HM

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2012 Autumn Statement

Highlights

The 2012 Autumn Statement was more like a spring Budget than its recent predecessors – particularly in relation to the many tax announcements. The Chancellor made his statement against a background of disappointing economic growth and the near certainty that he will miss one of his key budgetary targets. The key tax changes include:

- The personal allowance for 2013/14 will be raised to £9,440.
- The 40% higher rate threshold will increase by 1% in both 2014/15 and 2015/16.
- The annual exempt amount for capital gains tax will increase by 1% for 2014/15 and again for 2015/16.
- As already announced, employee shareholders will have different employee rights from other employees in return for shares that are exempt from capital gains tax.
- The 2013/14 investment limit for ISAs will rise to £11,520, with the cash ISA limit correspondingly increasing to £5,760.
- There will be consultations on expanding the list of qualifying investments for stocks and shares ISAs to include shares listed on AIM.
- The inheritance tax nil rate band will rise by 1% in 2015/16 to £329,000.
- From 2014/15, the lifetime allowance for pension savings will be reduced from £1.5 million to £1.25 million and the annual allowance will be reduced from £50,000 to £40,000.
- The capped pension drawdown limit will be increased from 100% to 120% of the value of an equivalent annuity.
- The main rate of corporation tax, which is currently 24%, will be cut to 21% with effect from April 2014.
- The annual investment allowance limit for plant and machinery will increase from £25,000 to £250,000 for two years from 1 January 2013.
- The temporary doubling of the small business rate relief will be extended for a further year from 1 April 2013.
- A number of anti-avoidance measures were announced, including various enhancements to HMRC's powers and resources.

"Again, there are no easy ways to reduce the deficit – but from year to year, no one will pay a penny more in income tax."

George Osborne

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ECONOMIC BACKGROUND

The economic conditions facing George Osborne as he made his 2012 Autumn Statement were far from what he and the Office for Budget Responsibility (OBR) had expected at the time of the spring Budget. In March, the OBR had said that the UK economy would grow by 0.8% in 2012, 2.0% in 2013 and 2.7% in 2014. It now thinks the economy will shrink by 0.1% this year and then grow by 1.2% in 2013 before accelerating to 2.0% in 2014. Every year of the latest OBR forecast shows lower growth than previously.

The OBR blames the absence of growth in 2012 on the Eurozone crisis and other global economic difficulties. These include the uncertainity caused by the US 'fiscal cliff' and slowing growth in the major emerging markets. Together these factors meant that the OBR's earlier projections for the UK's net trade position were too optimistic and thus so too were its growth expectations.

Lower growth has led to lower than projected tax revenues for the 2012/13 tax year, which is bad news for Mr Osborne's two fiscal rules:

- His primary rule is that the budget should balance or be in surplus by the end of a rolling five year view. This target remains intact, but only by virtue of the rolling period now taking the Chancellor into 2017/18.
- His secondary rule is that the government's net debt should shrink as a percentage of gross domestic product by 2015/16, but this aim will not now be met. The OBR instead predicts that the Chancellor will reach his goal in 2016/17 – after the next election.

"...we have a better than 50% chance of eliminating the structural current deficit in five years time..."

George Osborne

The overall message from the OBR and the Chancellor is that there is no need to make radical changes, but he will need 'just another year' to achieve his objectives.

PERSONAL TAX

Income tax

The personal allowance will be raised by a further £235 to £9,440 in 2013/14. However, the 2013/14 basic rate band announced in March will be further reduced by £235 to £32,010.

The basic rate limit for income tax will be adjusted so that the higher rate threshold above which individuals pay income tax at 40% will increase by 1% in 2014/15 and again by 1% in 2015/16. The upper earnings limit and upper profits limit for NICs will increase to stay in line with the higher rate threshold.

As announced in the 2012 Budget, there will be a cap on all previously unlimited income tax reliefs at the greater of £50,000 or 25% of an individual's income. Charitable reliefs will be exempt from this cap.

Gift aid small donations scheme

From April 2013, a new scheme will allow charities to claim gift aid on up to a total of £5,000 of small donations without the need for gift aid declarations. This was announced in the March 2011 Budget. The Chancellor has decided that the limit will be £20 per donation. Some charities will be allowed to exceed the £5,000 overall limit.

Individual savings accounts (ISAs)

The 2013/14 investment limit for ISAs will rise to £11,520. The corresponding limit for cash ISAs will be increased to £5,760. The subscription limits for Junior ISAs and Child Trust Funds will be £3,720.

The Government will consult on expanding the list of qualifying investments for stocks and shares ISAs to include shares traded on markets such as the Alternative Investment Market (AIM).

Capital gains tax annual exempt amount

The increase in the annual exempt amount for capital gains tax will be 1% for 2014/15 and 2015/16, bringing the limit to £11,100 in 2015/16.

Inheritance tax

The inheritance tax nil rate band will rise by 1% to £329,000 in 2015/16.

