Chancellor's Autumn Statement 2013

This Autumn Statement is provided strictly for general consideration only. While every care has been taken in its preparation it is essential that no action is taken or refrained from based on its contents alone. Advice is absolutely essential and so no responsibility can be accepted for any loss occasioned as a result of such action or inaction. For information only. Always seek professional advice before acting.

The Autumn Statement

This year's Autumn Statement was a day late, for good reason. It was due on 4 December, but got pushed back so that, having returned from his drumming-up-trade trip to China, David Cameron could be present in the House of Commons to hear his Chancellor's words. Why? Because, for once, George Osborne was going to announce that the economic and fiscal conditions were better than previously forecast.

Back in March, Mr Osborne presented his March Budget against a grim economic backdrop. There was a possibility of a triple dip recession after the economy had contracted in the chilly final quarter of 2012. The Office for Budget Responsibility (OBR) was projecting just 0.6% growth for 2013 as a whole and an underlying government deficit of £120bn, the same as in 2011/12 and 2012/13.

Nearly nine months on, the economic landscape the Chancellor now surveys looks surprisingly different. The triple dip recession never appeared, while the double dip was revised away by the statisticians. Economic growth in the third quarter of 2013 alone was 0.8%. Even the Bank of England felt emboldened to say: "In the United Kingdom, recovery has finally taken hold", in its most recent Quarterly Inflation Report. The OBR's latest deficit projections have cut over £8bn from this year's government borrowing and show a small surplus eventually appearing, albeit in 2018/19.

The better conditions were not enough to encourage any giveaways from Mr Osborne, as he left the government's tax take for 2014/15 virtually unchanged. With eighteen months before the next election, he had a variety of political reasons for curbing any thoughts that the UK's recovery is in the bag. While last year's Autumn Statement set out much of the tax and benefit framework for 2014/15, the Chancellor was still able to make some interesting announcements (and re-announcements).

Key Announcements

Income Tax

In the March Budget, the Chancellor announced that the personal allowance would rise by £560 in 2014/15 to the coalition's original election year target of £10,000. The increase was not quite as generous as it seemed, because four months previously the Chancellor had said the higher rate threshold would rise by only 1% in both 2014/15 and 2015/16. Thus higher rate taxpayers will not see the full benefit of the increased personal allowance because the basic rate band will, once again, shrink next tax year.

In the run up to the Autumn Statement, both the Chancellor and Nick Clegg talked about further increases in the personal allowance, but nothing more emerged in Mr Osborne's speech. Thus the personal allowance for 2014/15 will be £10,000 and the threshold for higher rate tax next year is £41,865. The tax savings are not as simple as you might imagine because of the phasing out of personal allowances at income levels above the unchanged £100,000 threshold.

Age-related personal allowances will not increase for 2014/15, as part of the phasing out which started this tax year. The married couple's allowance (which is only available if you or your partner were born before 6 April 1935) will rise in line with RPI inflation.

The Chancellor gave little further information about the Transferable Tax Allowance, which is due to be introduced in 2015/16 for couples (married and civil partners) where neither party pays tax above the basic rate. His reticence could be because this planned tax break, worth a maximum of £200 a year, will benefit less than a third of all couples, according to calculations from the Institute for Fiscal Studies.

Income Tax has been subject to many changes in recent years. The increased personal allowance is what the politicians prefer to talk about, rather than the fact the number of people paying tax at above basic rate has risen by over 44% in the last four years. If you are part of that growing band of higher and additional rate taxpayers, make sure you are not wasting any tax-saving opportunities.

Income Tax Changes

Total Income £	**2013/14** £	**2014/15** £	**Tax Saving** £
Less than 9,440	0	0	0
10,000	112	0	+112
20,000	2,112	2,000	+112
30,000	4,112	4,000	+112
40,000	6,112	6,000	+112
50,000	9,822	9,627	+195
75,000	19,822	19,627	+195
100,000	29,822	29,627	+195
125,000	43,598	43,627	-29
150,000	53,598	53,627	-29

Note: Assumes all income taxed as earned income and individual is aged under 65 with personal allowance only

Key Announcements

National Insurance

The 2014/15 National Insurance Contribution (NIC) lower thresholds will generally increase in line with inflation but the Class 1 upper earnings limit and Class 4 upper profits limit will have sub-inflation increases because they are linked to the higher rate threshold. There is no change in the main rates for 2014/15, other than a 5p a week increase in Class 2 and a 35p increase in the Voluntary Class 3 rate.

From October 2015, a new class of voluntary NICs, Class 3A, will be introduced. It will enable those pensioners who reach State Pension Age before 6 April 2016 (the start date for the new single-tier state pension) to top up their entitlement to the State Additional Pension (S2P).

While rising personal allowances have taken many low income people out of tax, in 2014/15 NICs will remain a burden from about £2,050 below the allowance level. The combined rate of employer's and employee's NICs can be as high as 25.8% of your earnings. For now, salary sacrifice arrangements (that result in you receiving "payment" in a form that legitimately avoids NICs and income tax – for example, a pension contribution) remain a viable way of minimising the impact of these two charges.

Inheritance Tax

The Inheritance Tax (IHT) nil rate band, which has been frozen at £325,000 since April 2009, will remain unchanged until at least April 2018, thereby dragging more estates into this unwelcome tax. Even so, the Chancellor – who once promised a £1m nil rate band when in opposition – announced further consultation on some 'simplification' measures which could, perversely, increase the IHT burden. These revolve around the complex IHT treatment of multiple trusts created by the same person and, from April 2015, may affect existing arrangements, as well as any newly created trusts.

