AUTUMN STATEMENT 2012

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INTRODUCTION

As expected, the Office for Budget Responsibility (OBR) downgraded its forecast for growth for the year 2012. The OBR believes that the UK economy will shrink by 0.1 per cent in 2012, compared with its Budget 2012 forecast of 0.8 per cent growth.

Against this challenging backdrop, the Chancellor's 2012 Autumn Statement outlined a range of measures aimed at making the savings needed to protect the economy and invest in programmes for growth.

Significant announcements included the details of a new £1 billion state-backed Business Bank to improve access to finance for small businesses. There will be an increase in the personal income tax allowance to £9,440 from April 2013 and the main rate of corporation tax will be cut to 21 per cent from April 2014.

The planned January 2013 three pence rise in fuel duty has been scrapped and the annual pension contribution allowance will decrease from £50,000 to £40,000 in 2014.

Whitehall budgets will be cut by one per cent in 2013 and two per cent in 2014, generating an intended £5.5 billion for investment in infrastructure. However, HM Revenue & Customs will be given an extra £77 million to tackle tax avoidance and evasion by companies and wealthy individuals.

This report provides a concise summary of the announcements made in the Autumn Statement.

Please contact us to discuss measures that may be relevant to you or your business.

THE ECONOMY

'It is a hard road, but Britain is on the right track'
the Chancellor George Osborne

KEY POINTS

- GDP growth forecasts downgraded to -0.1% in 2012 and 1.2% in 2013
- Deficit continues to fall
- Debt will not reduce until 2016/17
- Unemployment is expected to peak at 8.3% in 2013 instead of 8.7%.

BACKDROP

Chancellor George Osborne began his speech with the words ‘the British economy is healing’, before describing the 2008/09 financial crisis as the ‘biggest economic crash of our life times’.

He observed that deep-rooted problems continue to affect us all, both at home and overseas; but indicated that the Coalition Government remains committed to its deficit reduction plan.

GROWTH

It came as no surprise that the GDP forecast for this year was downgraded from 0.8 per cent at the March Budget to -0.1 per cent; particularly after official Office for National Statistics data revealed that the UK fell back into recession in the second quarter of 2012.

The Office for Budget Responsibility (OBR) now expects GDP to grow 1.2 per cent in 2013, 2 per cent in 2014, 2.3 per cent in 2015, 2.7 per cent in 2016 and 2.8 per cent in 2017. These growth rates are much lower than previously forecast, which the OBR claims is due to the economy performing less strongly than expected back in March; largely down to the weakness of net exports.

In response to this, and the challenges posed by the growth of emerging economies such as China, India and Brazil, this year’s Autumn Statement sets out measures intended to strengthen the economy and promote growth through investment in infrastructure, the tax system, and business.

DEFICIT REDUCTION

Perhaps the most unexpected and positive news for the UK economy is that the deficit continues to fall, with or without the impact of the newly announced Asset Purchase Facility (APF).

In 2010 the deficit stood at 11.2 per cent – the highest in our peace-time history. Last year, the deficit had reduced to 7.9 per cent and is forecast to fall to 6.9 per cent this year if the APF is included – 7.7 per cent if not.

WHAT ABOUT DEBT?

In George Osborne’s words, ‘the tougher economic conditions mean that while our deficit is forecast to go on falling, instead of taking three years to get our debt falling, it’s going to take four.’ The point at which debt starts to fall has been delayed by another year to 2016/17.

According to the OBR, public sector net debt will be at 74.7 per cent of GDP this year and will continue to increase until 2016, when it will fall to 79.2 per cent from its peak of 79.9 per cent in 2015/16.

THE GOOD NEWS

The good news is that employment is on the up. Since early 2010, the private sector has created 1.2 million new jobs – 600,000 more than predicted. Businesses received an unexpected boost in the Autumn Statement, with a cut in the main corporation tax rate to 21 per cent from 2014 and a ten-fold increase in the Annual Investment Allowance (AIA).

WHAT DOES THIS MEAN FOR YOU?

As an individual or business owner, the current state of the UK economy means that you may wish to proceed carefully. The onus is on care and consideration when it comes to everything from investing, to borrowing funds. There are also opportunities to be seized, but not without risk, it is vital to seek professional advice.

Please contact us to find out how we can help you and your business during this slow economic recovery.

