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New Chancellor Philip Hammond presented the 2016 Autumn Statement on 23rd November. It was announced this would be his first and last Autumn Statement, since after the Spring 2017 Budget, the Budget will be made in the Autumn. We will therefore have two budgets in 2017; one in Spring for 2017/18, and one in Autumn/Winter affecting 2018/19. There will still be a Spring Statement, but this will not normally contain any significant tax and spending policy decisions. So, what was the outcome, and how will it affect you?

The main tax points arising from the Budget and a reminder of some important previous announcements are broken down by subject area below:

Companies and Small Business

Personal Tax

Other announcements

Companies and Small Business

Corporation Tax rates

Announcements under the "Corporation Tax Roadmap" were confirmed. The rate applicable to all companies of 20% remains unchanged for the current tax years. A reminder that it was announced in the Summer 2015 Budget that the rate will drop to 19% from April 2017. The further cut to 17% from April 2020 will go ahead as planned.

Planning point: *When tax rates fall, this will reduce the tax benefit of expenditure. Therefore you will gain an absolute tax advantage by spending money on discretionary items such as assets qualifying for Annual Investment Allowance, staff bonuses etc. before the rate reduces. You need to balance this with the cashflow disadvantage of paying money out earlier.*

Corporation Tax loss relief

A surprise relaxation was announced in Budget 2016 in that trading losses incurred from 1st April 2017 will be able to be offset against any income in later years for the company or another group member (currently it may only be offset against profits from the same trade when carried forward to later years). This is a welcome simplification.

The slight sting in the tail is that there will be a restriction in the utilisation of losses for companies with very high profits; only 50% of profits in excess of £5m will be able to be offset by brought forward losses. This will only affect a minority of companies, although it is not clear at this stage whether the £5m limit will be reduced for associated companies in a group or under common control. Draft legislation is expected soon.

Employment Allowance increased and Employer's National Insurance scrapped for apprentices aged under 25

A small amendment was made to align the Employee and Employer NIC thresholds, which will both be at £157 per week from 6th April 2017. Previously, the Employer NIC threshold was due to rise to £158 per week.

A reminder to all employers that the Employment Allowance, which provides exemption to businesses from paying Employer's NIC, rose to £3,000 from April 2016. To qualify for this you do not need to employ any new staff; it is available to all employers, although groups of companies and companies under common control only get one allowance. This is designed to remove the Employer's NIC cost of employing four full time employees on the National Living Wage (see later) and exempts the first £3,000 of Employer's NIC which would otherwise be payable.

A reminder that where a director is the sole employee in respect of whom Employer's NIC is payable, the Employment Allowance will cease to be available from April 2016.

Planning point: *This is designed to counteract a complex NI avoidance scheme. If you are a genuine "one man" company, it appears that appointing a family member as say Company Secretary and paying £1 of Employer's NIC in respect of them may avoid the removal of the Employment Allowance.*

Also, a reminder that with effect from 6th April 2015, there is no Employer's NIC payable in respect of employees under 21 who earn up to the Upper Earnings Limit (£42,380 in 2015/16). This means that (using 2015/16 rates and allowances), cost savings of £536 on a salary of £12,000, £951 on a salary of £15,000 and £1,641 on a salary of £20,000 will be made for each year that such an employee qualifies.

As announced in the 2014 Autumn Statement, the Employer's NIC exemption is extended to apprentices aged under 25 with effect from April 2016.

