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Autumn Statement 2013

Chancellor George Osborne presented the Autumn Statement to the House of Commons on 5 December 2013. This newsletter summarises the main announcements that may affect you, your business and your tax planning. For advice, please contact us.

At a glance

- 2% cap on business rates increases
- Small Business Rate Relief extended for another year
- £1,000 rates rebate for small retail premises
- New 'reoccupation relief' for local retail businesses
- Employer national insurance to be abolished for most under-21s
- Rise in State Pension Age brought forward
- Transferable tax allowance for some married couples
- Scrapping of 2014 fuel duty increase

Chancellor hails recovery but 'the job is not yet done'

Chancellor George Osborne presented his 2013 Autumn Statement to the House of Commons in relatively buoyant form. He announced that economic growth forecasts for this year have more than doubled from 0.6% to 1.4%, but was keen to emphasise the importance of achieving a 'responsible recovery' by sticking to the austerity plan.

Despite borrowing also seeing significant downward revisions, with the underlying deficit revised down to 6.8%, the Chancellor warned that 'difficult decisions remain' and indicated that an increase in the State Pension Age to 68 will take place earlier than previously planned. Whitehall budgets will be cut by around £1 billion next year, and overall spending on welfare will be subject to a new cap in future years.

There was some better news for business, with the Chancellor offering relief in the form of a new 2% cap on business rates increases in England, together with an extension of Small Business Rate Relief for a further year. In addition, a new 50% 'reoccupation relief' will be available to local retail businesses, and a rates discount of up to £1,000 will be applied to some small shops, pubs and other retail properties.

Another key announcement for businesses was the scrapping of employer national insurance contributions (NICs) for most under-21s from 2015. April 2015 will also see the application of capital gains tax to gains made by non-residents who sell residential property in the UK.

There were a number of measures aimed at supporting families, including plans to introduce a new transferable personal tax allowance for some married couples and civil partners, as well as introducing an average £50 saving on energy bills, which will be achieved through rolling back green levies.

Other headline-grabbing measures announced by the Chancellor include free school meals for infants, a scrapping of 1% above inflation increases to rail fares, the abolition of next year's planned 2p per litre fuel duty rise, and the demise of car tax discs which will be replaced by an electronic vehicle excise duty system after over 90 years in circulation.

This newsletter reports on the key announcements made by the Chancellor which could affect your business and your personal finances. For more information on how any of these issues could affect you and your business, please contact us.

Business measures

A number of measures related to business and business tax were announced.

New cap on business rates increases

It has been confirmed that a new cap on business rates increases will be introduced in England next year.

Business rates, which normally rise with inflation, were set to increase by 3.2% next year in line with September's retail price index. However, following the announcement, increases in business rates will now be capped at 2% in 2014/15.

Businesses will also be allowed to pay their rates in 12 monthly instalments.

Business rates discount

The Chancellor announced additional support for the retail sector through the introduction of a £1,000 business rates discount in 2014/15 and 2015/16. It will apply to retail properties, including pubs, cafes, restaurants and charity shops, with a rateable value below £50,000.

The Government will introduce a 50% business rates reoccupation relief for 18 months up to the State aid limits for businesses that move into retail premises that have been empty for a year or more. Businesses which move into empty premises between 1 April 2014 and 31 March 2016 will be eligible for the relief.

Small Business Rate Relief extended

The temporary doubling of the Small Business Rate Relief (SBRR) was due to come to an end on 31 March 2014. It will now be extended for a further 12 months to April 2015.

Under the scheme, small businesses with a rateable value of £6,000 or less currently receive a 100% rebate on their business rates.

This relief gradually reduces from 100% to zero on a sliding scale for those small businesses with a rateable value of between £6,001 and £12,000. For businesses with rateable values of between £12,001 and £17,999 a lower business rates multiplier applies.