EMPLOYMENT TAX

Employee shareholder status

As announced on 8 October 2012, a new employee shareholder status is being introduced. Employee shareholders will have different employee rights to other employees in exchange for receiving at least £2,000 worth of shares. Gains will be exempt from capital gains tax on up to £50,000 of shares acquired by employees taking up the new employee shareholder status from April 2013.

Employee share schemes tax liability

The Government is considering various options to reduce the income tax and NIC liabilities that arise when employee shareholders receive their shares. This will include an option to deem that employee shareholders have paid £2,000 for shares they receive. This option would mean that the first £2,000 of shares received under the new status would be free from income tax and NICs.

Tax simplification of employee share schemes

Tax advantaged employee share schemes will be simplified following recommendations from the Office of Tax Simplification. Most of these changes will take effect during 2013.

Company car tax

The Government will consider the case for providing time-limited incentives through company car tax to encourage the purchase and development of ultra-low emission vehicles.

Review of employee tax

The Office of Tax Simplification will carry out a review of ways to simplify the taxation of employee benefits and expenses as well as employee termination payments.

PENSIONS

The lifetime and annual allowances

From 2014/15, the lifetime allowance for pension savings will be reduced from £1.5 million to £1.25 million and the annual allowance will be cut from £50,000 to £40,000.

A new fixed protection regime will be available to individuals to prevent any retrospective tax charges as a result of the reduction in the lifetime allowance. A new personalised protection regime will also be available for individuals, in addition to fixed protection, and there will be consultations about this with interested parties in the coming months. This could allow

"...the Government will raise the capped drawdown limit from 100% to 120%, giving pensioners with these arrangements the option of increasing their incomes."

George Osborne

individuals to continue saving into their pension schemes without losing their protection.

Income drawdown

The capped pension drawdown limit will be increased from 100% to 120% of the HMRC/GAD rate, which broadly reflects the equivalent market annuity return.

Regulation of defined benefit schemes

The Department for Work and Pensions (DWP) will consult about the Pensions Regulator taking on a new statutory objective. This will be to consider the long-term affordability of pension deficit recovery plans. The DWP will also consult on whether to allow companies with schemes undergoing valuation in 2013 or later to smooth asset and liability values.

"As well as a tax system where the richest pay their fair share, we have to have a welfare system that is fair to the working people who pay for it."

George Osborne

UPRATING OF BENEFITS AND TAX CREDITS

Income support and other working age benefits

Most working age benefits will be uprated by 1% for each of the next three years from April 2013. The benefits affected include: income support, jobseeker's allowance, employment and support allowance, statutory sick pay, as well as statutory maternity, paternity and adoption pay. Disability, carers' and pensioners' elements in these benefits will continue to be uprated in line with inflation.

Support for mortgage interest

The existing temporary rules for support for mortgage interest will be extended until 2015/16 for working-age claims.

Basic state pension

The basic state pension will be increased by 2.5% from April 2013, in line with the 'triple lock' guarantee. This will take the single pension to £110.15 a week.

Child benefit

Child benefit, which is already frozen for 2013/14, will be uprated by 1% a year from April 2014 for two years.

Working tax credit (WTC) and child tax credit (CTC)

The couple, lone parent and child elements of WTC and CTC will be uprated by 1% a year for three years from April 2013. The basic and 30 hour elements are already frozen for 2013/14, but will also be uprated by 1% in 2014/15 and again in 2015/16. All disability elements will continue to be uprated in line with inflation.

BUSINESS TAX

Corporation tax rates

The main rate of corporation tax will be cut to 21% from April 2014. Corporation tax is currently 24% and due to drop to 23% from April 2013. The reduction for 2014 is 1% more than previously announced.

Tax relief for electronic media

New corporation tax reliefs for the video games, animation and high-end television industries will be introduced from April 2013, subject to state aid approval. Qualifying companies will be able to choose between an additional deduction of 100% of expenditure or a payable tax credit of 25% of qualifying losses surrendered.

The annual investment allowance (AIA)

The AIA limit will increase from £25,000 to £250,000 for two years for all qualifying investments in plant and machinery made on or after 1 January 2013.

Cash basis for calculating tax

The new cash basis for small, unincorporated businesses to calculate their tax will start from April 2013. Businesses with receipts of up to £77,000 will be eligible and they will be able to continue to use the cash basis until their receipts reach £154,000. There will be no need to distinguish between capital and revenue expenditure.

Simplified expenses

All unincorporated businesses will be able to deduct certain expenses on a flat rate basis rather than having to calculate their actual expenditure.

"This capital allowance will cover the total annual investment undertaken by 99% of all the business in Britain."

George Osborne

Business rate reliefs

The temporary doubling of the small business rate relief will be extended for a further year from 1 April 2013. Subject to consultation, all newly built commercial property completed between 1 October 2013 and 30 September 2016 will be exempt from empty property rates for the first 18 months, up to the state aid limits.

