Summary

Chancellor Philip Hammond has delivered his Autumn Statement 2016, which is the first major review of government finances since the EU Referendum, and Mr Hammond's first major statement since taking responsibility for the work of the Treasury in July 2016. As previously speculated, this will be Mr Hammond's only Autumn Statement as it was confirmed that the government is to move to a single major fiscal event each year. This means that following the Spring 2017 Budget and Finance Bill, Budgets will be delivered in the Autumn, with the first one scheduled to take place in Autumn 2017. However, the Office for Budget Responsibility (OBR) is required by law to produce two forecasts a year - one of these will remain at the time of the Budget, the other will fall in the Spring and the government will therefore respond to it with a new 'Spring Statement'. This change means that we can expect a Finance Bill in Spring/Summer 2017 following the 2017 Budget. The effect of this new approach is that Finance Bills will be introduced following the annual Budget in Autumn, with the desired aim of reaching Royal Assent in the following Spring, before the start of the new tax year. This change in timetable is designed to help Parliament to scrutinise tax changes before the start of the tax year where most will take effect.

In addition to the Budget timetable changes, it has also been confirmed that, from next year, HMRC will publish customer service performance data more regularly and in greater detail. This will include the monthly publication of digital, telephony and postal performance data, as well as new customer complaints data.

Regarding tax, highlights from this Autumn Statement include: - confirmation of the government's commitment to raising the personal allowance to £12,500 and the higher rate threshold to £50,000 by the end of the Parliament. From that point the personal allowance will rise in line with the Consumer Prices Index (CPI);
- affirmed commitment to the 'business tax road map', which sets out plans for major business taxes to 2020 and beyond, including cutting the rate of corporation tax to 17% by 2020, the lowest in the G20, and reducing the burden of business rates by £6.7 billion over the next 5 years;
- fuel duty will be frozen from April 2017 for the seventh successive year. This will save the average driver around £130 a year, compared to pre-2010 fuel duty escalator plans;
- certain changes will be implemented to promote fairness in the tax system, including: - to tackle tax avoidance, the government will strengthen sanctions and deterrents and will take further action on disguised remuneration tax avoidance schemes;
- to ensure multinational companies pay their fair share, following consultation, the government will go ahead with reforms to restrict the amount of profit that can be offset by historical losses or high interest charges;
- Insurance Premium Tax will rise from 10% to 12% in June 2017; and
- to promote fairness and broaden the tax base, the government will phase out the tax advantages of salary sacrifice arrangements.

This newsletter provides a summary of the key tax points from the 2016 Autumn Statement based on the documents released on 23 November 2016. The overview of legislation in draft, providing further information on all tax changes and updates on all tax consultations, will be published on 5 December 2016. Draft Finance Bill clauses, explanatory notes, tax information and impact notes, and responses to consultations will also be published on this date. We will keep you informed of any significant developments.

Personal allowance and basic rate limit for 2017-18

The personal allowance for 2017-18 will be increased to £11,500 (£11,000 in 2016-17), and the basic rate limit will be increased to £33,500 (£32,000 in 2016-17). The additional rate threshold will remain at £150,000 in 2017-18. It was announced that the allowance will rise to £12,500 by the end of Parliament.

The marriage allowance will rise from £1,100 in 2016-17 to £1,150 in 2017-18.

Blind person's allowance will rise from £2,290 in 2016-17 to £2,320 in 2017-18.

Starting rate for savings

The band of savings income that is subject to the 0% starting rate will remain at its current level of £5,000 for 2017-18.

Dates for 'making good' on benefits-in-kind

As announced at Budget 2016 and following a period of consultation, Finance Bill 2017 will include provisions to ensure an employee who wants to 'make good', on a non-payrolled benefit in kind will have to make the payment to their employer by 6 July in the following tax year. 'Making good' is where the employee makes a payment in return for the benefit-in-kind they receive. This reduces its taxable value. This will have effect from April 2017.

Assets made available without transfer of ownership

Existing legislation is to be clarified to ensure that employees will only be taxed on business assets for the period that the asset is made available for their private use. This will take effect from 6 April 2017.

