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Autumn Statement 2016

Contents

Chancellor pledges post-Brexit economy ‘that works for everyone’

The new Chancellor of the Exchequer, Philip Hammond, acknowledged ‘sharp challenges ahead’ for the economy as he presented his first major fiscal statement, exactly five months after the UK’s historic vote to leave the European Union.

The latest forecasts from the Office for Budget Responsibility confirmed an increase in borrowing, which is now forecast to reach £68.2bn this year. Economic growth is expected to slow over the next two years, initially rising marginally to 2.1% for 2016, but then reducing to 1.4% in 2017. Overall, the ‘Brexit effect’ is expected to impact on economic growth to the tune of 2.4%.

Having paid tribute to his predecessor, Mr Hammond then proceeded to sweep away George Osborne’s fiscal targets, announcing a new draft Charter for Budget Responsibility. This replaces the aim of balancing the books by 2020 with a pledge to deliver a surplus ‘as early as practicable’ in the next Parliament, and an emphasis on allowing sufficient flexibility to build a resilient economy.

The Chancellor proposes to do this by prioritising investment in UK infrastructure and innovation, and announced the creation of a new £23bn National Productivity Investment Fund (NPIF) which will provide additional funding in four areas: transport, digital communications, research and development, and housing.

The Statement included a number of other significant measures for businesses, including confirmation that corporation tax will be reduced to 17% by 2020 as planned, together with the implementation of the business rates reduction package. In other announcements, from April 2017 employee and employer national insurance thresholds will be aligned, and salary sacrifice schemes will be scaled back, with most schemes being subject to the same tax as cash income, although some exemptions will apply.

Emphasising the government’s stated commitment to low and middle income workers, the Chancellor announced that from April 2017 the Universal Credit taper rate will be reduced from 65p to 63p for every pound of net earnings. The National Living Wage and National Minimum Wage will also rise with effect from April 2017. The government’s plans to raise the income tax personal allowance to £12,500 and the higher rate income tax threshold to £50,000 by 2020/21 were also confirmed, while a new NS&I Investment Bond will be launched for savers.

Other announcements included further measures to counter tax avoidance, an increase in insurance premium tax from 1 June 2017, and a freeze on fuel duty for the seventh consecutive year.

In a final flourish, and marking a major change to policy-making processes, the Chancellor announced that his first Autumn Statement would also be his last. 2017 will see the final Spring Budget, as from that point on the main Budget will be held in the Autumn.

Business measures

Corporation tax

It was confirmed that the corporation tax rate, currently 20%, will be 19% for the financial years beginning 1 April 2017, 1 April 2018 and 1 April 2019, and 17% for the financial year beginning 1 April 2020.

Rural rate relief

Rural rate relief will increase from 50% to 100% in April 2017. It is available to businesses in rural areas with a population under 3,000, where that business is the only village shop or post office with a rateable value of up to £8,500; or the only public house or petrol station with a rateable value of up to £12,500.

National insurance contributions (NICs)

The national insurance secondary (employer) threshold and the national insurance primary (employee) threshold will be aligned from 6 April 2017, meaning that both employees and employers will start paying national insurance on weekly earnings above £157.

As announced at Budget 2016, Class 2 NICs will be abolished from April 2018. It has been confirmed that, following the abolition of Class 2 NICs, self-employed contributory benefit entitlement will be accessed through Class 3 and Class 4 NICs. All self-employed women will continue to be able to access the standard rate of Maternity Allowance. Self-employed people with profits below the Small Profits Limit will be able to access Contributory Employment and Support Allowance through Class 3 NICs. There will be provision to support self-employed individuals with low profits during the transition.

British Business Bank

The British Business Bank will invest an additional £400m in venture capital funds, in order to ‘unlock up to £1bn of new investment in innovative firms planning to scale up’.

Charge points for electric vehicles

Legislation will be introduced in Finance Bill 2017 to provide a 100% first-year allowance for expenditure incurred on electric charge-point equipment for electric vehicles. The measure will be backdated to have effect for expenditure incurred on or after 23 November 2016. It will expire on 31 March 2019 for corporation tax and 5 April 2019 for income tax purposes.

Annual Tax on Enveloped Dwellings (ATED)

The annual charges for the ATED will rise in line with inflation for the 2017/18 chargeable period.

Research and Development (R&D)

The National Productivity Investment Fund will provide an additional £4.7bn in R&D funding by 2020/21. Projects will include an Industrial Strategy Challenge Fund to support collaborations between business and the UK science base, and an increase in grant funding through Innovate UK.

The government will also look at ways to build on the ‘above the line’ R&D tax credit, with the aim of further incentivising R&D.

Patent Box

The government will legislate in Finance Bill 2017 to add specific provisions to the Patent Box rules where R&D is undertaken collaboratively by two or more companies under a ‘cost sharing arrangement’. These will ensure that such companies are neither penalised nor able to gain an advantage under these rules by organising their R&D in this way. This will have effect for accounting periods commencing on or after 1 April 2017.

