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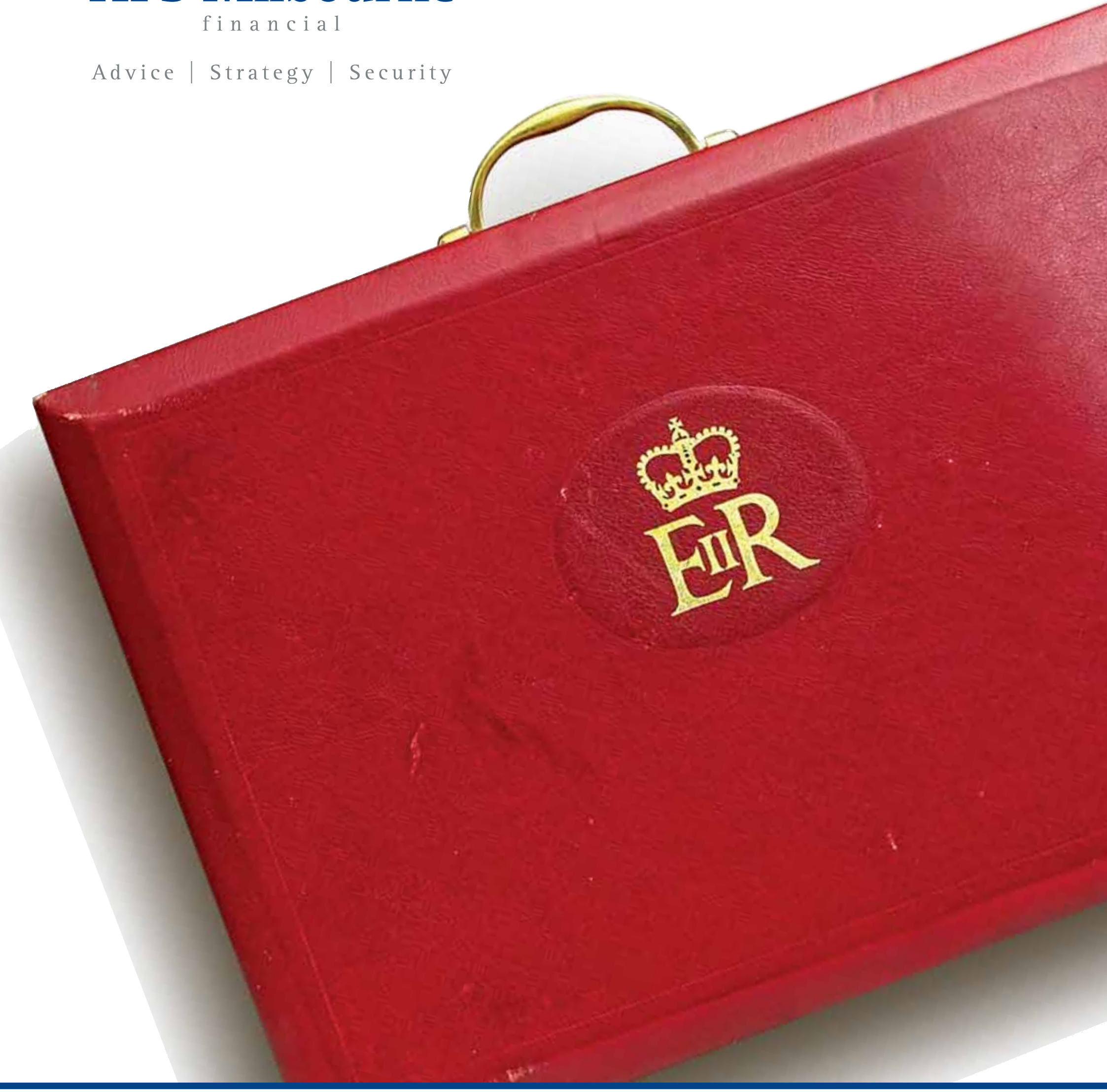

2014 Autumn Statement

Highlights

The Autumn Statement looked very like a mini-Budget, with several major new provisions and a raft of other measures. The key points included the following:

- Residential stamp duty land tax (SDLT) has been restructured with effect from midnight on 3 December. Buyers will now pay a rate of duty on the portion of the purchase amount that falls within each band (like income tax).
- The rates and thresholds of SDLT have been adjusted accordingly: there is no tax on the first £125,000 of any residential property transaction, with the top rate at 12% on the slice of value above £1.5 million. Commercial SDLT rates remain unchanged.
- Spouses and civil partners will be able to inherit their deceased spouses' or partners' ISAs and ISA allowances for deaths from 3 December 2014.
- The tax treatment of pension annuity payments to dependants will be brought into line with the treatment of 'flexi-access' withdrawals. So, if an individual dies before the age of 75, their surviving beneficiary's income will be tax free.
- Non-domiciled tax payers will have to pay more to be on the remittance basis of taxation. The government is consulting on making a remittance basis election apply for a minimum of three years.
- There are a very large number of anti-avoidance measures, including one to counter tax avoidance by multinational companies that earn profits in the UK but use avoidance techniques to divert these profits offshore. This diverted profits tax will be 25%, applied from 1 April 2015.
- Other measures include freezing fuel duty and the abolition of air passenger duty for children under 12 from 1 May 2015 (and for under-16s a year later).

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ECONOMIC BACKGROUND

"As one of the most open, trading economies in the world, with a large financial sector, Britain cannot be immune to the risks in the global economy."
George Osborne

In March, George Osborne presented his Budget against a background of an economy that was recovering strongly. Nine months on, the Office for Budget Responsibility (OBR) has further increased its forecasts for growth in 2014 (to 3%) and 2015 (to 2.4%). However, from 2016 onwards the OBR's growth forecasts have been cut, reflecting expectations of weak UK productivity growth, a subdued global trade environment and scheduled real terms cuts in government expenditure.

The recent uplift in economic growth has not been accompanied by any short term improvement in the government's financial position, largely because of disappointing income tax revenues. The OBR now expects government borrowing for 2014/15 to be £91.3 billion, £4.9 billion over its previous target. For the coming year, borrowing is also projected to be well above the OBR's March Budget forecast – £75.9 billion rather than £68.3 billion. Thereafter matters start to improve with the deficit turning into a small surplus by 2018/19 – virtually the same as projected back in March.

The similar final result hides major changes in both government receipts and expenditure. By 2018/19 the OBR expects receipts to be £25.3 billion below its March forecast. However, this is offset by significant cuts in expenditure and lower interest costs on government debt, thanks to continued low interest rates.

With debt at such high levels, it is perhaps surprising that the measures announced in the Autumn Statement will add £1 billion to borrowing in 2015/16. Three-quarters of that increase is due to the revised stamp duty land tax structure.

STAMP DUTY AND PROPERTY

Stamp duty land tax (SDLT)

The calculation basis for SDLT on residential property will be changed with effect from 4 December 2014. Instead of the 'slab' approach, in which one rate of tax applies to the entire property value, tiered rates will apply to the portion of the purchase price within each of a set of five bands, as shown in the table opposite.

Slice of property value (£)	Rate (%)
0 -125,000	Nil
125,001 - 250,000	2
250,001 - £925,000	5
925,001 - 1,500,000	10
1,500,001 +	12

The net effect will be to reduce SDLT for 98% of homebuyers: only properties valued at more than £937,500 will attract a higher SDLT charge than at present.

Illustrative SDLT liability and effective rate before 4 December 2014 and from 4 December 2014

Property value (£)	SDLT due before 4/12/2014 (£)	SDLT from 4/12/2014 (£)	Change in SDLT due (£)
150,000	1,500	500	-1,000
200,000	2,000	1,500	-500
250,000	2,500	2,500	0
300,000	9,000	5,000	-4,000
400,000	12,000	10,000	-2,000
500,000	15,000	15,000	0
600,000	24,000	20,000	-4,000
750,000	30,000	27,500	-2,500
1,000,000	40,000	43,750	3,750
1,500,000	75,000	93,750	18,750
2,000,000	100,000	153,750	53,750

"It's time we fundamentally changed this badly-designed tax on aspiration."
George Osborne

Transitional rules will allow buyers who have already exchanged on a home but have not completed before 4 December 2014 to choose whether to pay SDLT under the existing or new rules.