Termination payments

As announced at Budget 2016, from April 2018 termination payments over £30,000, which are subject to income tax, will also be subject to employer NICs. Following a technical consultation, tax will only be applied to the equivalent of an employee's basic pay if their notice is not worked, making it simpler to apply the new rules. The government will monitor this change and address any further manipulation. The first £30,000 of a termination payment will remain exempt from income tax and National Insurance.

Company car tax bands and rates for 2020-21

To provide stronger incentives for the purchase of ultra-low emissions vehicles (ULEVs), new, lower bands will be introduced for the lowest emitting cars. The appropriate percentage for cars emitting greater than 90g CO_2/km will rise by 1 percentage point.

Cars, vans and fuel benefit charges

The company car fuel benefit charge multiplier will be £22,600 for 2017-18 (rising from £22,200 in 2016-17).

The van fuel benefit charge will rise from £598 to £610 for 2017-18.

The van benefit charge will rise from £3,170 to £3,230 for 2017-18.

Life insurance policies

Finance Bill 2017 will contain provisions regarding the disproportionate tax charges that arise in certain circumstances from life insurance policy part-surrenders and part-assignments. This will allow applications to be made to HMRC to have the charge recalculated on a 'just and reasonable' basis. The changes will take effect from 6 April 2017 and are designed to lead to fairer outcomes for policyholders.

NS&I Investment Bond

From Spring 2017, National Savings and Investments (NS&I), the government-backed investment organisation, will offer a new three-year Investment Bond with an indicative rate of 2.2%. The bond will offer the flexibility for investors to save between £100 and £3,000 and will be available to those aged 16 or over.

Personal Portfolio Bonds

As announced at Budget 2016 and following a period of consultation, the government will legislate in Finance Bill 2017 to take a power to amend by regulations the list of assets that life insurance policyholders can invest in without triggering tax anti-avoidance rules. The changes will take effect on Royal Assent of Finance Bill 2017.

ISA, Junior ISA and Child Trust Fund investment limits

The annual subscription limit for Junior ISAs and Child Trust Funds are to rise in line with the Consumer Prices Index (CPI) to £4,128 from 6 April 2017.

As previously announced, the ISA subscription limit will also rise from 6 April 2017, from £15,240 to £20,000.

National Living Wage and National Minimum Wage increases

From April 2017, the National Living Wage (NLW) for those aged 25 and over will increase from £7.20 per hour to £7.50 per hour. The National Minimum Wage (NMW) will also increase from April 2017 as follows:

- for 21 to 24 year olds - from £6.95 per hour to £7.05;
- for 18 to 20 year olds - from £5.55 per hour to £5.60;
- for 16 to 17 year olds - from £4.00 per hour to £4.05;
- for apprentices - from £3.40 per hour to £3.50.

The government announced that £4.3 million is to be spent on helping small businesses to understand the rules, and cracking down on employers who are breaking the law by not paying the minimum wage.

Consultation on reducing money purchase annual allowance

The pension flexibilities introduced in April 2015 gave savers the ability to access their pension savings flexibly, as best suits their needs. 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 money purchase annual allowance (MPAA).

As announced in the Autumn Statement, a consultation has been launched relating to government proposals to reduce the MPAA to £4,000, with effect from April 2017. The consultation will run until 15 February 2017.

Foreign pensions

The tax treatment of foreign pensions is to be more closely aligned with the UK's domestic pension tax regime by bringing foreign pensions and lump sums fully into tax for UK residents, to the same extent as domestic ones. The government will also close specialist pension schemes for those employed abroad ('section 615' schemes) to new saving, extend from five to ten years the taxing rights over recently emigrated non-UK residents' foreign lump sum payments from funds that have had UK tax relief, align the tax treatment of funds transferred between registered pension schemes, and update the eligibility criteria for foreign schemes to qualify as overseas pensions schemes for tax purposes.