PERSONAL

INCOME TAX

From 6 April 2013, the basic personal allowance will increase to £9,440, which is £235 more than previously announced in the 2012 Budget. The total increase in the personal allowance is £1,335. This will benefit an estimated 24.4 million individuals and the rise of £1,335 is the largest ever cash increase. It is projected that since 2011 the cumulative increases in the personal allowance will have taken 2.2 million out of paying any income tax whatsoever.

The income limit for age-related allowances will increase by £700 from £25,400 to £26,100 in 2013/14. The married couples allowance will increase to a maximum of £7,915 from 6 April 2013 (£7,705 in 2012/13) and a minimum of £3,040 (£2,960 in 2012/13).

Higher rate taxpayers will see increases in the higher rate threshold of one per cent for 2014/15 and 2015/16 to £41,865 and £42,285 respectively. This will be the first cash increase in the higher rate threshold this Parliament.

CAPITAL GAINS TAX

Over the same period, the capital gains tax exemption will benefit from a one per cent increase each year. Therefore the exempt amount will be £11,000 in 2014/15 and £11,100 in 2015/16.

INHERITANCE TAX

The inheritance tax nil-rate band will increase by one per cent from 6 April 2015 to £329,000. This will be the first increase since the threshold was frozen until 5 April 2015.

PENSION TAX RELIEF

Government changes to pension tax relief will be implemented from the 2014/15 tax year. The lifetime allowance for pension contributions will reduce from £1.5 million to £1.25 million and the annual allowance will also reduce from £50,000 to £40,000. Reports indicate that 98 per cent of individuals approaching retirement age have a pension pot worth less than £1.25 million and 99 per cent of individuals making pension savings contribute less than £40,000 annually.

INDIVIDUAL SAVINGS ACCOUNTS AND CHILD TRUST FUND

In 2013/14, Individual Savings Account (ISA) subscription limits will be increased from £11,280 to £11,520. Of this amount, the cash subscription limit is restricted to a maximum of £5,760. At the same time the Junior ISA and Child Trust Fund subscription limits will both increase from £3,600 to £3,720.

PATENT ROYALTY INCOME TAX RELIEF

It was announced that income tax relief for the payment of patent royalties by individuals and other persons will be abolished. Small firms are unlikely to be affected as patent royalties paid as part of a trade are deductible in computing profits of that trade. However, a small number of individuals and households who pay patent royalties, other than as part of a trade, will be affected.

BUSINESS

CORPORATION TAX

The Government announced that the main rate of corporation tax will be reduced to 21 per cent from April 2014. This is an addition to the one per cent reduction already announced. As previously announced, the main rate of corporation tax will reduce to 23 per cent from 24 per cent on 1 April 2013, with the Small Profit rate remaining at 20 per cent.

CAPITAL ALLOWANCES

From 1 January 2013, the Annual Investment Allowance (AIA) will increase ten-fold from £25,000 to £250,000 for two years, in a measure principally designed to encourage and support investment by small- and medium-sized businesses in plant and machinery.

TAXATION OF CONTROLLING PERSONS

The Government has decided not to pursue the proposal to tax, at source, those who meet the definition of a ‘controlling person’. It is believed that the new approach adopted by HM Revenue & Customs and the existing measures for tackling IR35 are sufficient to avoid the loss of tax revenue through disguised employment. The legislation will be strengthened to ensure there is no doubt that the rules apply to office holders.

SMALL BUSINESS RATE RELIEF AND PROPERTY RATES

The temporary doubling of the Small Business Rate Relief scheme has been extended until April 2014. It is estimated that over 500,000 businesses will benefit from this extension.

Subject to state aid approval, an exemption from empty property rates will be available for 18 months on all newly-built commercial property that are completed between 1 October 2013 and 30 September 2016.

CASH BASIS OF ACCOUNTING

The Autumn Statement confirmed that the new cash basis for small, unincorporated businesses with receipts of up to £77,000 to calculate their tax will be introduced as planned from April 2013. The use of flat rates to calculate some expenses will also be introduced.

EMPLOYEE SHARE OWNERSHIP

Following a recent consultation on providing shares to employees in return for giving up employment rights, the Government will go ahead with the proposals, as planned from 6 April 2013. Amendments to the original plans are being considered, which include the first £2,000 of shares received under the new status being free of income tax and national insurance.

COMPANY CARS AND VANS

From 2013/14, there will be further tax increases for some company car drivers as the car fuel benefit charge multiplier will see another increase from £20,200 to £21,100. The van fuel benefit charge will also increase from £550 to £564.