Planning point: *These measures could make a substantial difference to employment costs for small employers. However, it will be important to ensure the relevant claims are made on the RTI submissions to avoid confusion with HMRC.*
Planning point: *If you have a group of companies (a holding company with one or more subsidiaries), or are involved with more than one company, please get in touch with your usual contact at CRM to see how the allowance will work best for you*
Planning point: *If you are not the sole employee of your own company (or as outlined above, could include a second employee going forwards) and currently pay yourself below the NIC threshold, you may wish to consider increasing your salary to utilise your personal allowance in full. This will result in a net gain, since corporation tax relief at 20% will exceed the employee NIC suffered at 12% and the 13.8% employer NIC will not be due. If you already pay more than £3,000 employers NIC for other employees, you will not benefit from this option. Please see the point above regarding restriction of the allowance from April 2016.*

National Minimum Wage/National Living Wage
There will be a rise in the National Living Wage to £7.50 per hour for over 25s from April 2017. It is planned for this to rise to £9 by the end of this parliament. There are also to be increases in the National Minimum Wage from 1st April 2017 to £7.05 per hour for 21-25 year olds (from £6.95), £5.60 per hour for 18-20 year olds (was £5.55), £4.05 per hour for 16-17 year olds (was £4) and an increase in the apprentice rate from £3.40 to £3.50 per hour. A reminder that this and future increases apply from April each year rather than October from 2017 onwards.

Auto-enrolment contribution increases deferred
A reminder that the minimum contributions under auto-enrolment were due to increase in October 2017 (2% employer, 5% total) and October 2018 (3% employer, 8% total) from their current levels of 1% employer contribution, 2% total contribution. These increases will now be pushed back by 6 months each to begin at the start of the tax year (6th April 2018 and 6th April 2019 respectively).

Planning point: *If you have a PAYE scheme but have not yet reached your staging date, make sure you have a plan in place to ensure compliance with your future obligations. General recommendations are that you need to start planning at least 12 months prior to your staging date. Please get in touch with your usual contact at CRM if you would like any assistance with formulating and delivering your plan, including ensuring your payroll solution is suitable for auto-enrolment.*

Small Business Rates
The chancellor confirmed in Budget 2016 that the current doubling of Small Business Rates Relief would be made permanent from April 2017 when the current temporary extension expires. Rural rates relief will increase from 50% to 100% from April 2017. This applies to certain pubs, Post Offices and shops in rural locations. See https://www.gov.uk/apply-for-business-rate-relief/rural-rate-relief

Planning point: *If you own a small business occupying premises which have a rateable value of below £18,000 a year (or less than £25,500 in Greater London) you may be able to claim up to half of your business rates back, or apply for lower rates. From April 2017, the higher multiplier will not apply for properties with a Rateable Value of under*

£51,000. If you are eligible, make sure this is reflected in your annual rates bill. If not, get in touch with your local authority. See https://www.gov.uk/apply-for-business-rate-relief/small-business-rate-relief

New trading and property income allowances

From April 2017, trading income and property income under £1,000 each will not need to be declared to HMRC nor tax paid on it. If you have such income over £1,000, you can deduct £1,000 from your taxable income instead of your exact expenses. This is designed to prevent people with small amounts of income from sources such as renting out their home whilst on holiday from having to complete a tax return purely for this reason.

Planning point: *Note that these allowances are in respect of income/turnover, not profit. If you have property income of £1,500 and expenses of £700, you will need to declare this income. Note though that you could opt to offset the £1,000 allowance against the £1,500 income instead of your actual expenses of £700, leaving a taxable profit of £500 rather than £700.*

Class 2 National Insurance to be abolished

The flat rate £2.80 per week Class 2 NIC contribution for the self employed will be abolished from April 2018. This has long been anticipated and will be a welcome move for the self employed.

Planning point: *For self employed people, the payment of Class 2 NIC is the trigger for the entitlement to contributory benefits such as state pension. Legislation will be amended so that payment of Class 4 NIC on your annual profits will give this entitlement. However, if you have a year when you make a loss, or profits under the Class 4 threshold (possibly due to investing in new plant and machinery and claiming Annual Investment Allowance), this may leave a gap in your contribution record. In these circumstances, you may wish to consider paying Class 3 (voluntary) contributions, depending on your contribution history.*

Capital allowances on cars

A reminder that the 100% First Year Allowance on low emission cars (less than 75g/km of CO_2) will be extended for a further three years to 31st March 2021, although the threshold will reduce to 50g/km of CO_2 from 1st April 2018.