The taxation of different forms of remuneration

Employers can choose to remunerate their employees in a range of different ways in addition to a cash salary. The tax system currently treats these different forms of remuneration inconsistently and sometimes more generously. The government will therefore consider how the system could be made fairer between workers carrying out the same work under different arrangements and will look specifically at how the taxation of benefits in kind and expenses could be made fairer and more coherent. Proposed changes in this area are as follows:

- Salary sacrifice - following consultation, the tax and employer National Insurance advantages of salary sacrifice schemes will be removed from April 2017, except for arrangements relating to pensions (including advice), childcare, Cycle to Work and ultra-low emission cars. This will mean that employees swapping salary for benefits will pay the same tax as the vast majority of individuals who buy them out of their post-tax income. Arrangements in place before April 2017 will be protected until April 2018, and arrangements for cars, accommodation and school fees will be protected until April 2021;
- Valuation of benefits in kind - the government is currently reviewing how benefits in kind are valued for tax purposes - a consultation on employer-provided living accommodation, and a call for evidence on the valuation of all other benefits in kind, will be published at Budget 2017;
- Employee business expenses - at Budget 2017, the government will publish a call for evidence on the use of the income tax relief for employees' business expenses, including those that are not reimbursed by their employer.

Legal support

From April 2017, all employees called to give evidence in court will no longer need to pay tax on legal support from their employer. This will help support all employees and ensure fairness in the tax system, as currently only those requiring legal support because of allegations against them can use the tax relief.

Non-domiciled individuals

As previously announced, from April 2017, non-domiciled individuals will be deemed UK-domiciled for tax purposes if they have been UK resident for 15 of the past 20 years, or if they were born in the UK with a UK domicile of origin. Non-domiciled individuals who have a non-UK resident trust set up before they become deemed-domiciled in the UK will not be taxed on income and gains arising outside the UK and retained in the trust.

From April 2017, inheritance tax will be charged on UK residential property when it is held indirectly by a non-domiciled individual through an offshore structure, such as a company or a trust. This closes a loophole that has been used by non-domiciled individuals to avoid paying inheritance tax on their UK residential property.

The government will change the rules for the Business Investment Relief (BIR) scheme from April 2017 to make it easier for non-domiciled individuals who are taxed on the remittance basis to bring offshore money into the UK for the purpose of investing in UK businesses. The government will continue to consider further improvements to the rules for the scheme to attract more capital investment in British businesses by non-domiciled individuals.

Inheritance tax reliefs

From Royal Assent of Finance Bill 2017, inheritance tax relief for donations to political parties will be extended to parties with representatives in the devolved legislatures, as well as parties that have acquired representatives through by-elections. This measure is designed to ensure consistent and fair treatment for all national political parties with elected representatives.

Social Investment Tax Relief (SITR)

From 6 April 2017, the amount of investment social enterprises aged up to 7 years old can raise through SITR will increase to £1.5 million. Other changes will be made to ensure that the scheme is well targeted. Certain activities, including asset leasing and on-lending, will be excluded. Investment in nursing homes and residential care homes will be excluded initially, however the government intends to introduce an accreditation system to allow such investment to qualify for SITR in the future. The limit on full-time equivalent employees will be reduced to 250. The government will undertake a review of SITR within two years of its enlargement.

Offshore funds

UK taxpayers invested in offshore reporting funds pay tax on their share of a fund's reportable income, and capital gains tax (CGT) on any gain on disposal of their shares or units. The government will legislate to ensure that performance fees incurred by such funds, and which are calculated by reference to any increase in the fund's value, are not deductible against reportable income from April 2017 and instead reduce any tax payable on disposal of gains. This equalises the tax treatment between onshore and offshore funds.

Reduction in Universal Credit taper

Under the Universal Credit system, as a person's income increases, their benefit payments are gradually reduced. The taper rate calculates the reduction in benefits as a person's salary increases. Currently, for every £1 earned after tax above an income threshold, a person receiving Universal Credit has their benefit award reduced by 65p and keeps 35p. From April 2017, the taper will be lowered to 63p in the pound, so the claimant will keep 37p for every £1 earned over the income threshold.

National Insurance Contributions

As recommended by the Office of Tax Simplification (OTS), the Class 1 secondary (employer) NIC threshold and the primary (employee) threshold will be aligned from April 2017, meaning that both employees and employers will start paying NICs on weekly earnings above £157.

As announced at Budget 2016, Class 2 NICs will be abolished from April 2018, simplifying National Insurance for the self-employed. The Autumn Statement 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.

