Autumn Statement 2016

The Chartered Institute of Payroll Professionals (a company incorporated by Royal Charter)
IPP Education Ltd (a subsidiary of the Chartered Institute of Payroll Professionals) Registered No. 3612942 (England) VAT No. 864462406

CIPP Autumn Statement 2016 summary

Introduction

In his Autumn Statement delivery, the Chancellor of the Exchequer, Philip Hammond said in his somewhat reassuring voice, that the UK is forecast to be the fastest growing country in the G7 in 2016. But he also told us that the UK is likely to face a period of uncertainty, followed by adjustment so we need to prepare our economy to be resilient - all said whilst avoiding any detail of EU negotiations which are going to cost the public purse in the region of £412 million.

To follow was the news that this parliament's aim was no longer to deliver a budget surplus by 2020, but the books will be balanced as early as possible in the next parliament. It was also confirmed that Britain remains the number one place to do business and the government will stick to the business tax road map as set out in the Budget earlier this year.

Mr Hammond graciously paid tribute to his predecessor and managed all expectations at the outset by confirming that "no rabbits would be pulled from hats" under his watch, which gave us a warning shot across the bow that news about Salary Sacrifice might not be all we would hope for… or would it?

The cheers of joy at the news that the Autumn Statement of 2016 would not only be the first from Mr Hammond, but also his last in its current format soon turned to jeers of derision as the news that a Spring Statement would be taking its place along with the introduction of an Autumn Budget.

As the brief excitement subsides this leaves us to consider not what was included in this 'final' Autumn Statement - but what wasn't included. For instance there was no mention during, or after the statement about Mandatory Reporting of the Gender Pay Gap (for both the private sector and the public sector). This is something that the profession has been keenly watching out for as many details are still to be confirmed.

Whilst there were no real surprises for payroll in this Autumn Statement, there were still a fair few details to absorb and as we know from past experience, more will follow in the coming days and weeks. So in the meantime, welcome to the brief (ish) CIPP summary of the 2016 Autumn Statement.

Tax rates and thresholds

Income tax

Income tax rates, bands and allowances for tax year 2017-18 are unchanged from the figures announced at Budget 2016. So the Personal Allowance will rise by £500 to £11,500 and the threshold for paying tax at the higher rate will increase to £45,000.

The Married Couple's Allowance income limit increases by £300 to £28,000 and the Marriage Allowance (Transferable Tax Allowance) increases by £50 to £1,150. The Blind Person's Allowance increases by £30 to £2,320.

UK income tax rates remain at 20%, 40% and 45%. (The Scottish Rate of Income Tax for 2017-18 will be announced by the Scottish Government separately.) The Government reiterated its commitment for the Personal Allowance and higher rate threshold to reach £12,500 and £50,000, respectively, by the end of the current Parliament.

Once the personal allowance reaches £12,500, it will then rise in line with CPI as the higher rate threshold does, rather than in line with the National Minimum Wage.

National Insurance

National Insurance thresholds

After a year when all but one of the National Insurance limits and thresholds remained unchanged, all figures change from April 2017. The Lower Earnings Limit (LEL) increases from £112 to £113, the Primary Threshold (PT) and Secondary Threshold (ST) are aligned once more, increasing from £155/£156 to £157, and the Upper Earnings Limit (UEL) increases from £827 to £866 (these are all weekly figures). The Upper Secondary Threshold for Under 21s (UST) and the Apprentice Upper Secondary Threshold (AUST) also increase to £866.

National Insurance rates remain unchanged. Unlike in recent years, there are no structural changes to the NIC regime for 2017-18.

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

Class 2 National Insurance Contributions

As previously announced at Budget 2016, Class 2 NICs will be abolished from April 2018 and entitlement to contributory benefits for the self-employed will be accessed through Class 3 and Class 4 NICs.

Removing National Insurance from the effects of the Limitation Act

From April 2018, the government will remove NICs from the effects of the Limitation Act 1980 and Northern Ireland equivalent. This will align the time limits and recovery process for enforcing National Insurance debts with other taxes. The government will consult on the details.

Cars and vans

Car and van fuel charges and the van benefit charge increase by RPI each year; the amounts for 2017-18 were announced in associated documents published alongside the Autumn Statement. The car fuel benefit charge multiplier will increase by £400 to £22,600 and the van fuel benefit charge will increase by £12 to £610. The van benefit charge will increase by £60 to £3,230.

To encourage the purchase of ultra-low emission vehicles (ULEVs), the government confirmed the introduction of new, lower bands for company car tax in tax year 2020-21. The appropriate percentage list price subject to tax will increase by 1% for cars with CO_2 emissions greater than 90 grams per kilometre in 2020-21, with a 3% differential between the lower emissions bands. The maximum company car tax (CCT) will remain at 37% into the 2019-20 tax year and the 3% diesel supplement remains in place until April 2021.