Carbon reduction commitment (CRC)

The CRC energy efficiency scheme will be simplified from 2013 and the performance league table will be abolished. The effectiveness of the CRC will be reviewed in 2016, alongside alternative approaches that could achieve the same objectives.

The forecast CRC allowance price remains unchanged at £12 per tonne of carbon dioxide in 2013/14 and £16 per tonne of carbon dioxide in 2014/15. From 2015/16 onwards, the allowance price will increase in line with the RPI.

Fuel duty

The 3.02 pence per litre fuel duty increase that was planned for 1 January 2013 will be cancelled. The 2013/14 increase planned for next April will be moved to 1 September. For the remainder of the Parliament, subsequent increases will take effect on 1 September each year instead of 1 April.

TAX AVOIDANCE AND EVASION

The taxation of controlling persons

The Government has decided not to proceed with the proposal to tax those who meet the definition of a controlling person at source. They believe that HMRC's new approach to policing IR35, along with the measures introduced in the public sector this year, are enough. However, the Government is strengthening the existing intermediaries' legislation (IR35) to ensure that it applies to office holders. The Government will keep this area under review.

Enhanced tax information sharing – FATCA

The Government will implement the UK/US agreement to improve international tax compliance and implement the Foreign Account Tax Compliance Act (FATCA).

Tax avoidance schemes

With effect from 5 December 2012, three corporation tax avoidance schemes involving loan relationships and derivatives will be closed down.

Withdrawal of relief for payments of patent royalties

Tax relief will be withdrawn for payments of patent royalties by individuals, which they do not deduct in calculating their income tax liability from any source, such as a trade.

Offshore tax evasion and avoidance

A comprehensive offshore evasion strategy will be published in spring 2013. There will also be an internal review of offshore intermediaries who help clients avoid tax and NICs and there will be an update in the 2013 Budget.

The Government will establish a centre of excellence for tackling offshore evasion, aimed at building HMRC's offshore capability and making better use of HMRC data to identify tax evaders. The new centre will also review HMRC's legal powers in this area and develop a more proactive approach to international engagement to tackle evasion.

"Hundreds of millions of pounds of tax loopholes are being closed with immediate effect, and we are investigating abusive use of partnerships."

George Osborne

Tax avoidance – increased capacity for HMRC

HMRC's resources will be increased to speed up the resolution of avoidance schemes, including long-standing cases involving partnership losses.

HMRC's bulk data-gathering powers will be enhanced to allow it to issue notices to merchant acquirers who process payment card transactions. The aim will be to identify businesses who are not declaring their full tax liability.

- HMRC's Affluent Unit will be expanded and its remit will be extended to taxpayers with a net worth of £1 million, as previously announced.
- HMRC's resources will be increased to tackle offshore evasion and avoidance of inheritance tax using offshore trusts, bank accounts and other entities.
- HMRC's transfer pricing specialist resources will be increased.
- The Government will invest in HMRC's risking technology to enhance its capability to tackle tax avoidance and evasion.

PERSONAL TAXATION

Main income tax allowances and rates

	2012/13	**2013/14**
Personal allowance (basic)	£8,105	**9,440**
Personal allowance reduced if total income exceeds*	£100,000	**100,000**
Age-related allowances		
Aged 65–74 (2012/13)/Born between 6 April 1938 and 5 April 1948 (2013/14)	£10,500	**£10,500**
Aged 75 & over (2012/13)/Born before 5 April 1938 (2013/14)	£10,660	**£10,660**
Age-related allowances reduced if total income exceeds**	£25,400	**£26,100**
Married couples/civil partners (maximum)***	£7,705	**£7,915**
Married couples/civil partners (minimum)***	£2,960	**£3,040**
Blind person's allowance	£2,100	**£2,160**

** The reduction is £1 for every £2 additional income over £100,000. As a result there is no personal allowance if total income exceeds £116,210 in 2012/13 and £118,880 in 2013/14.*

*** For 2012/13 and 2013/14 the reduction is £1 for every £2 additional income over the total income threshold.*

**** Relief at 10%. Minimum amount applies for age allowance purposes only. Relief available at 10% only if at least one of the couple was born before 6 April 1935.*

Income tax rates

	2012/13	**2013/14**
Starting rate on savings income at 10%	£1-£2,710	**£1-£2,790**
Basic rate at 20% up to	£34,370	**£32,010**
Maximum tax at basic rate	£6,874	**£6,402**
Higher rate at 40%	£34,371- £150,000	**£32,011- £150,000**
Tax on first £150,000	£53,126	**£53,598**
Additional rate on income over £150,000	50%	**45%**
Discretionary and accumulation trusts (except dividends) †	50%	**45%**
Discretionary and accumulation trusts (dividends) †	42.5%	**37.5%**
Ordinary rate on dividends	10%	**10%**
Higher rate on dividends	32.5%	**32.5%**
Additional rate on dividends	42.5%	**37.5%**

† Up to the first £1,000 of gross income is generally taxed at the standard rate, ie, 20%, or 10% as appropriate.

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