For 2017-18, Class 2 NICs will be payable at the weekly rate of £2.85 (rising from £2.80) above the small profits threshold of £6,025 per year (rising from £5,965 in 2016-17).

Class 3 voluntary contributions will rise from £14.10 to £14.25 per week for 2017-18.

For 2017-18, the lower profits limit for Class 4 NICs will be £8,164 and the upper profits limit will be £45,000. Contributions remain at 9% between the two thresholds and at 2% above the upper profits limit.

Simplifying PSAs

As announced at Budget 2016 and following a period of consultation, Finance Bill 2017 will include provisions to simplify the process for applying for and agreeing the Pay as You Earn Settlement Agreement (PSA) process. Broadly, a PSA allows an employer to make one annual payment to cover all the tax and National Insurance due on small or irregular taxable expenses or benefits for employees. Further details will be published in due course. The changes will have effect in relation to agreements for the 2018-2019 tax year and subsequent tax years.

Capital allowances: first-year allowance for electric charge-points

From 23 November 2016, businesses will be able to claim a 100% first-year allowance (FYA) in relation to qualifying expenditure incurred on the acquisition of new and unused electric charge-points. The allowance will be available until 31 March 2019 for corporation tax purposes and 5 April 2019 for income tax purposes.

The measure complements the 100% FYA for cars with low carbon dioxide (CO_2) emissions, and the 100% FYA for cars powered by natural gas, biogas and hydrogen.

Employee shareholder status

The income tax reliefs and capital gains tax exemption will no longer be available with effect from 1 December 2016 on any shares acquired in consideration of an employee shareholder agreement entered into on or after that date. Any individual who has received independent advice regarding entering into an employee shareholder agreement before the 23 November 2016 will have the opportunity to do so before 1 December (but not later) and still receive the income and CGT tax advantages that were known to be available at the time the individual received the advice. The effective date is to be the 2 December where independent legal advice is received on 23 November prior to 1.30pm. Corporation tax reliefs for the employer company are not affected by this change.

New tax allowance for property and trading income

As announced at Budget 2016, the government will create two new income tax allowances of £1,000 each, for trading and property income. Individuals with trading income or property income below the level of the allowance will no longer need to declare or pay tax on that income. The trading income allowance will now also apply to certain miscellaneous income from providing assets or services.

Expanding the museums and galleries tax relief

The new museums and galleries tax relief is to be expanded to include permanent exhibitions. The new relief, which starts in April 2017, was originally only intended to be available for temporary and touring exhibitions. The rates of relief will be set at 20% for non-touring exhibitions and 25% for touring exhibitions. The relief will be capped at £500,000 of qualifying expenditure per exhibition. The relief will expire in April 2022 if not renewed. In 2020, the government will review the tax relief and set out plans beyond 2022.

Tax deductibility of corporate interest expense

Following recent consultation, the government will introduce rules that limit the tax deductions that large groups can claim for their UK interest expenses from April 2017. These rules will limit deductions where a group has net interest expenses of more than £2 million, net interest expenses exceed 30% of UK taxable earnings and the group's net interest to earnings ratio in the UK exceeds that of the worldwide group. The provisions proposed to protect investment in public benefit infrastructure are also to be widened. Banking and insurance groups will be subject to the rules in the same way as groups in other industry sectors.

Reform of loss relief

Following consultation, the government will legislate for reforms announced at Budget 2016 that will restrict the amount of profit that can be offset by carried-forward losses to 50% from April 2017, while allowing greater flexibility over the types of profit that can be relieved by losses incurred after that date. The restriction will be subject to a £5 million allowance for each standalone company or group.

In implementing the reforms the government will take steps to address unintended consequences and simplify the administration of the new rules. The amount of profit that banks can offset with losses incurred prior to April 2015 will continue to be restricted to 25% in recognition of the exceptional nature and scale of losses in the sector.

Bringing non-resident companies' UK income into the corporation tax regime

The government is considering bringing all non-resident companies receiving taxable income from the UK into the corporation tax regime. At Budget 2017, the government will consult on the case and options for implementing this change. The government wants to deliver equal tax treatment to ensure that all companies are subject to the rules which apply generally for the purposes of corporation tax, including the limitation of corporate interest expense deductibility and loss relief rules.