Expenses and benefits

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.

CIPP comment

No major surprises to be had here and under the circumstances this outcome is as good as we could have hoped for however it would be reassuring to see a little more detail in a formal consultation response, particularly for employers currently undertaking their annual review of pay & reward arrangements that may impact on affected BIKs.

Benefits in kind

The government will consider how benefits in kind are valued for tax purposes, publishing a consultation on employer-provided living accommodation and a call for evidence on the valuation of all other benefits in kind at Budget 2017.

Employee business expenses

The government will publish a call for evidence at Budget 2017 on the use of the income tax relief for employees' business expenses, including those that are not reimbursed by their employer.

Fuel duty

The fuel duty rate will remain frozen for the seventh successive year, saving motorists around £130 a year compared to what they would have been paying under the pre-2010 escalator.

National Minimum Wage/National Living Wage

The government has accepted all the recommendations of the Low Pay Commission (LPC) regarding increased minimum wage rates. Following the alignment of the effective date for increases in the National Minimum Wage (NMW) and National Living Wage rates (NLW), all the following rates increase from April 2017:

- a 30p increase in the rate for over 25 year olds (the National Living Wage) from £7.20 to £7.50 per hour (equivalent to a 4.2% annual increase)
- a 10p increase in the rate for 21 to 24 year olds from £6.95 to £7.05 per hour (equivalent to a 3.2% annual increase)
- a 5p increase in the rate for 18 to 20 year olds from £5.55 to £5.60 per hour (equivalent to a 3.1% annual increase)
- a 5p increase in the rate for 16 to 17 year olds from £4.00 to £4.05 per hour (equivalent to a 2.8% annual increase)
- a 10p increase in the rate for apprentices from £3.40 to £3.50 per hour (equivalent to a 4.5% annual increase)
- a 40p increase in the accommodation offset from £6.00 to £6.40 a day (or from £42.00 to £44.80 a week).

In making its recommendations, the LPC noted that NMW rates increased in October 2016, and therefore the increases are lower than they would be on a full-year basis.

The LPC is tasked with recommending increases in the NLW that would achieve the government's target of 60% of median earnings by 2020. In its Autumn 2016 report, published today, the LPC estimated that this level would be £8.61 using October 2016 data (reduced from estimate in the Spring report of £9.16).

National Minimum Wage enforcement

The government will invest an additional £4.3 million per year to strengthen NMW enforcement. This will fund new HMRC's teams to proactively review those employers considered most at risk of non-compliance with the NMW. The government will also provide additional support targeted at small businesses to help them to comply; and a campaign aimed at raising awareness amongst workers and employers of their rights and responsibilities.

Non-domiciled individuals

The following reforms to the taxation of non-domiciled individuals make the tax system fairer for everybody:

As previously announced, the government will end the permanency of non-domiciled tax status. 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. As previously announced, 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.

Off-payroll working in the Public Sector

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 (PSC).

This reform aims to tackle the high levels of non-compliance with the current IR35 rules and will mean 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.

CIPP comment

For payroll professionals working in the Public Sector, knowledge of the rules of IR35 must now be considered an essential knowledge piece, rather than a 'nice to have'.

The CIPP Policy team have received confirmation that HMRC will publish legislation and customer guidance together with a summary of responses to the Off-Payroll working in the Public Sector consultation, and this is expected to be available from 5 December 2016.

HMRC will issue updates to help industry prepare for the changes in April which will include developments on the new digital tool to help engagers to determine employment status.

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.

Pensions and savings tax

ISA limit

As previously announced, the government will continue to support saving by increasing the ISA limit from £15,240 to £20,000 in April 2017.

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.

Reducing the money purchase annual allowance

The pension flexibility reforms introduced in April 2015 included the ability to withdraw part of a defined contribution pension fund while retaining the option to continue making pension contributions. If a pension is accessed in this way, the annual allowance for tax-relievable pension contributions was reduced from £40,000 to £10,000, which was called the money purchase annual allowance (MPAA). The government proposes to reduce the MPAA to £4,000, with effect from April 2017, to limit the extent to which individuals could recycle funds and gain double tax relief.

CIPP comment

A consultation has been launched that will run until 15 February 2017 and is seeking views of stakeholders as to whether they agree that a reduced MPAA would minimise re-cycling pension savings and that, coupled with ongoing monitoring, the new MPAA will allow the continued successful roll-out of automatic enrolment?

Foreign pensions

The tax treatment of foreign pensions will 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 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, 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.

