2011 AUTUMN STATEMENT

No Plan B

George Osborne started his Autumn Statement by explaining that the forecasts he made a year ago have turned out to be optimistic. Naturally, there was plenty of shouting from those sitting opposite in the House when he put the blame elsewhere: a sharp increase in global prices for fuel and agricultural commodities driving up inflation, the problems with government borrowing in the eurozone, and the long-term impact of the 2008/09 financial crisis turning out even worse than anticipated. In the Chancellor's view, the measures that he has taken so far have limited the damaging impact of these external shocks, and he proposes to carry on with more of the same.

Ed Balls claimed that the lower growth forecasts were proof that the government is cutting too far, too fast – but he is in the comfortable position of never being able to know whether he would have coped any better.

Usually, next year's tax rates and allowances are released immediately after the Chancellor sits down, and the commentators can calculate the effect on the average taxpayer straight away. This time, they were only added to the Treasury website much later in the day. It had appeared that the Chancellor was returning to the old days when the allowances were the finale of the March Budget, but it seems that someone simply forgot to press a button at the right moment.

This newsletter highlights some of the important measures that Mr Osborne announced and their likely impact on taxpayers. ●

What goes down...

The statistics on growth may mean more to economists than to most ordinary people, but what's certain is that growth means there's more money around. So cutting the forecasts for 2011 from 1.7% to 0.9%, and for 2012 from 2.5% to 0.7%, cannot be good news. The Chancellor had to admit that his plans to reduce the deficit have been put back, as he will have to borrow an extra £100bn over the next four years. He left unsaid the possibility that further unexpected shocks could derail the plans altogether.

Many public sector workers will come to the end of a 2-year pay freeze next year, only to find that their pay rises will be capped at 1% for 2 more years after that. This announcement, made the day before a strike over reform to pension plans, seems likely to lead to even worse relations between the government and the unions. Worse, the Chancellor wants to make 'public sector pay more responsive to local labour markets' – an attack on central negotiation of national rates.

Deep within the report of the Office for Budget Responsibility was the startling statistic that the public sector is expected to shed 710,000 jobs over the forecast period to 2016/17 – up from the previous estimate of 400,000, which related to a shorter period.

The OBR's forecasts also suggest that household disposable income will drop in real terms in 2011 and 2012 before rising slightly in 2013. It will be 2015 before we feel as well off as we were in 2010. Gordon Brown said that we had seen the end of 'boom and bust' – at the moment, the boom part seems a nostalgic memory. ●

2011

Jersey post

In March, Mr Osborne announced that the VAT-free limit for postal packets coming from outside the European Union would drop from £18 to £15 on 1 November 2011. Recently it was confirmed that the relief will be withdrawn altogether for imports coming from the Channel Islands from 1 April 2012. The threshold was intended to simplify occasional imports arriving in the mail – avoiding the need for the postman to ring the doorbell and collect the money – but has become the basis of a major industry which exports goods such as CDs, DVDs, contact lenses, computer stationery and cosmetics to the Channel Islands in bulk and imports them again singly.

The government does not believe that businesses will relocate from the Channel Islands to other non-EU countries in order to retain the benefit of the threshold. It hopes that there will be a benefit to UK retailers who have had to charge the VAT and have therefore been undercut. Anyone who has purchased by mail order can expect to see a change – to the price, the supplier's address, or the complexity of receiving a delivery – from next April. ●

SEIS the day

The Chancellor announced a new Seed Enterprise Investment Scheme (SEIS) which will run from April 2012. Full details have not been announced, but the main idea is that investment in qualifying new businesses of up to £100,000 in a year will enjoy 50% income tax relief. That's more generous than the existing 30% relief for Enterprise Investment Schemes. There will also be a one-year window during which capital gains can be realised and reinvested in SEIS in order to enjoy a CGT exemption.

These are very attractive incentives to invest. It appears to offer 78% tax relief – 50% income tax and 28% CGT – so that £100,000 could be invested in a company at a cost of only £22,000. Of course, tax relief can't make a success out of a poor investment – but it can make a big difference to an ordinary one. If you have savings to invest next year, it will be worth studying the details. There will surely be restrictions on how closely connected the investor can be to the company, and the company can only raise £150,000 in total in a year. ●

Transport help

The Chancellor put off the 3p per litre fuel duty increase that had been planned for January 2012. It will now happen in August 2012, when an inflation increase was expected in addition. The Chancellor claimed that 'families will save £144 on filling up the average family car by the end of next year' in comparison with the cost 'without our action in the Budget and this autumn'. This really means that families could have expected to pay £144 more, because we were told that the price would increase, but now they won't – not what most people think of as 'saving'.