Furthermore, the limit of CO_2 emissions at which a car is put in the special rate pool attracting 8% capital allowance rather than 18% in the main pool will reduce from 130g/km to 110g/km from 1st April 2018.

Planning point: *You can check the CO_2 emissions of your car here with the registration number and manufacturer: www.vehicleenquiry.service.gov.uk. Otherwise you can use websites such as www.comcar.co.uk to check CO_2 of cars you are thinking of buying. The decision as to whether you have a company car or own a car personally and reclaim mileage involves a number of factors and we would recommend you speak to your usual contact at CRM in order to advise on the best route for you.*

Personal Tax

Income tax rates and allowances

There were no further changes to income tax rates and allowances beyond those previously announced. The current personal allowance of £11,000 is to rise to £11,500 from 6th April 2017 as previously announced. Furthermore, the basic rate band for 2017/18 is to be £33,500 (currently £32,000).

This, together with extensions to the basic rate band, means that the higher rate tax threshold (including the personal allowance and basic rate band) is to rise from £43,000 from April 2016 to £45,000 from April 2017. The higher rate threshold is still expected to be £50,000 by the end of this parliament. The NIC upper limit will continue to align with the higher rate threshold.

The additional rate of income tax remains at 45% for taxable income over £150,000 (barring dividends – see below).

Furthermore, the personal allowance will still begin eroding when income reaches £100,000, meaning people with incomes of £100,000-£122,000 (for 2016/17) will suffer an effective 60% tax rate within this bracket.

As previously announced, from 2015/16 married couples (and those in a civil partnership) will be able to transfer 10% of their personal allowances to each other, helping couples where one person does not fully use their own allowance. However, where one of the couple is a higher rate or additional rate taxpayer, this facility will not be available.

Planning point: *If you are married or in a civil partnership, it remains best practice to utilise both spouses' personal allowances and basic rate bands where possible, whether this be by paying income from your business to both spouses within legitimate boundaries, or by transferring investment assets between spouses.*

Planning point: *If your income is at or near the higher rate, additional rate or £100,000 limit, there may be options for mitigating the impact of these tax rates depending on your personal circumstances. Please get in touch if you would like a review carried out to ensure your tax bills are kept to a minimum.*

Planning point: *If you currently take a minimal salary from your own company, then the increase in personal allowance needs to be considered in conjunction with NIC limits. From April 2016, we would suggest that a salary in the region £8,100 p.a. (£675pcm) could be considered optimum for these purposes. At this rate you will pay a small amount of NIC. To avoid NIC entirely, a salary of up to £8,060 p.a. may be taken. Please see the comments on Employment Allowance above – if you do not pay over £3,000 in Employers NIC already (and do not utilise your personal allowance on other income such as rental income), then you may benefit by paying up to the £11,000 personal allowance as a salary from April 2016, or £11,500 from April 2017. Please see the comment in the National Insurance section regarding Employment Allowance if a sole director is the only employee in respect of whom Employers NIC is payable.*

Planning point: *If your income is regularly in the 60% effective bracket (£100-120k approx.), and you have a degree of control over it (for example if you run your own company), it may be sensible to defer income in excess of the threshold until April 2017 where practical (e.g. by delaying dividend or bonus payments), or to accelerate pension* *contributions to bring income below the relevant threshold (subject to contribution limits). Alternatively, you could consider bringing forward the excess income from next year into 2016/17 in order to get below the threshold next year. By doing this, you can seek to get your income under the relevant limit every other year and reduce the average tax rate on your income over the years.*

Salary sacrifice arrangements
An expected announcement was made pertaining to salary sacrifice arrangements, which the government perceives as having been subject to abuse. From April 2017, new rules will be implemented to address perceived tax advantages of these arrangements, meaning that as a minimum, tax and Employer's NIC will be charged on the amount of salary sacrificed meaning that any tax and Employer's NIC savings are wiped out. Exception remains for arrangements pertaining to pension contributions, childcare, cycle to work schemes and the provision of ultra-low emission cars.