There are no changes to SDLT rules for non-residential property or for residential properties bought using corporate envelopes.

Annual tax on enveloped dwellings (ATED)

The rates of ATED for properties worth over £2 million will be increased by 50% above inflation. From 1 April 2015 to 31 March 2016, the charge on residential properties owned through a company and worth over £2 million but not more than £5 million will be £23,350; for properties worth over £5 million but not more than £10 million the charge will be £54,450; for properties worth over £10 million but not more than £20 million the charge will be £109,050; and for properties worth more than £20 million the charge will be £218,200.

"Out of the red and into the black for the first time in a generation – a country that inspires confidence around the world because it seeks to live within its means."
George Osborne

PERSONAL TAX

Income tax and allowances

The personal allowance will be increased to £10,600 for 2015/16. The higher rate threshold, above which individuals pay income tax at 40%, will rise to £42,385 for 2015/16. The national insurance upper earnings and upper profits limits will increase in line with the higher rate threshold. The basic, higher and additional rates of income tax for 2015/16 will remain at their 2014/15 levels.

The government will continue consulting on whether to restrict the income tax personal allowance for non-residents. However, it was announced that there will be no change before April 2017.

Non-domiciled individuals

There will be an increase in the annual charge paid by non-domiciled individuals who are resident in the UK and wish to use the remittance basis of taxation. The charge paid by people who have been UK resident for seven out of the last nine years will remain at £30,000. But the charge for UK residents in 12 out of the last 14 years will increase from £50,000 to £60,000. There will also be a new charge of £90,000 for people who have been UK resident for 17 of the last 20 years. The government will also consult on making the election apply for a minimum of three years.

Employee benefits and expenses

The administration of employee benefits and expenses will be simplified. From April 2015 there will be a statutory exemption for trivial benefits in kind costing less than £50. From April 2016, the £8,500 threshold below which employees do not pay income tax on certain benefits in kind will be replaced with new exemptions for carers and ministers of religion. A new exemption will be introduced for reimbursed expenses but it will not be available if it is used in conjunction with salary sacrifice.

Travel expenses that local authorities pay to councillors will be exempt from income tax and employee NICs from 6 April 2015. Mileage payments will be limited to the Approved Mileage Allowance Payment rates.

"From next April, we will trust people with control over their own pensions."
George Osborne

PENSIONS AND SAVINGS

Pension reforms

The Chancellor re-announced many of the measures currently before Parliament in the Taxation of Pensions Bill. However, he also announced one further change from 6 April 2015 for pension annuities. The beneficiaries of individuals who die under the age of 75 with a joint life or guaranteed term annuity will be able to receive any future payments from such policies tax free. The tax rules will also be changed to allow joint life annuities to be passed on to any beneficiary.

State pensions

The basic state pension will be increased by 2.5%. The standard minimum income guarantee in pension credit will rise by the £2.85 a week cash increase in the basic state pension. As a consequence of this increase the full single tier state pension will rise to at least £151.25 per week.

Changes to notional income rules

To assess means-tested benefits for those over the pension credit qualifying age, there will be a change to the notional income rules applied to pension pots which have not been accessed, or have been accessed flexibly, from 150% to 100% of the income from an equivalent annuity, or the actual income taken, if higher.

Pension tax relief – the age 75 rule

Following informal consultation since the Budget, the government has decided not to alter the age limit at which tax relief can be claimed on pension contributions. This will remain at age 75.

Venture capital changes

The government will seek EU approval to increase the investment limit for social investment tax relief (SITR) up to a maximum of £15 million per organisation and to extend the relief to small-scale community farms and horticultural activities. The changes will come into effect on or after 6 April 2015, subject to state aid clearance. Special purpose vehicles for subcontracted and spot-purchase social impact bonds will be made eligible for SITR through secondary legislation in autumn 2015. The government will consult in early 2015 on introducing a social venture capital trust (VCT).

