The Orchard Practice
T 0208 953 8687
www.orchardpractice.co.uk

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Chancellor’s Autumn Statement 2014

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The Autumn Statement

Politics is always a major ingredient of the Autumn Statement and, with an election just over five months away, this year's Statement had more than its fair share. It was Mr Osborne's penultimate set piece before the polls, an important factor when considering how much of what he said could become reality. Parliamentary logistics mean that, as in 2010, we will probably have two Budgets next year, one either side of the election. The first – and possibly Mr Osborne's last – will be a relatively non-contentious affair as its contents will have to be rushed through before the dissolution of Parliament on 30 March. The next, the post-election 2015 Budget, will probably be in early summer as the State Opening is not until 4 June. That will be the Budget when the new government administers the medicine it wants the electorate to forget over the following five years.

The economic backdrop to this year's Autumn Statement was not quite as rosy as last year's was for the Chancellor. Then he was relishing the recovery of the economy and fresh data that showed him bettering the Budget 2013 forecasts. This time around the good news has mingled with bad:

- The economy is still performing well, with the Office for Budget Responsibility (OBR) improving its growth forecasts to 3%for 2014, 0.3% above its March figure and 2.4% for 2015, a more modest 0.1% increase. However, from 2016 onwards growth forecasts were lowered.

- The supermarket price wars and plunging oil prices have brought inflation down sharply. Lower than expected inflation have helped the Treasury by limiting rises in those allowances and benefits still linked to the CPI. The OBR now sees inflation not returning to 2% until late 2017.

- The unemployment rate has fallen from 7.6% to 6.0% over the past year to September 2014 according to the Office for National Statistics.

- Wage growth has remained barely visible and sub-inflation, although the latest figures suggest a pick up is underway. The Bank of England expects wage growth to be 2% above inflation by the end of 2015, although the OBR is rather less optimistic on this front.

- The increase in employment has not fed through to the Exchequer's coffers. The most likely reasons for this are that much of the new employment is low pay and personal allowances have been rising much faster than inflation. The net result is that whereas in March the OBR said that borrowing would end this year £12.9bn below last year's level, it is now projecting a lower drop of £8bn. The OBR has also added £7.6bn to March's estimate for next year's borrowing. The numbers are back

on course by 2018/19, in no small part due to projected interest savings due to continued low rates on the £1,500bn mountain of government debt.

The combination of good economic news mixed with disappointing government finances left the Chancellor in a slightly awkward position, but with politics to the fore, he found a way to produce a crop of interesting announcements (and add £1bn to next year's borrowing):

Income Tax

In the March Budget, the Chancellor announced that the personal allowance would rise by £500 in 2015/16 to £10,500. The Autumn Statement has added another £100 to this, bringing the 2015/16 personal allowance up to £10,600. As has happened for the last four years, some of the benefit of this increase will be clawed back by *reducing* the basic rate band, on this occasion by £80 (to £31,785). This cut combined with the allowance increase means that the higher rate threshold will rise by 1.2% in 2015/16 to £42,385. With CPI inflation to September also at 1.2%, the threshold has thus been index-linked for the coming year, albeit more by accident rather than design.

Both coalition parties have talked about a £12,500 personal allowance by the end of the next Parliament, but nothing more emerged in Mr Osborne's speech. However, the Chancellor had two other previously announced tax changes due from 6 April 2015 to talk about, although perhaps wisely he chose not to do so:

- The transferable tax allowance for married couples and civil partners, worth up to £212 in tax savings per couple, provided neither party pays tax at more than basic rate nor claims the married couple's age allowance.

- The new 0%, £5,000-wide starting rate band for savings, replacing the existing 10% £2,880-wide band. This is not as valuable as it sounds: the Treasury's own estimate is that around 1.5m people will benefit, with half of them seeing a tax cut of no more than £50.

Both the £100,000 threshold for phasing out the personal allowance and the £150,000 starting point for additional rate tax remain for 2015/16. The result is that the overall tax burden is virtually unchanged if you have a six figure income, as the table below shows.

