Autumn Statement

General Features

01 January 2016

A summary of the key announcements

HMRC said on GOV.UK that the main tax announcements in the Autumn Statement were tax credits (and tax-free child care), SDLT (higher rate for second homes and buy-to-let) and making tax digital. Other announcements took forward proposals that had been consulted on in the summer.

But another surprise was the rate of the apprenticeship levy (0.5% of payroll for large and medium-sized businesses), making it the biggest revenue-raiser of all the tax increases announced since the general election.

We will review the legislation when it is published and provide further comment on the measures.

Tax credits

LITRG welcomed the Chancellor's announcement that the government has dropped the changes to the tax credit taper rate and thresholds from April 2016. However, LITRG noted other tax credit changes will go ahead and said these need to be fully communicated to claimants well ahead of their introduction.

In his summer Budget, the Chancellor announced that the working tax credit threshold would be reduced from £6,420 to £3,850 from April 2016 and the child tax credit threshold from £16,105 to £12,125. Above these levels, tax credits start to reduce by the set taper rate. This rate is now 41% but was due to rise to 48% from April 2016. Both changes have been reversed so that the taper and thresholds will remain at their 2015/16 levels.

LITRG has said that the other planned changes to tax credits that will still go ahead need to be fully explained and communicated to claimants well ahead of implementation. LITRG is particularly concerned about the increase in overpayment recovery rate and the impact this will have on people with disabilities and those who pay childcare costs. LITRG strongly urges HMRC to ensure adequate hardship provisions are in place and that it communicate with claimants affected as soon as possible.

There is further detail on the proposed tax credit changes in *Tax credits: the Autumn Statement and the future*

Stamp duty land tax – hit on 'buy-to-let' and second homes

The Chancellor announced an extra 3% stamp duty land tax on purchases of buy-to-let properties and second homes from 1 April 2016. Caravans, mobile homes and houseboats will be excluded; similarly, the intention is to exclude commercial investments in residential property too.

The CIOT confirmed that the additional 3% would be added to each band, so purchasing a buy-to-let property or second home for £275,000 would add an extra £8,250 to the SDLT bill. Combined with the recent phased restriction on tax relief for financing costs for buy-to-let property, the tax costs for these purchases are set to rise significantly.

The CIOT has welcomed the government's promise to consult on the detail but noted that it would be difficult to define the target of the government's policy – what is a buy-to-let property or, indeed, a second home? A definition that looks at intended use produces difficulties and could operate harshly if use changes soon after acquisition. The challenge will be to arrive at a definition that meets the policy intent. The time available for consultation is short given the start date of the new measure of April 2016.

Making tax digital

The CIOT has warned that HMRC's customer service standards, which have recently been heavily criticised, must not be allowed to decline further as HMRC seeks to transform itself into one of 'the most digitally advanced tax administrations in the world'.

Making Tax Digital is an ambitious programme but has the potential to deliver significant benefits to taxpayers and HMRC. However, it must be managed carefully and in consultation with taxpayers, tax professionals and software developers. It will be vital to ensure that the tax system itself can support the changes proposed and is fit for purpose in the digital age. Provision must be made for taxpayers who are not digitally engaged.

In this regard, the ATT cautiously welcomed the announcement that the government will publish draft legislation to lead to a new, simpler process for paying tax. The new provisions will apply when HMRC holds all the details that it needs to calculate a tax liability and where existing payment processes are not available. The key concept will be a legally enforceable demand for payment without a more formal assessing process. Importantly, the new process will give taxpayers the right to challenge and appeal against the calculations.

This process will come into effect in the 2016/17 tax year. The ATT has said it will be welcome because payments will be made without a taxpayer becoming involved with the complications of the self-assessment process at the same time as providing an entitlement to challenge and appeal to the tax tribunal. As long as simple means simple, we are likely to welcome the new provision.

LITRG has expressed concern that using new digital tax accounts to make self-employed people report to HMRC more often will add to their workload. The Chancellor announced that most self-employed people, including landlords, would be required to update their tax information at least quarterly using their digital tax account. He is also consulting on bringing forward the payment dates for these taxes.
The announcement earlier this year anticipated that individuals could review their digital account and use it to make any tax payments. The new announcements widen considerably the functionality of these accounts, seemingly placing greater burden on individuals, businesses, the self-employed and landlords to actively manage and track their tax affairs digitally, using the digital tax account and apps to provide updates and returns to HMRC at least quarterly and potentially accelerating their tax payments.

From the perspective of very small business, LITRG has expressed concern that using digital tax accounts to make self-employed people report to HMRC and pay tax more often will add to their administrative burdens. Even with exemplary records it might be difficult for a business owner to report an accurate profits figure other than at the year end, unless he employs an accountant to help him. LITRG calls for significant consultation before these proposals are implemented because the added burden could be substantial enough to deter entrepreneurship altogether.

Apprenticeship levy

The big revenue raiser, however, is, the apprenticeship levy, which will raise an extra £3 billion a year from business by 2020 with what is basically a new payroll tax. Fixing the rate at 0.5% of payroll is at the top end of expectations and will mean a hefty additional cost for some businesses.

The CIOT said the government was keen to stress that businesses that invest in apprenticeships should do well out of this new source of funding. It is odd that the levy appears in the Budget documents as improving the government's finances by £3 billion a year when it is supposed to be hypothecated toward increasing the quality and quantity of apprenticeships: government accounting is odd sometimes.

One concern is that some firms that invest significantly in training may still lose out because of how training takes place. For example, professional services firms put a huge amount into training their students, but mostly not in the form of apprenticeships. Larger firms in this category, which will also have to pay the levy, could be big net losers as a result, despite being big investors in training. They may also be incentivised by these rules to change the focus of their training rather than increase overall investment in it.

In theory, only large employers will be paying the apprenticeship levy; however, LITRG has warned that, in practice, many more employers – particularly small or micro employers – may find themselves contributing if the £15,000 'offset' is difficult to understand or claim.
The apprenticeship levy will be set at a rate of 0.5% of an employer's pay bill and will be paid through PAYE. However, each employer will receive an allowance of £15,000 to offset against their levy payment, so the levy should be paid only on any pay bill in excess of £3 million.
Although this is welcome for smaller employers, if the £15,000 allowance is anything like the employment allowance (which businesses can claim to reduce their employers' National Insurance bill), it will be necessary to tick a box in either the payroll software or on the paper equivalent form to claim the allowance and negate the levy.

Other announcements

As expected, the Chancellor confirmed a raft of measures to tackle offshore tax evasion. Despite strong representations from the CIOT and other stakeholders, these include a new strict liability criminal offence.

It was also confirmed that the government will introduce the package of measures aimed at improving large business tax compliance (see page 48 of this Technical Newsdesk) and rules for addressing hybrid mismatch arrangements.

More positively, the government announced that it would drop its proposal to introduce restrictions on using deeds of variation for tax purposes. As reported in December's Technical Newsdesk (page 44), both the CIOT and ATT opposed the proposals. They said the experience of members was that deeds of variation were simply practical devices that brought a sensible measure of compassion into the tax system at a difficult time.