Tax-Free Childcare

Confirmation was provided that Tax-Free Childcare will be introduced gradually from early 2017, with rollout beginning upon completion of the trial. Once the scheme is fully rolled out, the government will review its operation to ensure it is delivering as intended and to assess the benefit it is delivering for working parents.

Tax administration and simplification

Increased HMRC external performance reporting

From next year HMRC will publish its 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.

Making Tax Digital

In January 2017, the government will publish its response to the Making Tax Digital consultations and provisions to implement the previously announced changes.

Tax Enquiries: Closure Rules

The government will legislate to provide HMRC and customers earlier certainty on individual matters in large, high risk and complex tax enquiries.

Tax avoidance

Disguised remuneration schemes

Budget 2016 announced changes to tackle use of disguised remuneration schemes by employers and employees. The government will now extend the scope of these changes to tackle the use of disguised remuneration avoidance schemes by the self-employed. This will ensure that self-employed users of these schemes pay their fair share of tax and National Insurance. Further, the government will take steps to make it less attractive for employers to use disguised remuneration avoidance schemes, by denying tax relief for an employer's contributions to disguised remuneration schemes unless tax and National Insurance are paid within a specified period.

Strengthening tax avoidance sanctions and deterrents

As signalled at Budget 2016, to provide a strong deterrent to those enabling tax avoidance, the government will introduce a new penalty for any person who has enabled another person or business to use a tax avoidance arrangement that is later defeated by HMRC. This new regime will reflect an extensive consultation and input from stakeholders and details will be published in draft legislation shortly. The government will also remove the defence of having relied on non-independent advice as taking 'reasonable care' when considering penalties for any person or business that uses such arrangements.

HMRC counter avoidance

The government is investing further in HMRC to increase its activity on countering avoidance and taking cases forward for litigation, which is expected to bring forward over £450 million in scored revenue by 2021-22.

Tackling exploitation of the VAT relief on adapted cars for wheelchair users

The government will clarify the application of the VAT zero-rating for adapted motor vehicles to stop the abuse of this legislation, while continuing to provide help for disabled wheelchair users.

VAT Flat Rate Scheme

The government will introduce a new 16.5% rate from 1 April 2017 for businesses with limited costs, such as many labour-only businesses. This will help level the playing field, while maintaining the accounting simplification for the small businesses that use the scheme as intended. Guidance which has the force of law, published alongside the Autumn Statement, will introduce anti-forestalling provisions.

Tax evasion and compliance

HMRC support for emerging insolvency risks

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

Requirement to correct

The government will introduce a new legal requirement to correct a past failure to pay UK tax on offshore interests within a defined period of time, with new sanctions for those who fail to do so.

Requirement to register offshore structures

The government will consult on a new legal requirement for intermediaries arranging complex structures for clients holding money offshore to notify HMRC of the structures and the related client lists.

Tackling the hidden economy

The government will legislate to extend HMRC's data-gathering powers to money service businesses in order to identify those operating in the hidden economy.

Following consultation, the government will consider the case for making access to licences or services for businesses conditional on them being registered for tax. It will also develop proposals to strengthen sanctions for those who repeatedly and deliberately participate in the hidden economy. Budget 2017 will set out further details.

Other areas of interest

Business and corporate tax

The government's decision at the Autumn Statement to prioritise high value infrastructure and innovation will support businesses across the UK. The government is also taking significant steps to support businesses to grow and create jobs through the regulatory and tax systems.

Business tax road map
To continue providing the certainty that businesses need to make their long-term investments, the government is recommitting to the business tax road map and the principles that it sets out. This includes cutting the rate of corporation tax to 17% by 2020 and reducing the burden of business rates by £6.7 billion over the next 5 years.

Tax deductibility of corporate interest expense
Following 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.

Employee Shareholder Status (ESS)
The tax advantages linked to shares awarded under ESS will be abolished for arrangements entered into, on, or after 1 December 2016. The status itself will be closed to new arrangements at the next legislative opportunity. This is in response to evidence suggesting that the status is primarily being used for tax planning instead of supporting a more flexible workforce.

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 gains. This equalises the tax treatment between onshore and offshore funds.

Indirect tax

Value Added Tax (VAT)
The government will consult on VAT grouping and provide funding with a view to digitising fully the Retail Export Scheme to reduce the administrative burden to travellers.

Soft Drinks Industry Levy
The government will publish draft legislation for the Soft Drinks Industry Levy on 5 December 2016.

Insurance Premium Tax (IPT)
The standard rate of IPT will rise from 10% to 12% from 1 June 2017. IPT is a tax on insurers, so any impact on premiums depends on insurers' commercial decisions as to whether they pass the cost of this rate increase directly on to their customers.