Other plans in place by 6th April 2017 will be allowed to run until 5th April 2018, and where these plans relate to cars, accommodation or school fees, this is extended until 2021.

Planning point: *Employee NIC savings will still be available, and the specified benefits (e.g. pension contributions) will continue to enjoy tax exemption. A common scenario is for auto-enrolment pension contributions to be combined with a salary sacrifice for tax efficiency. Beware that salary sacrificed cannot be considered for meeting National Living Wage/National Minimum Wage requirements, and that entitlement to benefits under salary sacrifice arrangements may continue whilst employees are on sick leave, maternity leave etc. when the entitlement to the salary sacrificed would otherwise have stopped.*

Changes to savings taxation
A reminder that a "Personal Savings Allowance" has been in place since April 2016. Under this scheme, interest income of £1,000 for basic rate taxpayers, or £500 for higher rate taxpayers, will be exempt from tax. Additional rate taxpayers (with income over £150,000) will not benefit from this exemption. Automatic deduction of tax at source by banks will cease.

Planning point: *For many people, this allowance may make a cash ISA irrelevant. With current low interest rates, funds of around £65,000, or £32,500 for a higher rate taxpayer, would be needed to exceed this limit. However, if rates rise, then at say 5% interest, this would drop to £20,000 or £10,000 for a higher rate taxpayer. Furthermore, it is more likely that this exemption could be reversed in the future than the whole ISA regime, so you should take a balanced view before dispensing with the ISA.*

Planning point: *Many small business owners may not have significant personal savings outside of an ISA to utilise this allowance, but may be owed a significant amount by their trading company. If, for example, your company owed you £25,000, you may decide to charge the company say 4% annual interest from April 2016. As long as you are charging no more than a market rate of interest, then the company should obtain a tax deduction for the £1,000 interest paid in this example, and as a basic rate taxpayer, no income tax is payable by you personally. For a higher rate taxpayer, it would likely be preferable to reduce the rate charged to generate interest within the £500 reduced allowance for a higher rate taxpayer.*

New Lifetime ISA
From April 2017, people under 40 will be able to open a "Lifetime ISA (LISA)". These will run alongside the normal cash and shares ISAs. Contributions into a LISA up to the age of 50 will be part matched by the government with a 25% bonus.

Up to £4,000 may be saved into a LISA each year, out of a revised total ISA allowance from April 2017 of £20,000 (2016/17: £15,240). Funds from a help to buy ISA will be transferrable into a LISA from April 2017. Based on the rules as announced, it would seen to be a generally beneficial idea to do this, as with a help to buy ISA you cannot contribute to a normal ISA in the same tax year, and thus your unused ISA allowance is lost, although individual consideration is of course necessary.

Funds from a LISA may be used to buy your first property (costing up to £450,000) or to use in retirement (defined as from age 60). Although you can withdraw funds for any other reason, this would result in a loss of the bonuses already paid plus any associated income/gains on these.

In any case, funds taken from a LISA will be free of income or capital gains tax, including the government bonus.

The LISA is designed to run alongside the current pension regime, although initially the government consulted on such a system replacing the current pension system entirely

Planning point: *The 25% contribution from the government is equivalent to the basic rate tax relief on pension contributions. However there is no extra relief for higher rate or additional rate taxpayers. Basic rate taxpayers may therefore consider it great value for money to get the same upfront tax benefits as a pension but to access the entire pot tax free upon retirement (as opposed to 25% tax free in a traditional pension). Higher rate and additional rate taxpayers may weigh more carefully the lesser upfront tax relief against the tax free status later in life.*

Planning point: *For people with little or no pensionable income (e.g. people living from property income or during loss making years), this effectively means that you can put £7,600 gross into personal pensions and LISAs at a cost of just over £6,000, with the balance of £1,520 topped up by the government even if you pay no tax in the year.*