There will also be a cap on increases in regulated rail and Transport for London fares of 1% above Retail Price Index inflation for a year from 2012. Unfortunately, with inflation so high, that is still likely to be 6% – and those fares which are not subject to the same regulations may rise by even more.

On the other hand, Air Passenger Duty will be extended from 2013 as planned to cover flights on business aircraft, which have been exempt because they are not fare-based. This seems to be political rather than economic – anyone who can afford a jet can surely afford the tax, and the measure will only raise £5m a year in total. ●

Hiring...?

The government is introducing a new Youth Contract which is intended to increase the opportunities for 160,000 young people to find work. This will offer incentives to employers to provide apprenticeships or jobs with training – one of the striking features is a possible wage subsidy of £2,275 for private employers taking on someone on the contract – but it will also be linked to loss of benefits for those who don't take what's offered to them. This is a substantial measure, costing nearly £1bn a year. It remains to be seen whether it can reverse the trend in youth unemployment that has been continuously increasing for seven years. ●

...and firing

The Chancellor announced a range of possible measures to encourage businesses to take on new employees – by making it cheaper and easier to get rid of them. We have already been told that the qualifying period for an unfair dismissal claim is being extended from 12 months to 2 years from April 2012. Other measures could include 'compensated no-fault dismissal' for businesses with up to 10 employees, avoiding the risk of an Employment Tribunal case by making a fixed payment, and changes to the rules for collective redundancy and the settlement of disputes. The Transfer of Undertaking (Protection of Employment) Regulations, which require someone taking over a business to respect the former employer's obligations to the workers, are also under review. ●

Overseas aid…

The government is committed to spending a minimum percentage of gross national income on overseas development assistance. The absolute amounts which were previously proposed will be adjusted downwards to reflect the reduced growth forecasts so that we do not spend more than 0.7% on aid. This saves over £1bn in total during the next three years. ●

Back to the future…

Mr Osborne referred to the 'right to buy' scheme as one of the greatest social policies of all time, that had been slowly strangled by the Labour administration. He proposes to 'reinvigorate' it with discounts of up to 50% for tenants who want to buy their own homes, linked with other measures to encourage building of new homes and affordable lending to people who can only afford to put down a 5% deposit. ●

…and home aid

The Regional Growth Fund allows small businesses to apply for grants to contribute to the cost of buying new equipment where they cannot obtain bank finance. For example, if a business needs plant costing £100,000 and can only contribute £10,000 from its own resources but can also only borrow £70,000 according to its bank's lending criteria, it can apply for a grant of £20,000 to break the logjam and get the project started. The Chancellor announced that a further £1bn will be added to the RGF (originally £1.4bn, apparently all allocated already to 169 projects) in the coming three years.

Meanwhile, two new possible enterprise zones were announced in the Port of Blyth and around Battersea Power Station in London. In addition, 100% capital allowances will be available for investment in plant and machinery in six existing zones: the Black Country, Humber, Liverpool, North Eastern, Sheffield and Tees Valley. ●

…and a future in work

The State pension age is increasing. Men will qualify at 66 rather than 65 from October 2020, and women are going to catch up from their historical retirement age of 60 by the same date. Now the 66-year limit will rise to 67 between April 2026 and April 2028, rather than after 2034 as previously announced. We were reassured that no-one within 14 years of their pension will be affected – those born before April 1960 will still be able to put their feet up when they were expecting to (if they can live on the State pension).

The State pension itself is now guaranteed to rise each year by the highest of the rise in average earnings, prices, or 2.5%. In April 2012 it will go up in line with prices, which have risen by 5.2% in the base year to September – so the basic pension will go up by £5.30 to £107.45. ●

Infrastructure

As expected, the Chancellor announced an intention to spend on a wide range of infrastructure projects – a further £5bn over the next three years (although he appears to have found this amount from savings elsewhere). This is good news for businesses and workers in the relevant industries, but less good news for those in whose back yards new roads and railways will be built. The government is also trying to ease planning rules to speed up the start of new projects.

The only project that appears to be ruled out is a third runway at Heathrow Airport – anything else is negotiable. A long list of specific road and rail projects was announced in the Chancellor's speech. ●

Cost sharing

Where an organisation cannot reclaim VAT on its expenses – because it's a VAT-exempt business or perhaps a charity which isn't in business at all – the addition of 20% to costs is a real burden. If several such organisations get together to share facilities, the result can be the addition of that 20% to costs which shouldn't have any VAT in – for example staff salaries. According to the European VAT Directive, there is supposed to be an exemption for 'cost sharing by groups of persons who cannot recover VAT' – but it has never been put into the UK law. Now, after several false starts, we are promised that it will be implemented in the next Finance Act. Anyone who has already set up an arrangement which happens to qualify – even though they did not know what the conditions would be – will be able to claim back VAT for the last four years. This will be interesting to any non-VATable organisation which might obtain economies of scale by setting up a cost-sharing arrangement, but HMRC have a history of imposing tight conditions on this sort of relief – it will have to be looked at carefully. ●