"Pass on your ISA tax free. Pass on your pension tax free. We are delivering fairness for savers."
George Osborne

All community energy generation undertaken by qualifying organisations will be eligible for SITR with effect from the date of the expansion of SITR, at which point it will cease to be eligible for the enterprise investment scheme (EIS), seed enterprise investment scheme (SEIS) and VCTs.

All other companies benefiting substantially from subsidies for the generation of renewable energy will be excluded from also benefiting from EIS, SEIS and VCTs with effect from 6 April 2015.

Individual savings accounts (ISAs)

From April 2015, the ISA allowance will rise to £15,240.

If an ISA saver in a marriage or civil partnership dies on or after 3 December 2014, their spouse or civil partner will effectively inherit their ISA tax advantages. From 6 April 2015, surviving spouses will be given an additional ISA allowance equal to the deceased's ISA savings on top of their usual allowance.

Peer to peer lending

A new relief will be introduced allowing individuals who lend through peer to peer (P2P) platforms to offset any losses from loans which go bad against other P2P income. It will be effective from April 2016 and individuals will be able to make a claim for relief on losses incurred from April 2015.

The introduction of a withholding regime for income tax to apply across all P2P lending platforms from April 2017 will be the subject of a future consultation.

BUSINESS TAX

National insurance contributions and employee tax

Employer NICs up to the upper earnings limit will be abolished for apprentices aged under 25 years from April 2016.

The annual £2,000 Employment Allowance for employer NICs will be extended to care and support workers from April 2015.

The government has decided not to proceed with changes to the taxation of employee shares that would have introduced a 'marketable security'.

"The government has succeeded in making Britain the most entrepreneurial economy in Europe."

George Osborne

Television productions and orchestras

The government will explore with industry whether to reduce the minimum UK expenditure for high-end television relief from 25% to 10% and modernise the cultural test. The aim is to bring the TV relief in line with film tax relief. From 1 April 2015, there will also be a new tax relief for the production of children's television programmes at a rate of 25% on qualifying production expenditure. There will be consultations in early 2015 on the introduction of an orchestra tax relief from 1 April 2016.

Research and development (R&D) tax credits

From 1 April 2015, the rate of the above-the-line credit for qualifying R&D expenditure will be raised from 10% to 11%. The rate of the small and medium enterprise scheme will be increased from 225% to 230%. Qualifying expenditure for R&D tax credits will be restricted so that the costs of materials incorporated in products that are sold are not eligible, with effect from 1 April 2015. An advanced assurance scheme will be introduced for small businesses making their first claim for R&D tax credits.

Corporate debt

There will be wide-ranging changes to the legislation on corporate debt and derivative contracts. This will include a clearer and stronger link between commercial accounting profits and taxation, basing taxable amounts on items of accounting profit or loss. It will also include the introduction of a new relief for companies in financial distress and new rules to protect against tax avoidance.

There will be a new exemption from withholding tax on interest on qualifying private placements (a type of unlisted debt) to help unlock new finance for businesses and infrastructure projects. As part of the review of the legislation on corporate debt, the government will repeal rules concerning loans made to UK companies by a connected company in a non-qualifying territory.

"The government has repeatedly helped small businesses deal with the burden of business rates. We do so again today."
George Osborne

Bank losses and other business tax issues

The government will restrict the amount of a bank's annual profit that can be offset by carried-forward losses to 50% from 1 April 2015. The restriction will apply to losses accruing up to 1 April 2015 and will include an exemption for losses incurred in the first five years of a bank's authorisation.

From 1 January 2015 business contributions to Flood and Coastal Erosion Risk Management (FCERM) projects will become deductible expenditure for corporation tax and income tax.

From 1 April 2015, businesses will be required to account for VAT on the actual consideration received when prompt payment discounts are offered.