Planning point: *For people who have maximised their pension savings for the year or lifetime, this is an opportunity to get a small amount of further savings with the benefit of a government contribution.*

Planning point: *It is unclear whether the significant Inheritance Tax benefits enjoyed on undrawn pension benefits will also apply to LISAs.*

Planning point: *If you are nearing 40 next April, it may be worthwhile to open a LISA with a small one off contribution to keep your options open for the next 10 years.*

Pension changes
Remember that from April 2016, there is a reduction in the Annual Allowance (the amount which you or your employer can contribute to a pension scheme) where Adjusted Income (which includes employer pension contributions) exceeds £150,000.

Affected individuals will find their allowance reduced by £1 for every £2 of income over this threshold, down to a minimum of £10,000. This effectively is a sliding scale from £150,000 to £210,000.

Please see the factsheet available from the News section of our website for full details and examples.

Planning point: *If you are caught by the new rules, you may wish to consider increasing your contributions, or your company contributions, in the current tax year. You may have unused relief brought forward from a previous tax year.*

For people who have drawn pension benefits, the money purchase annual allowance will reduce from £10,000 to £4,000 from April 2017. This means that once you have drawn pension benefits, you can only contribute a further £4,000 per year into a pension scheme.

Changes to taxation of rental income
As announced in the 2015 Summer Budget, tax relief on interest payments will be restricted to the basic rate from 2020/21. This will be phased in equally over 4 tax years starting with 2017/18. This will not apply to commercial property, only residential "buy to let" properties. This restriction is applied by making the interest paid non-deductible, so you pay tax on rental profits before interest is deducted. The tax is then reduced by 20% of the interest paid. Even if you are currently a basic rate taxpayer, the mechanics of this restriction can actually push you into the higher rate of tax.

Planning point: *Where your long term plan is to build a portfolio of residential property, consider whether you should do this through a limited company. It is sometimes possible to move existing portfolios into a company tax efficiently with the correct planning. This is a complex area so please get in touch if you wish to discuss your options in this area.*

Other announcements

Increased HMRC Compliance activity
HMRC have a compliance yield target of £27 billion for 2016-17. An additional £800m funding is being provided to HMRC to achieve this. In particular, £300m has been allocated to target Small and Medium businesses with a target of £2 billion extra tax revenue beyond that from normal compliance operations.

Therefore we expect tax, VAT and PAYE enquiries to increase for small business clients. Specifically, a review of IR35 rules has been announced, so the contracting and consultancy sector may be hard hit, but we expect increased HMRC activity across all sectors.

Planning point: *You can protect yourself and your business from the cost of defending yourself from HMRC enquiries by subscribing to our tax investigation service. The cost for businesses starts at just £120 + VAT per annum. Please get in touch with your usual contact at CRM if you would like to find out more about this service.*

VAT Flat Rate Scheme changes
With effect from 1st April 2017, businesses operating the flat rate scheme for VAT will need to use a new percentage if they meet a new definition of being a "Limited Cost Trader". This is defined as a business where, in a given accounting period:

1. Expenditure on goods (excluding capital goods, subsistence and vehicle parts/fuel) is less than 2% of VAT inclusive turnover, or
2. Expenditure on the same goods is more than 2% of turnover but less than £1,000 per annum.

Draft legislation is expected in December to clarify matters; in particular, how the level of VAT on services incurred is dealt with.

Planning point: *You can review whether the VAT Flat Rate Scheme is beneficial to your business by downloading the VAT Flat Rate Scheme reckoner spreadsheet from our website here* http://crmoxford.co.uk/Downloads-Forms.

As always, it is impossible to include every nuance in a publication such as this, so if you have a question about how a given measure may affect you or your business, or if you have a general tax query, please get in touch with us on 01865 379272. Please note that this is designed as a generic guide rather than specific advice.