

Key announcements

Tax Credits

The couple, lone parent and child elements of Working Tax Credit and Child Tax Credit will be increased by 1% for each of three years from April 2013.

The basic and 30-hour elements, already frozen for 2013-14, will also be uprated by 1% in 2014/15 and 2015/16. All disability elements will continue to be uprated in line with price inflation each year.

Business taxes

The main rate of Corporation Tax is currently 24% and will fall to 23% from April 2013.

For 2014, the Chancellor had previously announced a cut to 22%. In the Autumn Statement he revealed a further 1% reduction, bringing the rate down to 21%, only 1% above the unchanged current small profits rate.

In an effort to encourage capital expenditure by small businesses, Mr Osborne announced that the Annual Investment Allowance (AIA) limit for investments in plant and machinery will increase from £25,000 to £250,000 for two years, from 1 January 2013.

The 'temporary' doubling of the Small Business Rate Relief, originally introduced by the previous government in 2010, will be extended yet again, this time until 31 March 2014.

Fuel duty

As widely expected, the 3.02p per litre fuel duty increase that was planned for 1 January 2013 will be cancelled.

The 2013/14 increase, planned for next April, will be moved to 1 September and, for the remainder of the Parliament, subsequent increases will take effect on 1 September each year instead of 1 April. It may be no coincidence that this new timing will limit the scope for lobbying against a duty increase in the run up to the Budget or Autumn Statement.

Income Tax Tables

Main Income Tax allowances		
	2012/13 £	**2013/14 £**
Personal Allowance	8,105	9,440
Personal Allowance reduced if total income is over[1]	100,000	100,000
Age-related allowances		
Aged 65 – 74 (2012/13) / Born 6 April 1938 – 5 April 1948 (2013/14)	10,500	10,500
Aged 75 & over (2012/13) / Born before 6 April 1938 (2013/14)	10,660	10,660
Married couple's allowance[2]		
Maximum	7,705	7,915
Minimum	2,960	3,040
Age-related allowances reduced if total income is over[3]	25,400	26,100

Notes
1. The personal allowance reduces where the individual's income is above this limit by £1 for every £2 over the limit, regardless of age. It is completely extinguished at total income levels of £118,880 and above (£116,210 and above in 2012/13).
2. Available if at least one of a couple was born before 6 April 1935. Relief is given at 10%.
3. Where the individual's income is above this limit, the age-related allowances reduce by £1 for every £2 above the limit, starting with the main allowance until the personal allowance is reached.

Main Income Tax rates and bands		
	2012/13 £	**2013/14 £**
Starting rate on savings income at 10%	£1 – £2,710	£1 – £2,790
Basic rate	20%	20%
Maximum tax at basic rate[1]	£6,874	£6,402
Higher rate at 40% on income in band	£34,371 – £150,000	£32,011 – £150,000
Tax on first £150,000[1]	£53,126	£53,598
Additional rate on income over £150,000	50%	45%
Ordinary rate on dividends	10%	10%
Higher rate on dividends	32.5%	32.5%
Additional rate on dividends	42.5%	37.5%
Discretionary and accumulation trusts (except dividends)[2]	50%	45%
Discretionary and accumulation trusts (dividends)[2]	42.5%	37.5%

Notes
1. Assumes 10% band is not available. £6,123 on first £32,010 (£6,603 on first £34,370 in 2012/13) and £53,318.60 (£52,854.60 in 2012/13) on first £150,000 if full 10% band is available.
2. Up to the first £1,000 of gross income is generally taxed at the standard rate, ie. 20%, or 10%, as appropriate.

The Orchard Practice
2 Penta Court
Station Road
Borehamwood
Hertfordshire
WD6 1SL
T 0208 953 8687
F 0208 953 6994

info@orchardpractice.co.uk
www.orchardpractice.co.uk