Business rates

The doubling of small business rate relief will be continued for a further year from 1 April 2015. The transitional arrangements for properties with a rateable value of £50,000 and below will be extended from 1 April 2015 to 31 March 2017.

The rules will be changed so that alterations to rateable values can only be backdated to the period between 1 April 2010 and 1 April 2015. The changes will apply for Valuation Office Agency alterations made before 1 April 2016 and ratepayers' appeals made before 1 April 2015. The business rates discount will be increased to £1,500 for retail and food and drink premises with a rateable value of £50,000 and below, up to the state aid limit for one year from 1 April 2015. The 2% cap on the RPI increase in the business rates multiplier will continue for an additional year from 1 April 2015.

There will be a government review of the future structure of business rates, which will report by the time of Budget 2016. The review will be fiscally neutral and consistent with the government's agreed financing of local authorities.

TAX AVOIDANCE AND EVASION

Avoidance by multinational companies

From 1 April 2015 a new diverted profits tax, at a rate of 25%, will be introduced to counter the use of aggressive tax planning to avoid the payment of UK tax by multinational companies.

The government will also introduce legislation to enable it to implement the Organisation for Economic Co-operation and Development (OECD) model for country-by-country reporting.

"My message is consistent and clear. Low taxes; but taxes that will be paid."
George Osborne

Incorporation

For acquisitions made on or after 3 December 2014, the corporation tax relief a company may obtain for the acquisition of the reputation and customer relationships associated with a business ('goodwill') will be restricted when the business is acquired from a related individual or partnership.

Personal tax avoidance

As usual, the Chancellor announced a further raft of anti-avoidance measures:

- From 6 April 2015 legislation will remove the tax advantage provided by special purpose share schemes, commonly known as 'B share schemes'. All returns made to shareholders through such a scheme will be taxed as dividends.
- Following consultation, legislation will be introduced on enhanced civil penalties for offshore tax evasion. The changes will mainly come into effect from April 2016.
- The disclosure of tax avoidance schemes (DOTAS) regime will be strengthened with updating of the existing scheme hallmarks, adding new hallmarks and removing 'grandfathering' provisions for the future use of schemes that were originally excluded.
- There will be consultation on a variety of avoidance topics, including deterrents for serial users of avoidance schemes, the use of overarching contracts of employment (such as 'umbrella companies') and penalties for general anti-abuse rule (GAAR) cases.

OTHER MEASURES

Inheritance tax (IHT)

The government will not introduce a single settlement nil-rate band as it originally proposed. However, there will be new rules to target avoidance through the use of multiple trusts and simplify the calculation of trust taxation.

"Today I am extending our inheritance tax to cover our aid workers who lose their lives in dealing with humanitarian emergencies."
George Osborne

The IHT exemption for members of the armed forces whose death is caused or hastened by injury while on active service will be extended to include members of the emergency services and humanitarian aid workers responding to emergency circumstances. It will have effect for deaths on or after 19 March 2014.

Capital gains tax (CGT)

Individuals will be prevented from claiming CGT entrepreneur's relief on disposals of goodwill when they transfer the business to a related close company. This will affect transfers on or after 3 December 2014. Gains that are eligible for entrepreneur's relief will be allowed to remain eligible for the relief when their gain is finally realised if the gain is instead deferred into investments that qualify for the enterprise investment scheme (EIS) or SITR. This will benefit qualifying gains on disposals that would be eligible for entrepreneur's relief but are deferred into EIS or SITR on or after 3 December 2014.

Other measures

The government has committed a further £50 million of LIBOR fines over the next six years to support military charities and other good causes.

From April 2015, hospices and certain other charities will be eligible to claim refunds on VAT that they have paid on purchases for their non-business activities.

The Autumn Statement announced an exemption from reduced rate air passenger duty (APD) from 1 May 2015 for children under 12 years and from 1 March 2016 for children under 16 years.

Postgraduate students will be able to apply for income-contingent loans of up to £10,000 to undertake a taught master's course from 2016/17.