Generally speaking, IHT planning through trusts remains an acceptable and effective way to carry out estate planning where you wish to retain a degree of control over, and even access to, the assets to be used in the planning.

Had the nil rate band been index-linked in line with the RPI since April 2009, it would be about £50,000 higher next April. The freeze and the moves to tighten the tax rules on the use of certain trust strategies are a reminder that IHT is still an important source of revenue and is unlikely to disappear.

Capital Gains Tax

The Capital Gains Tax (CGT) annual exempt amount will rise by just £100, to £11,000, in 2014/15, as previously announced. For 2015/16 the increase will also be £100. Such lowly increases tend to drag more people into the CGT net, just as the constrained rises in the higher rate threshold create more 40% taxpayers (who must pay 28% on their gains).

The one change to CGT which the Chancellor did announce was the widely-leaked move to impose the tax on UK property owned by non-residents. This will take effect on future gains accruing from April 2015 and is more about politics than budgetary planning – the projected revenue is a mere £15m in 2016/17, most of which is likely to come from sellers of London property. Whether the new tax charge cools the capital's housing market remains to be seen: a recent report suggested nearly 75% of inner London new homes were being sold – frequently off-plan – to foreign owners.

The CGT annual exemption could be worth up to £3,080 in 2014/15. Will you be taking advantage of it? The power of doing so over the life of an investment can be strongly demonstrated through a substantially reduced or non-existent tax bill on encashment.

Individual Savings Accounts

For 2014/15 the investment limit will increase in line with inflation by £360 to £11,880, with the cash component rising to £5,940. The so far little-used Junior ISA (JISA) will have its investment limit increase by £120 to £3,840.

The Chancellor also promised a review of ISA investment rules for retail bonds, potentially shortening the minimum term to maturity from the current five years. However, he made no comment on recent reports that the Treasury had investigated how to apply a £100,000 ceiling to ISAs, nor earlier consultation on allowing Child Trust Funds (CTFs) to be merged with JISAs.

The Treasury has confirmed that during the summer it investigated placing a cap on ISAs. The fact that nothing emerged in the Autumn Statement is no guarantee that the idea has gone away. It may just be waiting for an appropriate post-election Budget. As things stand, though, ISAs remain a tax-efficient investment and should be a serious first consideration (up to the investment limit, of course) for those with available funds to invest. Significant ISA portfolios can contribute to the IHT liability of the investor unless they are invested in AIM shares that qualify for IHT business property relief (and resulting IHT freedom after two years' ownership). This limited potential for IHT tax efficiency needs to be factored into any estate planning strategy.

The Housing Market

There were no changes to the stamp duty bands, nor did the Chancellor announce any amendments to the recently introduced second phase of Help to Buy. The housing market was already the focus of pre-emptive actions taken by the Bank of England last month, including the removal of the Funding for Lending Scheme for mortgages.

One change Mr Osborne did make that could dampen the property market marginally was to reduce (from 36 months to 18 months) the period of ownership disregarded for private residence CGT calculations from April 2014. This will mainly hit certain tax planning strategies used by some second home owners and Buy to Let landlords.

Pensions

For once there were no significant changes announced on the pension front. That is probably because there are already two important changes that will take effect from 6 April 2014:

- There will be a cut of £10,000 to £40,000 in the Annual Allowance, which 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 Lifetime Allowance, which sets the maximum total tax-efficient value of pension benefits, will fall by £250,000 to £1.25m, also from 2014/15.

The Chancellor also restated his intention to increase the State Pension Age (SPA), but was less specific in detail than much of the morning press: a SPA of 68 is due "in the mid-2030s", and 69 by "the late 2040s".

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

Venture Capital Trusts

In the Budget, the Chancellor gave a warning that the Treasury would examine 'enhanced buyback' schemes, used to recycle Venture Capital Trust (VCT) holdings and capture a second tranche of 30% Income Tax relief. A consultation document emerged in the summer, with warnings about forestalling measures. In his speech Mr Osborne confirmed that from 6 April 2014, investments conditionally linked to a VCT share buy-back, or made within six months of a disposal of shares in the same VCT, will not qualify for new tax relief.

Tax Avoidance

It would not be an Autumn Statement (nor Budget) without the usual panoply of anti-avoidance measures being announced. On this occasion the targets were "disguised employment", dual contracts for non-domiciled individuals, the contrived use of derivatives and offshore oil and gas chartering, among others.

In all, the Chancellor hopes to raise over £1.5bn in 2014/15 from clamping down on avoidance, fraud, error and debt.

The attacks were, as ever, on the more aggressive avoidance schemes. Fortunately there remain many tried and tested, officially acceptable ways to reduce tax.

Business Taxes

The main rate of Corporation Tax is currently 23% and will fall to 21% from April 2014. For 2015, the Chancellor has promised a further 1% reduction, bringing the rate down to 20%, matching the unchanged current small profits rate.

For those running their own business, the low corporate tax rates (compared with the higher and additional rates of income tax) can make trading through a company an appealing option. Of course, the best choice for any particular business depends on the facts. It is also important to take more than just tax into account when deciding upon on the appropriate trading vehicle for your business.

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