FUNDING FOR BUSINESS

The Government has announced further support for UK businesses by seeking to improve access to finance. Several schemes will be established to promote trade and investment, which include a scheme providing up to £1.5 billion of loans for the purchase of UK exports when there is no other suitable finance available. The scheme is intended to provide UK firms with greater confidence to bid for export contracts knowing that finance will be available.

BUSINESS BANK

In September 2012, it was announced that the Government would create a Business Bank. This bank will have £1 billion of additional capital to stimulate the private sector market for long-term capital and address structural gaps in the supply of finance to small- and medium-sized companies. It is reported that the Business Bank will be operational from spring 2013, with the institution becoming fully operational in autumn 2014. Further announcements are expected before the end of December 2012.

BUSINESS GROWTH FUND INVESTMENT

It has long been considered that banks are not doing enough to help small- and medium-sized enterprises. The £2.5 billion Business Growth Fund (introduced by Barclays, HSBC, Royal Bank of Scotland and Lloyds TSB to invest in small business equity) is budgeting to substantially increase its level of investment to £200 million in 2013.

START-UP LOANS

The Government will provide £72 million of follow-on funding for start-up loans.

OTHER BUSINESS MEASURES

From next year, the Bank Levy will be increased to 0.130 per cent.

PENSIONS AND SAVINGS

INDIVIDUAL SAVINGS ACCOUNTS AND CHILD TRUST FUND

The investment subscription limits have been increased, as previously announced, in line with inflation.

The investment limits for Individual Savings Accounts (ISAs) and Child Trust Fund accounts are as follows:

Investment limits	2013/14	2012/13
Overall investment limit	£11,520	£11,280
Including cash limit	£5,760	£5,640
Junior ISA limit	£3,720	£3,600
Child Trust Fund limit	£3,720	£3,600

PENSION TAX RELIEF

With effect from the tax year 2014/15 there are changes to the annual allowance for pensions and the standard lifetime allowance.

THE ANNUAL ALLOWANCE

The annual allowance will be reduced from £50,000 to £40,000 for the tax year 2014/15. The annual allowance is the maximum amount of an individual's annual pension contributions that attract tax relief.

You will be affected by the change if your total pension contributions made in 'pension input periods' that end in a tax year are greater than the annual allowance plus any available unused annual allowance that you can carry forward from the three previous tax years. The approach to your contributions being tested against the annual allowance depends on the type of your pension scheme. Your pension scheme administrator should advise you if your pension contributions in their scheme are more than the annual allowance.

THE CARRY FORWARD RULES

If your total pension contributions for the tax year are more than the annual allowance you may still be able to claim tax relief as you can carry forward any unused allowance from the previous three years to the current tax year. You will only have to pay tax on any amount of pension contributions in excess of the total of the annual allowance for the tax year plus any unused annual allowance you carry forward.

Thus, these carry forward rules are not being changed. The effect of this is that for 2014/15 you will be able to carry forward up to £50,000 in unused allowances from each of the tax years 2011/12 through to 2013/14.

LIFETIME ALLOWANCE

The lifetime allowance is to be reduced from £1.5 million to £1.25 million with effect from the 2014/15 tax year onwards.

The lifetime allowance is the maximum amount of pension benefit you can build up over your life that is available for tax relief. If, when you take your pension benefits, these are worth more than the lifetime allowance there is a tax charge (the lifetime allowance charge) on the excess.

The lifetime allowance charge is a tax charge paid on any excess in the value of your pension benefits over the lifetime allowance limit. The rate depends on how this excess is paid to you. If the amount over the lifetime allowance is paid as:

- a lump sum – the rate is 55 per cent
- a taxable pension – the rate is 25 per cent.

FIXED PROTECTION 2014

Those individuals who apply for fixed protection 2014 will have a lifetime allowance of the greater of £1.5 million and the lifetime allowance (£1.25 million from April 2014). There are certain conditions that have to be met – please contact us for further information.

It is proposed that individuals with fixed protection 2014 will be able to take a tax-free lump sum at the time they take a pension. The maximum lump sum that can be taken is up to 25 per cent of their pension rights, subject to an overall limit of 25 per cent of £1.5 million. However, some scheme rules may only allow a smaller tax-free lump sum to be taken.

Individuals will be able to apply for fixed protection 2014 after the legislation comes into force, which is expected to be in summer 2013. A signed form must be lodged with HM Revenue & Customs by 5 April 2014.

