PKF Littlejohn LLP

Accountants &
business advisers

Tax Insights

# Autumn Statement 2016

## What it means for you.

We've reviewed and analysed today's Autumn Statement so you don't have to. Here are our thoughts on the announcements and how they might affect you.

Autumn
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2016

# Key points

## PERSONAL ALLOWANCE
Increases to £11,500 in 2017, to £12,500 by 2020

## INCOME TAX RATES
Higher rate band to £50,000 by 2020

## CORPORATION TAX
To remain at 17% from 2020

## SALARY SACRIFICE
Tax and NI advantages to be removed

## NON-DOMS
Tighter rules will apply from April 2017

## EMPLOYEE SHARES
Employer Shareholder Status abolished

## FUEL DUTY
Frozen for the seventh successive year

## INSURANCE PREMIUM TAX
Increases by 2% to 12% from June 2017

# The Chancellor finished his speech by announcing the end of the Autumn Statement. In reality, it ended before he even stood up.

**In stable times, trying to predict in advance the nature of any Autumn Statement or Budget is a sure fire way to make yourself look foolish. With Brexit becoming a reality (whatever form it eventually takes), and the first new Chancellor in six years, attempting to second guess today's announcement looked like it would be even more difficult than usual.**

However, had we been asked to summarise in one word the anticipated tax changes that Autumn Statement 2016 would bring, we would have answered 'unexciting' - and it seems we would have been correct. Most measures in today's statement were previously announced in the March Budget and consulted on over the summer.

While Brexit will give rise to challenges (and opportunities) for the UK economy that will no doubt be addressed through the tax system in time, until Article 50 is triggered (and perhaps for some time after), it is a case of plus ça change, plus c'est la même chose. The exciting announcements will come later.

In addition to the change of Chancellor, we've also updated how we analyse the Autumn Statement to get the key issues to you as soon as possible. Please keep an eye on our website in the coming days for more detailed analysis of the key issues as they affect specific sectors. I'd be delighted to receive your feedback, or any questions that you may have, on the below email address.

**Chris Riley,** Head of Tax
PKF Littlejohn LLP
t: +44 (0)20 7516 2427
e: criley@pkf-littlejohn.com

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# 1. Your money

## Key contacts


**Global Mobility**
Joseph Brown
t: +44 (0)20 7516 2252
e: jbrown@pkf-littlejohn.com

**US/UK Expatriate Taxation**
Jonathan Boyfield
t: +44 (0)20 7516 2255
e: jboyfield@pkf-littlejohn.com

**Private Clients**
Karen Ozen
t: +44 (0)20 7516 2273
e: kozen@pkf-littlejohn.com

**Private Clients**
Diana Lancaster
t: +44 (0)20 7516 2278
e: dlancaster@pkf-littlejohn.com

- The Personal Allowance will increase to £12,500 by the end of this Parliament, and in line with inflation thereafter. The starting point for Higher Rate tax (40% band) will also increase to £50,000 by the end of the Parliament, and in line with inflation thereafter.
- Class 2 National Insurance contributions for the self-employed will be abolished from April 2018.
- The tax and National Insurance advantages of salary sacrifice arrangements will be removed from April 2017, with the exception of arrangements relating to pensions, childcare, cycle to work and ultra-low emission cars. Any arrangements already in place before April 2017 will be protected until April 2018, with further protection until April 2021 for arrangements for cars, accommodation and school fees.
- Individuals with trading income or property income below the level of £1,000 will no longer need to declare or pay tax on that income. Those that receive income of more than £1,000 must ensure they properly declare this to HMRC.
- The 0% savings income band and dividend income band will both remain at £5,000 for 2017/18.
- Foreign pensions and lump sums will be brought fully into the charge to tax for UK residents. They will also extend from 5 to 10 years the taxing rights over recently emigrated non-UK residents' foreign lump sum payments from funds that have had UK tax relief.
- The Government plans to require businesses and landlords to report their income and expenses to HMRC on a quarterly basis, through a digital medium. The first tranche of taxpayers to file on this basis are due to start from April 2018. Against a background of opposition from within the industry, the Government will publish its response to consultation in January 2017.
- Previously announced proposals to tackle disguised remuneration schemes by employers and employees will now be extended to the self-employed. This is to ensure that self-employed users of these schemes pay their fair share of tax and National Insurance.
- Legislation will be introduced to clarify and improve certain aspects of partnership taxation to ensure profit allocations to partners are fairly calculated for tax purposes.

