Deloitte.

International Tax

United Kingdom Tax Alert

5 December 2012

Autumn statement contains measures to encourage growth

Contacts

Bill Dodwell
bdodwell@deloitte.co.uk

The Chancellor's Autumn Statement – an outline of the U.K. budget and economic plans – was presented on 5 December 2012 in the context of revised forecasts from the Office for Budget Responsibility (OBR) for public sector borrowing over the next five years, as a weaker outlook for the economy reduces tax revenues. As a result, the OBR considers that the government no longer seems likely to achieve its target of reducing public sector net debt in 2015-2016.

It is therefore encouraging that the Chancellor's speech contains a number of tax measures designed to encourage growth. These include a further reduction in the rate of corporation tax to 21% from April 2014 and a temporary increase in the annual investment allowance. Other measures, including the much-discussed reduction in the pension annual and lifetime allowances, will generate additional tax revenue. In addition, the government continues to target tax avoidance, with legislation targeting a number of specific arrangements taking effect immediately.

Business and employment taxes

Corporation tax rate reduction: The main rate of corporation tax will be reduced by an additional 1% to 21% as from April 2014. The rate will fall from 24% to 23% in April 2013, as already legislated, and then from 23% to 21% in April 2014. This will be legislated in 2013 and should become law by the end of July 2013.The additional 1% reduction is one of a number of measures intended to encourage businesses to locate and invest in the U.K. The announcement means the U.K. will have the lowest corporation tax rate in the G7 and the fourth lowest in the G20.

Increase in annual investment allowance: To support small and medium-sized businesses in particular, the annual investment allowance (a 100% allowance on plant and machinery purchases) will be increased from GBP 25,000 to GBP 250,000 per annum for a two-year period commencing on 1 January 2013.

Creative industries tax relief: The proposed creative industries tax relief will offer a payable tax credit worth 25% of qualifying expenditure. This relief was announced in budget 2012 and is based on the current film tax relief. Subject to EU state aid approval, the relief will apply as from 1 April 2013.

Bank levy increase: The full bank levy rate will increase to 0.13% on 1 January 2013. A proportionate increase will be made to the half rate on the same date. This increase is in part to take account of the benefit to the banking sector of the additional reduction in the corporation tax rate.

Employee shareholder status for capital gains tax: As previously announced (on 8 October 2012), the government will introduce a new scheme for employee shareholders. Under the scheme, employee shareholders will be given between GBP 2,000 and GBP 50,000 worth of shares, but will have different employee rights from other employees. Gains on shares acquired under the scheme will be free of capital gains tax. The U.K. tax authorities (HMRC) are considering options to reduce income tax and National Insurance Contributions on the acquisition of the shares. Draft tax legislation will be published on 11 December, and the new scheme will apply as from April 2013. It is likely to appeal to start-up companies rather than to established groups.

Taxation of "controlling persons:" A consultation document published in May 2012 outlined the government's intention to introduce legislation requiring engagers to operate pay as you earn (PAYE) on payments to "controlling persons" engaged through personal service companies. The Chancellor announced that the government will not proceed with this proposal. There has been some concern that there is some inappropriate use of personal service companies to save tax and HMRC will improve its compliance activity.

Personal taxes

Tax rates and allowances: The personal allowance will increase from GBP 8,105 to GBP 9,440 as from 6 April 2013. The threshold at which the higher rate of tax becomes payable will reduce from the current BP 42,475 to GBP 41,450 from 6 April 2013, and will then increase by 1% per annum for the following two years.

The capital gains tax annual exemption will increase from GBP 10,600 to GBP 11,000 from 6 April 2014 and GBP 11,100 from 6 April 2015.

The inheritance tax nil rate band will increase by just over 1% from GBP 325,000 to GBP 329,000 from 6 April 2015. While this is a modest increase, it is the first increase in the amount of the nil rate band since 6 April 2009.

Pensions and savings accounts: As from 2014/2015, the amount that can be contributed to a pension each year and on which the maximum tax relief can be claimed will reduce from GBP 50,000 to GBP 40,000. In addition, the lifetime allowance, which is the total value of pension savings that can be accumulated without a tax charge, will reduce from GBP 1.5 million to GBP 1.25 million. There will be transitional relief for those whose pensions are already worth more than this amount.

The amount that can be contributed into an individual savings account (ISA) will increase from GBP 11,280 to GBP 1,520 from 6 April 2013. As is currently the case, up to half the amount of the annual ISA's limit can be invested in cash and any remaining amount up to the annual limit can be invested in stocks and shares.

Property taxes: There has been speculation that a new property tax would be introduced based on the value of property held by individuals, but the Chancellor confirmed there would be no new tax. No further announcements were made in respect of the changes to the taxation of high-value residential property owned by persons other than individuals.

Tackling anti-avoidance

The Chancellor announced three small measures to tackle tax avoidance. As from 5 December, three specific schemes involving partnerships and group mismatches, property total return swaps and manufactured payments have been blocked. Also as from 5 December, no income tax relief will be available for the payment of patent royalties not otherwise deductible against income.

Legislation will be introduced in Finance Bill 2013 to confirm that no corporate tax deduction will be available for foreign bank levies. The Treasury also announced that it will focus on partnerships as a “high risk area” as part of its wider investment in tackling avoidance. The introduction of a general anti-abuse rule (GAAR) was re-confirmed and further details will be announced later in December.

The government will release draft legislation on 11 December for enactment in 2013. This will include a new statutory residence rule for individuals, measures in relation to high-value residential property and the GAAR, all of which have been the subject of earlier consultation.