MAIN INCOME TAX RATES AND ALLOWANCES

Main income tax allowances	2014/15	2015/16
Personal allowance	£10,000	**£10,600**
Personal allowance reduced if adjusted net income exceeds*	£100,000	**£100,000**
Transferable tax allowance for married couples/civil partners where there is no entitlement to married couple's allowance and where neither spouse/civil partner pays more than basic rate tax	n/a	**£1,060**
Blind person's allowance	£2,230	**£2,290**
Child benefit charge: 1% of benefit for each £100 of adjusted net income between	£50,000-£60,000	
Age-related allowances		
Personal if born between 6/4/38 and 5/4/48	£10,500	**n/a**
Personal if born before 6/4/38	£10,660	**£10,660**
Personal if born before 6/4/48 (6/4/38 for 2015/16) reduced if adjusted net income exceeds*	£27,000	**£27,700**
Married couples/civil partners at 10% – minimum†	£3,140	**£3,220**
Married couples/civil partners at 10% – maximum†	£8,165	**£8,355**

* £1 reduction for every £2 of additional income over the income threshold.

† Where at least one spouse/civil partner was born before 6 April 1935.

Income tax rates and bands	2014/15	2015/16
10% starting rate on savings income up to§	£2,880	**n/a**
0% starting rate on savings income up to§	n/a	**£5,000**
Basic rate of 20% on income up to	£31,865	**£31,785**
Maximum tax at basic rate	£6,373	**£6,357**
Higher rate of 40% on income between	£31,866–£150,000	**£31,786–£150,000**
Tax on first £150,000	£53,627	**£53,643**
Additional rate on income over £150,000	45%	**45%**
Dividends: ordinary rate	10%	**10%**
Dividends: upper rate	32.5%	**32.5%**
Dividends: additional rate	37.5%	**37.5%**

§ Not available if taxable non-savings income exceeds the starting rate band.

Discretionary and accumulation trusts		
Up to the first £1,000 of gross income is generally taxed at the standard rate as approprate	10%/20%	**10%/20%**
Non-dividend income above £1,000 taxed at	45%	**45%**
Dividend income above £1,000 taxed at	37.5%	**37.5%**

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 (Employees)

Not Contracted-out of State Second Pension (S2P)

	2014/15	**2015/16**
Employee (Primary)	No NICs where earnings are up to £153 pw	**No NICs where earnings are up to £155 pw**
	12% NICs on £153.01–£805 pw	**12% NICs on £155.01–£815 pw**
	2% NICs over £805 pw	**2% NICs over £815 pw**
Employer (Secondary)	No NICs on the first £153 pw	**No NICs on the first £156 pw**
	13.8% NICs over £153 pw	**13.8% NICs over £156 pw**

Employment allowance	2014/15	**2015/16**
Deduction from Class 1 employer's NICs	£2,000 per employer	**£2,000 per employer**

Earnings limit or threshold	2014/15 Weekly	**2015/16 Weekly**
	£	**£**
Lower earnings limit	111	**112**
Primary threshold	153	**155**
Secondary threshold	153	**156**
Upper earnings limit	805	**815**
Upper secondary threshold for under 21s	n/a	**815**

Contracted-out S2P rebate	2014/15	**2015/16**
Reduction on band earnings	£111.01–£770 pw	**£112.01–£770 pw**
Employer rate reduction	3.4%	**3.4%**
Employee rate reduction	1.4%	**1.4%**

Class 1A (Employers)

	2014/15	**2015/16**
Most taxable employee benefits	13.8%	**13.8%**

Class 2 (Self-Employed)

	2014/15	**2015/16**
Flat rate	£2.75 pw £143.00 pa	**£2.80 pw £145.60 pa**
Small earnings exception/profits threshold	£5,885 pa	**£5,965 pa**

Class 4 (Self-Employed)

	2014/15	**2015/16**
On profits	£7,956–£41,865 pa 9%	**£8,060–£42,385 pa 9%**
	Over £41,865 pa 2%	**Over £42,385 pa 2%**

Class 3 (Voluntary)

	2014/15	**2015/16**
Flat rate	£13.90 pw £722.80 pa	**£14.10 pw £733.20 pa**

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