The Government will relax the SBRR rules to allow businesses in receipt of SBRR taking on an additional property to retain SBRR on the first property for one year, with effect from 1 April 2014.

Start Up Loans

An additional £160 million over six years has been committed to the Start Up Loans programme, which is designed to provide loans and mentoring to budding entrepreneurs.

Business lending

There have been two recent announcements expanding on the Government's support for lending to small and medium-sized businesses.

The first, by Deputy Prime Minister Nick Clegg, was that a further £250 million is to be made available to the new British Business Bank, currently being formed in Sheffield – an addition to the existing capital of £1 billion. The Bank is expected to be fully operational by Autumn 2014 and Government forecasts put the additional lending and investment it will create at £500 million a year.

The Bank is also taking over management of £2.9 billion worth of existing commitments, and has said that it will 'unlock £10 billion of extra funding in the next five years'.

The second announcement concerns a re-focussing of the Funding for Lending scheme, launched in July 2012, to provide banks with cheap, state-backed funding as a means of increasing lending to homebuyers and small businesses.

The Bank of England has concluded that the upturn in the housing market means there is 'no longer a need' for the scheme to support household lending, so although banks will be able to continue to draw on already-set allowances for 2014/15, only business lending will qualify for future allowances.

Film and theatre reliefs

Subject to State aid approval, from April 2014 the rate of film tax credit for surrenderable losses will be 25% on the first £20 million of qualifying core expenditure (subject to a maximum of 80% of qualifying core expenditure) and 20% thereafter (to a maximum of 80% qualifying core expenditure). The minimum UK expenditure qualification will also change from 25% to 10%.

A consultation will be launched in Spring 2014 on the introduction of a limited corporation tax relief for commercial theatre productions and a targeted relief for theatres investing in new writings or touring productions to regional theatres.

Measures for young people

The Chancellor placed a great deal of emphasis on measures designed to help young people entering the workplace.

Employer NICs for under-21s

In a move designed to encourage businesses to employ young people, from 6 April 2015 employers will no longer be required to pay Class 1 secondary NICs on earnings paid up to the Upper Earnings Limit to any employee under the age of 21. This will apply to both existing employees and to employers taking on new staff. No individual's state pension entitlement will be affected by the measure.

Higher education and apprenticeships

The cap on student numbers at publicly-funded higher education institutions in England will be removed by 2015/16. This will allow institutions to meet demand from an estimated 60,000 young people who have achieved the grades to enter higher education but cannot currently secure a place.

An additional £40 million will be provided to create an extra 20,000 higher apprenticeship starts, over the next two academic years. The Government has also announced its intention to enable employers to receive funding for the training costs of apprentices directly, through an HMRC-led system.

Personal tax

The Chancellor announced some key measures relating to personal tax.

Income tax

As announced at Budget 2013, from 2014/15 the personal allowance for those born after 5 April 1948 will be increased to £10,000 and the basic rate limit will be reduced to £31,865. The higher rate threshold (the sum of the basic personal allowance and the basic rate limit) will be set at £41,865.

National insurance contributions

For 2014/15, there are no changes to the percentage rate of contribution for Class 1, Class 1A, Class 1B and Class 4 NICs but there are changes to all of the thresholds and limits. The weekly rates for Class 2 and Class 3 NICs will be increased. The Class 1 Upper Earnings Limit and the Class 4 Upper Profits Limit for NICs will continue to be aligned with the point at which higher rate tax becomes payable (£41,865).

Transferable tax allowance for married couples

From April 2015, a spouse or civil partner who is not liable to income tax or not liable above the basic rate for a tax year will be entitled to transfer £1,000 of their personal allowance to their spouse or civil partner as long as the recipient of the transfer is not liable to income tax above the basic rate. The transferor's personal allowance will be reduced by £1,000, and the spouse or civil partner receiving the transferred allowance will be entitled to a reduced income tax liability of up to £200.