Universal Credit

Universal Credit taper
The current taper rate of 65% means that once claimants earn above the work allowances in Universal Credit, their income will be withdrawn at a rate of 65 pence for every extra £1 earned. From April 2017, the taper rate that applies in Universal Credit will be reduced from 65% to 63%. This will let individuals keep more of what they earn and strengthen the incentive for individuals to progress in work.

Universal Credit roll out
The Autumn Statement provides funding for the welfare announcement made by the Secretary of State for the Department for Work and Pensions (DWP) on 20 July 2016, which included policy changes and revisions to the Universal Credit roll out schedule.

Devolved administrations

Block grants
As a result of spending decisions taken by the UK government at the Autumn Statement, the application of the Barnett formula will provide each of the devolved administrations with additional funding to be allocated according to their own priorities. The Scottish Government’s block grant will be further adjusted to reflect its tax powers as agreed in the Scottish Government’s Fiscal Framework.

Scotland
The government will work with local partners and the Scottish Government towards a city deal for Stirling. The government has confirmed funding for city deals in Aberdeen and Inverness, is making progress towards a deal with Edinburgh, and will consider proposals for a deal with the Tay cities once they are brought forward, meaning all Scottish cities have the opportunity to agree a city deal. The government is also continuing to work with the Scottish Government to implement the Scottish Government’s fiscal framework and new powers set out in the Scotland Act 2016.

Wales
The government is making good progress in discussions with local partners and the Welsh Government on a city deal for the Swansea Bay City Region. It will also consider options for a growth deal in north Wales and looks forward to receiving proposals from local partners. The government is also continuing to support the implementation of the £1.2 billion city deal for the Cardiff Capital Region, which was agreed in March.

Northern Ireland
The government continues to work closely with the Northern Ireland Executive towards the introduction of a Northern Ireland rate of Corporation Tax, subject to the Northern Ireland Executive demonstrating it has placed its finances on a sustainable footing.

Digital communications

The government will invest over £1 billion by 2020-21, including £740 million through the National Productivity Investment Fund (NPIF), targeted at supporting the market to roll out full-fibre connections and future 5G communications. This will bring faster and more reliable broadband for homes and businesses across the UK, boost the next generation of mobile connectivity and keep the UK in the forefront of the development of the ‘Internet of Things’.

This will be delivered through:

- £400 million for a new Digital Infrastructure Investment Fund, at least matched by private finance, to invest in new fibre networks over the next 4 years
- a new 100% business rates relief for new full-fibre infrastructure for a 5 year period from 1 April 2017
- providing funding to local areas to support investment in a much bigger fibre ‘spine’ across the UK, prioritising full-fibre connections for businesses and bringing together public sector demand.
- providing funding for a coordinated programme of integrated fibre and 5G trials, to keep the UK at the forefront of the global 5G revolution; further detail will be set out at Budget 2017 as part of the government’s 5G Strategy.

Consumer insurance market
New FCA rules on consumer insurance policy renewals, being introduced in April 2017, will encourage consumers to shop around instead of renewing their policy automatically. The FCA will monitor the effect of the rules and the government will ask the FCA to consider further intervention if necessary.

Credit unions
From 2018, the government will expand an existing scheme which incentivises credit union membership in communities at risk of being targeted by loan sharks. This will use funds recovered under the Proceeds of Crime Act from convicted loan sharks.

Flood defence
The government will invest £170 million in flood defence and resilience measures. £20 million of this investment will be for new flood defence schemes, £50 million for rail resilience projects, including Dawlish, and £100 million to improve the resilience of roads to flooding.

Gift Aid digital
As announced at Budget 2016, the government will give intermediaries a greater role in administering Gift Aid, simplifying the Gift Aid process for donors making digital donations.

Inheritance tax reliefs
From Royal Assent of the Finance Bill 2017-18, 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 will ensure consistent and fair treatment for all national political parties with elected representatives.

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.

Pension scams
The government will shortly publish a consultation on options to tackle pension scams, including banning cold calling in relation to pensions, giving firms greater powers to block suspicious transfers and making it harder for scammers to abuse ‘small self-administered schemes’.

Prison safety and wider reforms to the justice system
The government will provide up to £500 million of additional funding across the period to the Ministry of Justice. As announced by the Lord Chancellor and Secretary of State for Justice, as part of the Prison Safety and Reform white paper, this will enable the recruitment of 2,500 extra prison officers to improve prison safety. It will also fund wider reforms to the justice system.

Rough Sleeping Fund
The government is committing a further £10 million over two years to the Rough Sleeping Fund.

Whiplash reform
The Ministry of Justice is consulting on proposals which will reduce the unacceptably high number of whiplash claims and allow insurers to cut premiums. The government will bring forward supporting legislation in the Justice Bill and expects insurers to pass on savings which average around £40 for drivers in England and Wales, worth a total of £1 billion.