Income Tax Changes

Total Income £	2014/15 £	2015/16	Tax Saving £
Less than 10,000	0	0	0
15,000	1,000	880	+120
20,000	2,000	1,880	+120
30,000	4,000	3,880	+120
40,000	6,000	5,880	+120
50,000	9,627	9,403	+224
75,000	19,627	19,403	+224
100,000	29,627	29,403	+224
125,000	43,627	43,643	-16
150,000	53,627	53,643	-16

Note: Assumes all income taxed as earned income and individual is aged under 78 by 5/4/2016 with personal allowance only and no child benefit tax charge.

The phasing out of age-related personal allowances that started in 2013/14 will see the age allowance for those born after 5 April 1938 disappear, as the current (frozen) level of £10,500 will be overtaken by the newly increased 2015/16 personal allowance. The higher age allowance now looks certain to disappear in 2016/17. 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 Prime Minister acknowledged in his party conference speech this year that "far too many have been dragged into" the 40% income tax bracket. However, his promise to increase the higher rate threshold to £50,000 "in the next Parliament" (ie by 2020/21) would not even restore the real value of the threshold to its 2009/10 level if it happened from next April. If you want to minimise your tax now rather than in the politically uncertain future, check that you are making maximum use of the current allowances and bands and are prepared for next year's income tax changes.

National Insurance

The 2015/16 National Insurance Contribution (NIC) thresholds will generally increase in line with inflation. There is no change in the main rates for 2015/16, other than a 5p a week increase in Class 2 and a 20p increase in the Voluntary Class 3 rate.

It remains to be seen whether there will be any (post-election) changes to NIC rates to coincide with the introduction of the new single tier state pension in 2016/17. If not, the difference between employed and self-employed NIC rates could further increase the spread of self-employment.

The government has made much of "taking people out of tax" by increasing personal allowances. Yet in 2015/16 a low paid employee could pay nearly £305 in NICs and still be a non-taxpayer. With the combined rate of employer's and employee's NICs up to 25.8% of your earnings at the margin, salary sacrifice arrangements continue to be an attractive option for taxpayers and even some non-taxpayers.

Capital Gains Tax

The capital gains tax (CGT) annual exempt amount will rise by £100, to £11,100, in 2015/16, as previously announced. Thereafter, in theory the increase will be CPI-linked, but a change of government could see the exemption drop – the Liberal Democrats have suggested £2,500 as an appropriate level (and higher tax rates). Such a cut in the exemption would drag many more people into the CGT net and, as a consequence, the self-assessment tax regime.

The government announced that it would be removing the CGT benefit of so-called "B share" schemes, which have been widely used by companies (eg Vodafone) when returning capital to shareholders. From 6 April 2015 all returns from such schemes will be subject to income tax and investors will not be effectively able to opt for an alternative capital gains tax treatment.

The CGT annual exemption is worth up to £3,080 in the current tax year. Will you be taking advantage of it? With the possibility of a much less favourable capital gains tax regime after May's election, now is a good time to start looking at your CGT planning. By realising gains in this tax year and 2015/16, you could take profits of up to £22,100 without any tax liability.

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, by which time it is projected to be producing more than double the sum raised in 2009/10.

Alongside the freeze, the Chancellor is in the process of introducing new measures to limit the effectiveness of discretionary and some other trusts in IHT planning. However, the final proposals involving a single settlement nil rate band, which were revealed in June, have now been abandoned. New rules "to target avoidance through the use of multiple trusts" are now promised for the Finance Bill 2015, but no further details were included in the Autumn Statement papers.

On the plus side, the Chancellor has also initiated changes to the treatment of pension death benefits which – from next April- could be a considerable help in estate planning. The changes effectively allow pensions to become intergenerational plans, almost entirely outside the IHT net.

Were the nil rate band to have been index-linked in line with the RPI since April 2009, it would be nearly £60,000 higher next April. The freeze and the revised tightening of the tax rules on many trusts will drag more people into the IHT net.

Individual Savings Accounts

For 2015/16 the investment limit will increase in line with inflation by £240 to £15,240. The so far little used Junior ISA (JISA) will have its investment limit increase by £80 to £4,080.