State pension

By 2020 the State Pension Age (SPA) will be 66 and by 2028 it will rise to 67. The Chancellor has confirmed that the SPA could rise to 68 by the mid-2030s and to 69 by the late 2040s.

The Chancellor also announced that the cap on benefits rises will not apply to the state pension, which will rise by £2.95 per week from April 2015.

People who have not built up a full entitlement to the state pension are currently allowed to pay voluntary NICs before SPA to increase their entitlement. That opportunity will be extended from October 2015 to current pensioners and to those who reach SPA before 6 April 2016, with the price being 'a broadly actuarially fair rate'.

The state pension for those retiring from 6 April 2016 will be based on a new single-tier system, under which full entitlement will be reached with 35 years' contributions. The pension for those with fewer qualifying years' contributions will be scaled back, but the minimum level will be set between seven and ten qualifying years.

Capital gains tax (CGT)

The annual exempt amount for individuals and certain trustees will be £11,000 for 2014/15 and £11,100 for 2015/16. For other trusts it will be £5,500 for 2014/15 and £5,550 for 2015/16.

For the sale of a property which has at some time been the person's principal private residence, the final period exemption has previously exempted the gain apportioned to the last 36 months of ownership. This has been the case for many years, but from 6 April 2014 the final period exemption will be reduced to a maximum of 18 months. This may also affect the entitlement to residential lettings relief, given when a property qualifying for the final period exemption was also, at some time in the period of ownership, used for residential letting.

The Chancellor also announced a consultation to begin in April 2014 on the proposal to introduce a CGT charge on future gains made by non-residents disposing of UK residential property from April 2015.

Social Investment Tax Relief

A new tax relief for investment in social enterprise will commence in April 2014. Following consultation, investment in Social Impact Bonds will also be eligible.

Savings and investments

The overall annual Individual Savings Account (ISA) subscription limit for 2014/15 will rise from £11,520 to £11,880, of which up to £5,940 can be invested in cash. The subscription limit for Junior ISAs and the Child Trust Fund (CTF) will increase from £3,720 to £3,840.

For Share Incentive Plans (SIPs) the individual limits on the 'free' shares companies can award to employees for 2014/15 will rise from £3,000 to £3,600 per year. Meanwhile, the individual limits on the 'partnership' shares employees can purchase will be increased from £1,500 to £1,800 per year (or 10% of an employee's annual salary).

The Save as You Earn (SAYE) annual subscription limit is also set to rise. The amount that employees can save and apply towards the purchase of shares for 2014/15 will be increased from £250 to £500 per month.

Mortgage guarantee scheme launches early

Prior to the Autumn Statement, Prime Minister David Cameron announced that part of the Government's flagship Help to Buy initiative would be launched three months earlier than was originally planned.

The Help to Buy mortgage guarantee scheme was due to start in January 2014 but applications for mortgages under the scheme were brought forward to the week commencing 7 October. To be able to offer the guarantees ahead of schedule, the Government is allowing lenders to start writing loans that will become part of the scheme when it opens in January.

Several high street banks will be offering the new Help to Buy mortgages to customers. Under the scheme, buyers need a 5% deposit and the Government and the bank will then jointly guarantee up to the next 15% of the property's value, in return for a fee paid for by the lender.

Help to Buy will be available for three years up to January 2017.

Under the first phase of the scheme, which was launched in April, the Government provides homebuyers in England with equity loans of up to 20% of the price of a new property. The loans are available for newly built homes worth up to £600,000. However, buyers are required to contribute at least 5% of the property price as a deposit, with a 75% mortgage to cover the remainder.

Anti-avoidance measures

A range of measures were announced aimed at tackling tax avoidance.

IR35 legislation

The Chancellor announced that the intermediaries legislation will be tightened further to prevent employers and employment intermediaries circumventing their employer obligations (as regards both taxation and employment law) through the use of contrived contracts, to take effect from April 2014.