Anti-avoidance

Strengthening sanctions and deterrents

The government will introduce a new penalty for any person who has enabled another person or business to use a tax avoidance arrangement that is later defeated by HMRC. The government will also remove the defence of having relied on non-independent advice as taking 'reasonable care' when considering penalties for any person or business that uses such arrangements.

Money Purchase Annual Allowance (MPAA)

Changes introduced in April 2015 gave individuals greater flexibility over how and when they take their pension savings.

Once a person has accessed pension savings flexibly, if they wish to make any further contributions to a defined contribution pension, tax-relieved contributions are restricted to a special MPAA.

Subject to consultation on the detail, the MPAA will be reduced from £10,000 to £4,000 from April 2017.

VAT Flat Rate Scheme

There will be a new 16.5% rate from 1 April 2017 for businesses with limited costs, such as many labour-only businesses. Anti-forestalling provisions have been introduced to prevent any business defined as a limited cost trader from continuing to use a lower flat rate beyond 1 April 2017.

VAT fraud

The Finance Bill 2017 will introduce a new penalty for participating in VAT fraud. It will be applied to businesses and company officers when they knew or should have known that their transactions were connected with VAT fraud. The new penalty will be a fixed rate penalty of 30% of the VAT due.

Disguised remuneration schemes

Previously announced changes intended to tackle the use of disguised remuneration schemes by employers and employees will be extended to include the self-employed.

Employee Shareholder Status (ESS)

The tax advantages linked to shares awarded under ESS will be abolished for arrangements entered into on, or after, 1 December 2016. The status itself will be closed to new arrangements at the next legislative opportunity.

Personal measures

Personal allowance and higher rate threshold

The Chancellor confirmed that the personal allowance will rise to £11,500 and the higher rate threshold to £45,000 from 6 April 2017. He stated that the government will meet its commitment to raise the income tax personal allowance to £12,500 and the higher rate threshold to £50,000, by the end of this Parliament. Once the personal allowance reaches £12,500, it will then rise in line with the Consumer Prices Index (CPI).

NS&I Investment Bond

NS&I will offer a new three-year savings bond from Spring 2017. The indicative rate is 2.2% but this may be adjusted to reflect market conditions when the product is launched. The bond will be open to those aged 16 and over, subject to a minimum investment limit of £100 and a maximum investment limit of £3,000.

ISA limits

The annual subscription limit for Junior ISAs and Child Trust Funds will be uprated in line with CPI to £4,128.

As previously announced, the ISA limit will rise from £15,240 to £20,000. Both of these changes take effect from 6 April 2017.

National Living Wage (NLW) and National Minimum Wage (NMW)

Following the recommendations of the Low Pay Commission, the government will increase the NLW to £7.50 from April 2017.

The government will also accept all of their recommendations for the other NMW rates, which were last increased in October 2016. From April 2017 the increased rates will be as follows:

- £7.05 per hour for 21 to 24 year olds
- £5.60 per hour for 18 to 20 year olds
- £4.05 per hour for 16 to 17 year olds
- £3.50 per hour for apprentices (under 19, or 19 and over in the first year of their apprenticeship).

The government will invest to strengthen NMW enforcement. They will also provide additional support targeted at small businesses to help them to comply, and a campaign aimed at raising awareness amongst workers and employers regarding their rights and responsibilities.

Universal Credit taper

From April 2017, the taper rate that applies to earnings above the income threshold in Universal Credit will be reduced from 65% to 63%.

Pension scams

The government will publish a consultation on options to tackle pension scams, including banning cold calling in relation to pensions, giving firms greater powers to block suspicious transfers and making it harder for scammers to abuse ‘small self-administered schemes’.

Pay as You Earn Settlement Agreement (PSA) process

As announced at Budget 2016 and following consultation, the government will legislate in Finance Bill 2017 to simplify the process for applying for and agreeing PSAs.

This will have effect in relation to agreements for the 2018/19 tax year and subsequent tax years.

Transport and infrastructure

Fuel duty

The main rate of fuel duty for petrol and diesel will remain frozen for the seventh successive year at 57.95p per litre.

Company car tax

From 2020/21 new, lower bands will be introduced for the lowest CO_2 emitting cars. The appropriate percentage for cars emitting greater than 90g CO_2/km will rise by one percentage point.

Transport infrastructure investment

As part of the National Productivity Investment Fund (NPIF), transport infrastructure investment will include £1.1bn to reduce congestion and upgrade local roads and public transport, £220m to tackle road safety and congestion on Highways England roads and £27m to develop an expressway connecting Oxford and Cambridge. £450m will also be spent on trialling railway digital signalling technology.

Future transport technology

The NPIF will also provide £390m for future transport technology. This will include: £100m investment in testing infrastructure for driverless cars; £150m to provide at least 550 new electric and hydrogen buses, reduce the emissions of 1,500 existing buses and support taxis to become zero emission; and £80m to install more charging points for ultra-low emission vehicles.