## Changing the rules on salary sacrifice is anticipated to raise £235m per year

# 2. Your capital

## Key contacts

**Trusts and Capital Taxes**
Barry Luscombe
t: +44 (0)20 7516 2204
e: bluscombe@pkf-littlejohn.com

**Wealth Management**
Mark Quaye
t: +44 (0)20 7516 2220
e: mquaye@pkf-littlejohn.com

**Property Taxes**
Jonathon Collins
t: +44 (0)20 7516 2226
e: jcollins@pkf-littlejohn.com

- From April 2017, inheritance tax will be charged on UK residential property held indirectly by a non-domiciled individual through an offshore structure such as a company or trust.
- The Government is pressing ahead with reforms to the deemed domicile rules for long-term resident non-domiciles. There will also be opportunities for some non-domiciles to rebase their offshore assets for Capital Gains Tax and to cleanse their offshore bank accounts to separate out clean capital from foreign income and gains.
- Inheritance Tax relief for donations to political parties will be extended to parties with representatives in the devolved legislatures, and parties that have acquired representatives through by-elections.
- The limit for recycling a tax-free lump sum from one pension scheme into another will be reduced from £10,000 to £4,000 from 6 April 2017.
- From April 2017, the Individual Savings Account limit will increase to £20,000. The annual limit for Junior ISAs and Child Trust Funds will be increased to £4,128.
- The annual charges for the Annual Tax on Enveloped Dwellings (ATED) will rise in line with inflation for the year ending 31 March 2018.
- NS&I Investment Bond – NS&I will offer a new 3-year savings bond with an indicative rate of 2.2%. Those aged 16 and over may invest between £100 and £3,000.
- A new penalty will be introduced 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 introduce a new legal requirement to correct a past failure to pay UK tax on offshore interests.
- The Government plans to consult on a new legal requirement for intermediaries arranging complex structures for clients holding money offshore, to notify HMRC of those structures and the related clients.
- The Government will change the rules for taxing life assurance gains to remove the disproportionate tax charges that can arise from part-surrenders and part-assignments.

**The life assurance changes are a welcome simplification to a complex regime which caused real issues for some taxpayers.**

# 3. Your business

## Key contacts

### Business Tax – Owner Managed
Catherine Heyes
t: +44 (0)20 7516 2237
e: cheyes@pkf-littlejohn.com

### Business Tax – Employment
Ian Gadie
t: +44 (0)20 7516 2256
e: igadie@pkf-littlejohn.com

### Business Tax - International
Tom Gareze
t: +44 (0)20 7516 2212
e: tgareze@pkf-littlejohn.com

### Business Tax – Insurance
Mimi Chan
t: +44 (0)20 7516 2264
e: mchan@pkf-littlejohn.com

### VAT and Customs Duties
Nick McChesney
t: +44 (0)20 7516 2262
e: nmcchesney@pkf-littlejohn.com

### VAT and IPT
Luigi Lungarella
t: +44 (0)20 7516 2228
e: llungarella@pkf-littlejohn.com

### Not for Profit
Sarah Kelsey
t: +44 (0)20 7516 2298
e: skelsey@pkf-littlejohn.com

- There will be no further reduction in Corporation Tax, which will fall to 17% by 2020 as planned.
- From April 2017, rules will be introduced to limit the tax deductions that large groups can claim for their UK interest expenses. These rules will potentially limit deductions where a group has net interest expenses of more than £2 million.
- Legislation will restrict the amount of profit that can be offset by carried forward losses to 50% from April 2017, while allowing greater flexibility over how losses incurred after that date can be utilised. The restriction will be subject to a £5 million allowance for each group.
- The Government will consult on bringing all non-resident companies receiving taxable income from the UK into the Corporation Tax regime.
- Changes will be made to the Substantial Shareholding Exemption to simplify the rules to qualify for the exemption from April 2017.
- The Government will review the tax environment for R&D and look at ways to improve on the above the line R&D Tax Credit.
- More specific provisions will be added to the Patent Box Rules to cover the situation where R&D is undertaken collaboratively by two or more companies under a 'cost sharing arrangement'. This will be effective for accounting periods commencing on or after 1 April 2017.
- Technical amendments will be made to the requirements of the Enterprise Investment Schemes, Seed Enterprise Investment Scheme and Venture Capital Trusts.
- The tax advantages linked to shares awarded under Employee Shareholder Status (ESS) will be abolished for arrangements entered into after 23 November 2016.

## The IPT rate increase is the most significant increase in tax revenue announced today

- The National Living Wage will be increased from £7.20 to £7.50 per hour from April 2017. There will also be further increases to the National Minimum Wage for 16 – 24 year olds and an increase in the rate for apprentices to £3.50 per hour.
- National Insurance thresholds for both Employer and Employee rates will be aligned from April 2017. This means that both will trigger at weekly earnings above £157 per week.
- The proposed changes for termination payments over £30,000 have been simplified, so that from April 2018, payments over £30,000 which are subject to income tax will also be subject to employer national insurance.
- Insurance Premium Tax will increase from 10% to 12% from 1 June 2017.
- A new upper VAT flat rate of 16.5% will be introduced from 1 April 2017. This will affect businesses using the Flat Rate Scheme that have minimal VAT bearing expenditure.
- The Government will consult on the rules regarding VAT grouping.

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# Our expert team can help you understand the impact of the Autumn Statement on you and your business.

## To find out more, please contact us.

**Corporate/International Tax**

Chris Riley
t: +44 (0)20 7516 2427
e: criley@pkf-littlejohn.com

**Global Mobility**

Joseph Brown
t: +44 (0)20 7516 2252
e: jbrown@pkf-littlejohn.com

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Mark Quaye
t: +44 (0)20 7516 2220
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Sarah Kelsey
t: +44 (0)20 7516 2298
e: skelsey@pkf-littlejohn.com

**VAT and IPT**

Luigi Lungarella
t: +44 (0)20 7516 2228
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Tom Gareze
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Mimi Chan
t: +44 (0)20 7516 2264
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Ian Gadie
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Nick McChesney
t: +44 (0)20 7516 2262
e: nmcchesney@pkf-littlejohn.com

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Karen Ozen
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e: kozen@pkf-littlejohn.com

**Private Clients**

Diana Lancaster
t: +44 (0)20 7516 2278
e: dlancaster@pkf-littlejohn.com

PKF Littlejohn LLP, 1 Westferry Circus, Canary Wharf, London E14 4HD
Tel: +44 (0)20 7516 2200 Fax: +44 (0)20 7516 2400

www.pkf-littlejohn.com