It is also planned that where an individual dies before 6 April 2014, and any lump sum death benefits are not paid until on or after 6 April 2014, then the lump sum will be tested against the lifetime allowance at the time of the individual's death rather than at the point the lump sum is paid.

PENSIONS DRAWDOWN POLICY

The income drawdown limit which is currently capped at 100 per cent of the value of an equivalent annuity is to increase to 120 per cent.

The income drawdown provisions allow pensioners to take an income from their pension fund while the fund remains invested, and thus without taking an annuity.

BENEFITS

BENEFITS

The cost of welfare has grown year on year and it is the Government's objective to rein in the cost to the Exchequer while also remaining fair. In the decade to 2007/08 welfare spending increased by around 20 per cent in real terms, despite the growth of the economy and rising employment. Measures have already been announced that will save £18 billion in 2014/15, but nevertheless welfare still costs over £200 billion a year. The Autumn Statement announces further savings of £3.7 billion.

It was announced that most working age benefits will be uprated by one per cent from April 2013. These include Job Seekers Allowance, Employment Support Allowance and Income Support. This also applies to Child Tax Credit (CTC) and Working Tax Credit (WTC), except elements that are already frozen in 2013/14 and the family element.

Child benefit will be uprated by one per cent in both 2014/15 and 2015/16.

STATE PENSION

From April 2013 the basic state pension will increase by £2.70 to £110.15 per week.

UNIVERSAL CREDIT

As previously announced, Universal Credit will be introduced in October 2013. This will replace CTC and WTC.

TRAVEL

FUEL DUTY

The proposed fuel duty increase, which was set to add over three pence to a litre of fuel, has been permanently abandoned. This increase was originally due to come into effect on 1 January 2013. The next fuel duty increase has been deferred from 1 April 2013 to 1 September 2013. This means that the fuel duty will not have increased for nearly two and a half years. Thereafter any increase will apply on 1 September each year rather than 1 April.

RAIL FARES

Those who travel by train are accustomed to the above-inflation increases that are introduced in January each year. It has been announced that the increase in rail fares will be limited to the Retail Price Index (3.2 per cent in October) plus one per cent for two years. It is reported that this will benefit over 250,000 annual rail season ticket holders.

COMPANY CARS AND VANS

From 2013/14 there will be further tax increases for some company car drivers as the car fuel benefit charge multiplier increases from £20,200 to £21,100. The van fuel benefit charge will also increase from £550 to £564.

OTHER ANNOUNCEMENTS

TAX EVASION

Recent publicity regarding the non or minimal payment of corporation tax has shone the spotlight on the importance of HM Revenue & Customs being more effective in maximising the collection of tax. There are probably few who regard us as having a soft tax regime, but it is evident there are those that escape paying what some regard as their moral obligation. While time will tell what changes there may be in the taxation of profits of companies such as Amazon, Google, Starbucks and others, the announcements in today's Autumn Statement demonstrate there still remains tax that HM Revenue & Customs should be collecting.

The fact is that the overwhelming majority of people pay the right tax. HM Revenue & Customs makes it clear that 'closing in on tax evasion' is not about these people. It seeks to assure all honest taxpayers that they are determined to tackle those who break the law by not paying the tax they owe or who try to mislead and attempt to evade their taxes. It is hoped that the publicity at the beginning of this month will focus their attention on the tax payments of some of those global companies who are doing business here in the UK. In order to provide the tax authorities with the necessary funds the Government is investing a further £77 million into avoidance and evasion work.

A £14 BILLION LOSS TO THE EXCHEQUER?

HM Revenue & Customs believes that 93 per cent of tax due is paid. The latest estimates suggest that those operating in the 'hidden economy' and those who undertake organised criminal attacks on the tax system, deprive the public purse of around £14 billion – 46 per cent of all unpaid taxes.

As a result of the focus of resources in 2011/12 HM Revenue & Customs reported that they had increased compliance revenue by £2 billion and they expect their compliance activities will raise £22 billion a year by 2014/15.

ACTIONS HM REVENUE & CUSTOMS HAS ALREADY TAKEN:

- Signed an agreement with Switzerland to recover billions of pounds in previously uncollected tax
- Created an Offshore Coordination Unit, dedicating an additional 100 investigators to tackle tax evasion
- Established a team dealing with the tax affairs of about 5,000 of the wealthiest individuals that has, since 2009, raised an additional £500 million in tax.

HM Revenue & Customs has announced that during the coming four months they will launch a series of more than ten different initiatives – many trust they will also ensure that foreign owned companies contribute corporation tax to the Exchequer.