While the contribution increases were much as expected, there was a surprise move on ISA inheritability. From 3 December 2014, if an ISA investor in a marriage or civil partnership dies, their spouse/civil partner will effectively inherit their deceased partner's ISA tax advantages. From 6 April 2015, the surviving spouse/civil partner will be able to invest as much into their own ISA as their spouse/civil partner used to have, on top of their usual allowance.

The Housing Market

The big surprise in the Autumn Statement was a reform of the stamp duty land tax (SDLT) rules for residential property. From 4 December 2014, the 'slab' approach, which created large jumps in SDLT bills at various value thresholds, has been replaced by a tiered approach similar to that used for income tax. There are now five tax bands, each applying to a particular slice of value, as shown in the table below.

Band of residential property value **£**	**Tax rate** **%**
0-125,000	0
125,001-250,000	2
250,000-925,000	5
925,000-1,500,000	10
1,500,001 & over	12

Example: A property valued at £550,000 would be subject to stamp duty land tax of:

£0 - £125,000	@ 0% =	£0
£125,000 - £250,000	@ 2% =	£2,500
£250,000 - £550,000	@5% =	£15,000
Total		**£17,500**

The net result of the changes is that SDLT will be the same or less on properties with a value of up to £937,500 – 98% of the market – although the savings are by no means evenly spread because of that 'slab' structure: for instance, at £500,000 both old and new scales produce the same £15,000 SDLT charge.

Pensions
After the dramatic reforms announced in the March Budget, the Chancellor had very little to say on pensions, beyond bringing the income tax treatment of dependants' annuities into line with next tax year's favourable rules for dependant's flexi-access pensions. The Budget changes now being legislated for in the Taxation of Pensions Bill will ultimately:

- Remove restrictions on withdrawals from money purchase pension arrangements.

- Scrap the current 55% tax charge on some lump sum death benefits if death occurs before age 75 and reduce it to 45% for later deaths.

- Enable a pension fund providing withdrawals to be passed down from generation to generation with significant tax benefits.

Further cuts to the Annual Allowance and Lifetime Allowance were made this tax year, but post-election pension tax relief looks under threat, whichever party(ies) wins. As the tax year end nears, reviewing pension contributions should be one of your priorities.

Venture Capital Trusts and Enterprise Investment Schemes
In the summer the Treasury issued a consultation paper on the impact of changes to EU State Aid rules to the structure of Venture Capital Trusts (VCTs) and Enterprise Investment Schemes (EISs). While the Chancellor made no comment about this in his Autumn Statement, he did make a change to VCT/EIS (and Seed EIS) investment rules. From 6 April 2015 these will exclude from eligibility for EIS, SEIS and VCTs investment commercial companies that benefit substantially from subsidies for the generation of renewable energy. In practice most such companies had already been excluded by earlier measures.

The Chancellor also announced plans to enlarge the social investment tax relief (SITR) scheme and to consult in early 2015 on producing a Social VCT.

Tax Avoidance
A set piece from a Chancellor is never complete without some reference to new clampdowns on tax avoidance and the Autumn Statement was no exception. In all, the Chancellor hopes to raise an extra £1.2bn in 2015/16 under the heading of "avoidance, tax planning and fairness". As usual, the Chancellor's focus was on the more aggressive avoidance schemes, including a new Diverted Profits Tax aimed at multinationals which use complex structures to relocate profits generated in the UK to tax havens – already dubbed a "Google tax". How successful this will be remains to be seen, given the complexities of overriding international tax treaties. The Chancellor has penciled in only an extra £270m for 2016/17, little more than 0.6% of expected corporation tax revenues for that year.

Business taxes
The main rate of corporation tax is currently 21% and will fall to 20% from April 2015, bringing it into line with 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 on the appropriate trading vehicle for your business.

The Chancellor once again extended the small business rate relief for a year and made several other minor changes to business rates. The long-called for reform of business rates has been set in train, with a review due to report by the time of the 2016 Budget – safely after the coming election. However, any changes will be 'fiscally neutral", so any winners will be matched by losers

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax and trust advice. The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

The Orchard Practice
2 Penta Court
Station Road
Borehamwood
Hertfordshire
WD6 1SL

T 0208 953 8687
E info@orchardpractice.co.uk
www.orchardpractice.co.uk