Partnership taxation

In Budget 2013 a two-pronged attack on elements of partnership taxation avoidance was announced. The Chancellor has confirmed that those proposals will go ahead.

The first addresses limited liability partnerships (LLPs) using their tax status to disguise employment relationships – making a top-tier employee a member of the LLP removes the employer NIC cost.

In some larger partnerships, in particular LLPs, members have been supplemented by member-owned corporate members to which profits could be allocated, with the result that tax on undrawn profits would be subject to a much lower rate and the overall tax liability (i.e. current and at the time the profits were later drawn) would also be lower. New anti-avoidance rules will apply from 5 December 2013.

Finally, there have been cases of losses being allocated to an individual partner (i.e. human), instead of a non-individual partner (corporate), to enable the individual to access certain loss reliefs. That will also be tackled by anti-avoidance legislation.

Controlled foreign companies (CFCs): profit shifting

Taking effect from 5 December 2013, a new measure switches off the partial exemption rules for loan relationship credits of a CFC that arise from an arrangement with a main purpose of transferring profits from existing intra group lending out of the UK. It also amends the anti-avoidance rule relating to the transfer of external debt to the UK to ensure that the rule works as intended. The first part of the measure will apply to arrangements entered into on or after 5 December 2013 and the second part will have effect for accounting periods beginning on or after 5 December 2013.

Charities established for tax avoidance purposes

Legislation will be introduced in Finance Bill 2014 to prevent a charity from obtaining charity tax reliefs if one of the main purposes of establishing the charity is tax avoidance. The definition of a charity for tax purposes will be amended to exclude such charities.

High risk tax avoidance schemes

A new information disclosure and penalty regime for promoters of such schemes will be introduced, along with objective criteria for identifying them, and a higher standard of 'reasonable excuse' and 'reasonable care' will also be introduced. Clients of these promoters will also have certain obligations including identifying themselves to HMRC.

Dual contracts

Legislation will be introduced in Finance Bill 2014 to prevent non-domiciled individuals from avoiding tax by creating an artificial division of the duties of one employment between contracts in both the UK and overseas.

Other measures

Fuel duty

The increase in the fuel duty main rate that was due in September 2014 has been cancelled. It has been announced that there will be no further increases in the current Parliament.

Vehicle tax disc

From 1 October 2014, the paper vehicle tax disc will no longer be issued and required to be displayed on a vehicle windscreen. The DVLA will also offer motorists the ability to pay vehicle tax by direct debit annually, biannually or monthly.

Bank Levy

The Bank Levy full rate will be set at 0.156% from 1 January 2014.

Corporate gift aid for Community Amateur Sports Clubs (CASCs)

Legislation in Finance Bill 2014 will extend corporate Gift Aid on gifts of money to include qualifying donations of gifts by companies to CASCs.

Online inheritance tax service

HMRC will be investing in a new online service for administering inheritance tax (IHT), designed to remove the need for paper versions of forms and enable people to proceed with applications for probate and submit IHT accounts online. It is expected to be available in 2016.

"What they said..."

The plan is working – it is a long-term plan for a grown-up country. The job is not yet done but Britain is moving again – let's keep going.

Chancellor George Osborne

The Chancellor is in complete denial about the central fact ... that under this Chancellor, under this Prime Minister, for most people in our country living standards aren't rising, they are falling year on year on year.

Shadow Chancellor Ed Balls

This was a pro-business, confidence-building Autumn Statement ... it's good news to see light at the end of the tunnel.

Graeme Leach, Chief Economist, Institute of Directors

There has been no new evidence to show that people are living any longer since the last time the Chancellor increased the state pension age, yet today's young workers are being told they must work until they drop.

Frances O'Grady, TUC General Secretary

We have always advocated the dual approach of tackling the deficit and driving growth – the OBR forecasts confirm it is working. Let's stick with what works.

John Cridland, Director General, Confederation of British Industry