Fighting for scraps

Following the well-publicised problem of scrap metal thieves stealing cables and bringing railways to a halt, the government has allocated £5m to set up a national task force to target this problem. They will be looking for the thieves and the scrap metal dealers who buy their ill-gotten goods. ●

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Tax rates

The Liberal Democrats persuaded their coalition partners that raising the personal allowance to £10,000, taking lower-earning individuals out of income tax altogether, should be a long-term objective of tax policy. It has again been raised by more than inflation, by £630, to £8,105 in 2012/13 – for a basic rate taxpayer, this represents a tax saving of £126 for the year.

The level at which the 40% tax rate starts has been lowered by the same £630 to £34,370. This means that the saving remains £126 for all taxpayers – higher earners get no extra benefit at the 40% rate. Unfortunately, this is likely to make tax more complicated for those who are on the margin of the 40% rate – they may have to fill in a self-assessment tax return in order to pay higher rate tax on income that is outside PAYE.

The age allowances for those over 65 have also risen at above the rate of inflation, taking more pensioners out of the scope of income tax.

As before, taxpayers with income above £100,000 have their personal allowances withdrawn at £1 for every £2 of income until there is no allowance at £116,210. The 50% tax rate continues to start at £150,000. ●

Tax avoidance

Few detailed measures were announced on tax avoidance. The Chancellor confirmed that measures will be introduced to restrict the relief on contributions which large employers make to their pension funds in financing arrangements which involve asset-backed guarantees. These have been capable of structuring in such a way that the business has received more tax relief than the eventual amount contributed to the scheme.No doubt there will be more announcements on 6 December and again in March. It is rare for HM Revenue & Customs to pass by a major tax-and-spending statement without closing down a batch of loopholes. ●

Credit easing…

Many of the problems of the last few years have been blamed on the inability of businesses to find a bank to lend them money.The government is proposing to offer a National Loan Guarantee Scheme for up to £20bn of bank lending to businesses with turnover of up to £50m a year. Not only will this make money more available, it will also make it cheaper – the reduction in risk should lead the bank to charge about 1% less on the loan. ●

…and credit squeezing

The child element of Child Tax Credit will increase in line with inflation by £135, but a planned extra increase of £110 above that has been cancelled.The disability element of tax credits will also rise in line with the consumer prices index, but the other elements of the Working Tax Credit will be frozen, so the real value of the payments will go down.

Some other detailed changes to the rules were announced last year: the £545 'family element' of CTC will taper away at much lower income levels, which will represent a significant tax increase for those who have received it up to now.

The Chancellor said that the best way of helping low income working people is to take them out of tax altogether.This year a big increase in the basic personal allowance contributed to this objective, and the coalition's long-term objective is for the allowance to reach £10,000. ●

Gains static

The annual exemption for CGT is not normally confirmed for the next tax year at the Autumn Statement. However, it was announced that it will be fixed at the present figure, £10,600, instead of rising with inflation (which might have taken it to around £11,150).This freezing of the allowance is intended to balance the ability to exempt gains altogether if they are realised in 2012/13 and reinvested in the Seed Enterprise Investment Scheme. ●

Rates holiday

The March Budget included a holiday for small businesses from the payment of business rates until October 2012.This has now been extended to April 2013, with the promise of an ability to defer 60% of increases over the following two years as well. ●

Some we prepared earlier

As usual, we already know about a number of changes coming in at the beginning of the next tax year because they were announced last year or the year before. Some of these were confirmed in the Autumn Statement, and some were confirmed by not being mentioned.

Alistair Darling introduced a two-year 'holiday' from Stamp Duty Land Tax for first-time buyers spending up to £250,000 on a house.This has not increased the number of first-time buyers entering the market, so it will end as planned on 24 March 2012. Anyone wanting to benefit from the saving of up to £2,500 needs to buy their first house before then.

The main rate of corporation tax, for companies with profits of £1.5m and above, will fall from 26% to 25% with effect from 1 April 2012. No reference was made to the small profits rate, which is currently 20%.

The bank levy is a new tax on banks which is supposed to raise £2.5bn a year. Because receipts have been below the forecast – presumably the banks have declared lower figures than expected – the Chancellor has put the rate of the levy up. It will be interesting to see whether the banks still end up paying less than he expects.

The annual subscription limit for Individual Savings Accounts (ISAs) goes up by inflation, rounded so that the figure divides by 12 (to allow for monthly contributions). It rises on 6 April 2012 from £10,680 to £11,280 (£890 to £940 per month). ●