Substantial Shareholding Exemption (SSE) reform

Following consultation, the government will make changes to simplify the rules, remove the investing requirement within the SSE and provide a more comprehensive exemption for companies owned by qualifying institutional investors. The changes will take effect from April 2017.

Authorised investment funds: dividend distributions to corporate investors

The rules on the taxation of dividend distributions to corporate investors are to be modernised in a way which allows exempt investors, such as pension funds, to obtain credit for tax paid by authorised investment funds. Proposals and draft legislation will be published in early 2017.

Corporation tax deduction for contributions to grassroots sport

As announced at Autumn Statement 2015 and following consultation, in Finance Bill 2017 the government will expand the circumstances in which companies can get corporation tax deductions for contributions to grassroots sports from 1 April 2017.

Off-payroll working rules

Following consultation, the government will reform the off-payroll working rules in the public sector from April 2017 by moving responsibility for operating them, and paying the correct tax, to the body paying the worker's company. This reform aims to tackle high levels of non-compliance with the current rules and means that those working in a similar way to employees in the public sector will pay the same taxes as employees. In response to feedback during the consultation, the 5% tax-free allowance will be removed for those working in the public sector, reflecting the fact that workers no longer bear the administrative burden of deciding whether the rules apply.

Bank levy reform

As announced at Summer Budget 2015, the bank levy charge will be restricted to UK balance sheet liabilities from 1 January 2021. Following consultation, the government confirms that there will be an exemption for certain UK liabilities relating to the funding of non-UK companies and an exemption for UK liabilities relating to the funding of non-UK branches. Details will be set out in the government's response to the consultation, with the intention of legislating in Finance Bill 2017-18. The government will continue to consider the balance between revenue and competitiveness with regard to bank taxation, taking into account the implications of the UK leaving the EU.

Hybrids and other mismatches

The government will legislate in Finance Bill 2017 to make minor changes to ensure that the hybrid and other mismatches legislation works as intended. The changes will have effect from 1 January 2017.

Clarification of tax treatment for partnerships

Following consultation, the government will legislate to clarify and improve certain aspects of partnership taxation to ensure profit allocations to partners are fairly calculated for tax purposes. Draft legislation will be published shortly for technical consultation.

Tax-advantaged venture capital schemes

The rules for the tax-advantaged venture capital schemes (Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCTs)) are being amended to:

- clarify the EIS and SEIS rules for share conversion rights, for shares issued on or after 5 December 2016;
- provide additional flexibility for follow-on investments made by VCTs in companies with certain group structures to align with EIS provisions, for investments made on or after 6 April 2017; and
- introduce a power to enable VCT regulations to be made in relation to certain shares for share exchanges to provide greater certainty to VCTs.

In addition, a consultation will be carried out into options to streamline and prioritise the advance assurance service.

The government will not be introducing flexibility for replacement capital within the tax-advantaged venture capital schemes at this time, and will review this over the longer term.

Gift Aid digital

As announced at Budget 2016, intermediaries are to be given a greater role in administering Gift Aid, with the aim of simplifying the Gift Aid process for donors making digital donations.

Indirect taxes

Landfill tax

As announced at Budget 2016, the definition of a taxable disposal for landfill tax purposes is to be amended in order to bring greater clarity and certainty. This will come into effect after Royal Assent of Finance Bill 2017, on a day to be appointed by Treasury Order.

Insurance Premium Tax increase

Insurance Premium Tax (IPT) will increase from 10% to 12% from 1 June 2017. IPT is a tax on insurers and it is up to them whether and how to pass on costs to customers.

Air Passenger Duty (APD): regional review

A summary of responses is to be published shortly relating to a recent consultation on how the government can support regional airports in England from the potential effects of APD devolution. Given the strong interaction with EU law, the government does not intend to take specific measures now, but intends to review this area again after the UK has exited from the EU.

Soft Drinks Industry Levy

Draft legislation for the Soft Drinks Industry Levy will be published on 5 December 2016.

Tax administration

Tax evasion and compliance

Emerging insolvency risk

HMRC intend to develop their ability to identify emerging insolvency risk, using external analytical expertise. HMRC will use this information to tailor their debt collection activity, improve customer service and provide support to struggling businesses.