Broadband and 5G networks

The government will invest over £1bn by 2020/21, including £740m through the NPIF, to support the roll out of full-fibre connections and future 5G communications. Measures will include a new 100% business rates relief for new full-fibre infrastructure for a five year period from 1 April 2017.

Infrastructure for devolved national governments

The devolved national governments will each receive additional funds which can be spent on infrastructure projects. There will be an increase of over £800m for the Scottish government, over £400m for the Welsh government and over £250m for the Northern Ireland Executive, with each devolved administration deciding where this money will be spent.

Flood defence

The government will invest £170m in flood defence and resilience measures. £20m of this investment will be for new flood defence schemes, £50m for rail resilience projects, including Dawlish, and £100m to improve the resilience of roads to flooding.

Housing

A new £2.3bn Housing Infrastructure Fund will be used for projects such as roads and water connections that will support the construction of up to 100,000 new homes in the areas designated to be most at need of new housing.

An additional £1.4bn will be used to provide 40,000 new affordable homes, including some for shared ownership and some for affordable rent. A further £1.7bn will be used to accelerate the construction of new homes on public sector land.

The government will also fund a regional pilot of the Right to Buy for housing association tenants, under which more than 3,000 tenants will be able to buy their own home with Right to Buy discounts.

Other measures

Insurance premium tax (IPT)

The standard rate of IPT will rise from 10% to 12% from 1 June 2017.

Letting agent fees

The Department for Communities and Local Government will consult ahead of bringing forward legislation to ban letting agents' fees charged to tenants.

LIBOR banking fines

The government has committed a further £102m of banking fines over the next four years to support Armed Forces and Emergency Services charities and other related good causes.

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.

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. The relief will take effect from 1 April 2017 and will be reviewed in 2020.

Investing in culture

The Chancellor announced over £10m to support culture and heritage projects across the UK.

Prison safety and reform

The government will provide up to £500m of additional funding to the Ministry of Justice. As part of the Prison Safety and Reform white paper, this will enable the recruitment of 2,500 extra prison officers. It will also fund wider reforms to the justice system.

Autumn Statement abolishes Autumn Statements

Chancellor Philip Hammond surprised the House by announcing that his first Autumn Statement would also be his last – with a major change to the way fiscal events are scheduled.

Following the Spring 2017 Budget and Finance Bill, Budgets will in future be delivered in the Autumn, with the first one taking place in Autumn 2017.

The Office for Budget Responsibility will produce a Spring forecast from 2018 and the Chancellor will make a new Spring Statement responding to that forecast.

Profile: The new Chancellor

Who: Philip Hammond, Chancellor of the Exchequer; Conservative MP for Runnymede and Weybridge

Age: 60

Background: A former company director, Philip Hammond entered Parliament in 1997 and was promoted into the Shadow Cabinet by David Cameron in 2005. He then worked under George Osborne as Shadow Chief Secretary to the Treasury.

In the Coalition government he held increasingly senior Cabinet positions, progressing from Secretary of State for Transport, to Defence, and finally Foreign and Commonwealth Affairs. When Theresa May succeeded Cameron as Prime Minister in July 2016, she quickly appointed Hammond as Chancellor of the Exchequer in place of Osborne.

Political views: Although considered to be broadly Eurosceptic prior to the referendum, Hammond campaigned for Britain to remain in the EU. As Chancellor, he indicated early on that he would emphasise investment in infrastructure and housing over his predecessor's deficit reduction targets. The Autumn Statement is his first major announcement in the role.

What they said…

‘The figures speak for themselves. Growth down, wage growth down, business investment down, and their own deficit target failed.’

Shadow Chancellor John McDonnell

‘Reducing the frequency of fiscal events along with the commitment to stick with the tax roadmap will provide stability for businesses. Importantly, the new fiscal rules provide the government with welcome flexibility, while remaining prudent in uncertain times.’

Carolyn Fairbairn, Director General of the Confederation of British Industry

‘The official figures have revealed a £220bn Brexit black hole – hundreds of billions taken out of our economy when we need it most. Given how bad the outlook is, it’s no wonder the Chancellor doesn’t want to have to do another Autumn Statement.’

Tim Farron, Leader of the Liberal Democrats

‘The Chancellor’s strong focus on the growth requirements of our cities, regions and nations will not go unnoticed in business communities across the UK.’

Adam Marshall, Director General of the British Chambers of Commerce

‘Today’s OBR forecast shows that the average annual wage will be £1,000 lower in 2020 than predicted at the Budget. And this is on top of wages still having not recovered to their 2007 levels.’

Frances O’Grady, General Secretary of the Trades Union Congress

‘We resolve today to confront [our] challenges head on. To prepare our country to seize the opportunities ahead. And in doing so, to build an economy that works for everyone… and where every corner of this United Kingdom is part of our national success.’

Chancellor Philip Hammond
23 November 2016

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