Fall into line

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The question we're always asked about any fiscal event is 'what's the headline?' I think it has to be Chancellor Philip Hammond's final announcement – that he's just delivered his last Autumn Statement. In future, there will be only a single fiscal event every year, which will be in the autumn. 2017 is a transition year, with Budgets in both March and the autumn, but we'll see the full effect in 2018. There will be a Spring Statement, which will cover economics, unless of course there is an urgent need to make a tax change. Draft legislation will in future be released in the summer. The whole new process should be much more measured, allowing more time for consultation and consideration of tax changes – and it will help the Treasury and HMRC, which will no longer need to work on cycles of twice-yearly tax initiatives.

The CIOT played a part in this, as our joint project with the Institute of Government and the Institute of Fiscal Studies encouraged the Chancellor and Prime Minister to make this major step forward.

The second bit of good news is that there were few new tax announcements. As someone who covers every fiscal event, perhaps that's a disappointment – but it's actually something I think we should all welcome. There are still plenty of changes in the system.

The Chancellor confirmed that the government will go ahead with two major areas for large companies: limitations on interest payments and the use of tax losses. Together these two measures are expected to raise £1.5-2 billion annually, on top of the current corporate tax bill for large companies of about £20 billion. Full details will be released on 5 December, but the statement said that there will be changes to help ensure that infrastructure and property business continue to get tax deductions for third party interest costs.

There will be a consultation in 2017 on improving the research and development expenditure credit, which currently is worth up to £2 billion to the business sector.

There will be a spring 2017 consultation on potentially applying corporation tax to foreign companies which receive income from UK sources, without carrying on a trading business here. The main group affected would be non-resident corporate landlords, which currently pay income tax on rents received. A change would presumably offer a lower tax rate–potentially 17% compared to 20% basic rate income tax–but with reduced ability to deduct, for example, interest costs or brought-forward losses. The consultation will cover all these areas, but it does seem clear that capital gains are not in scope; the issue is around taxation of rent.

Employers face new tax and national insurance increases with confirmation that the treatment of salary sacrifice (and benefits with a cash option) will be changed from April 2017. Where the new rules apply, the tax due will be based on the amount of the salary sacrificed or the cash alternative, where this is higher than the normal taxable benefit value. The impact will be greater on benefits with low tax values and those exempt from tax, including workplace gyms, car parking and death in service policies. There is one-year grandfathering for existing arrangements but accommodation, cars and school fee arrangements may be grandfathered until 2021. The underlying issue is that there has been major growth is so-called asset schemes – where salary is sacrificed for a fridge, for example. It’s clear that the Treasury decided it’s best to provide that everything is taxable and specify exemptions – pensions, childcare, bicycles and now ultra-low emission vehicles.

Public sector employers, including employment agencies supplying workers to them, will need to work out from April 2017 whether services provided to them are quasi-employments, in which case PAYE and NI must be deducted by the agency or the public sector engager. This is a big systems change and cost – and could well move to private sector engagers in later years.

There was a surprise increase in insurance premium tax from June 2017. This means the rate has doubled from 6% to 12% in two years. The latest move will add about £21 to the insurance costs of a family with two cars. That same family will benefit by about £40 from the freeze in fuel duty, in place of the RPI increase. Given that fuel duty hasn’t risen for seven years, perhaps we should ask if we shall ever go back to indexing the duty.

Finally, the best way to assess any Budget or Autumn Statement is to look at the numbers. The big numbers yesterday were in the Office of Budget Responsibility’s document where it comments on the impact of tax-motivated incorporation. It thinks this costs at least £1 billion today but will rise to £3.5 billion by 2020-21. The government will thus consult in 2017 on the considerable issues involved. The Matthew Taylor review will look at employment law issues but won’t consider taxation. Hopefully the new review will take in the OTS’ work on an annual cumulative basis national insurance, which the Chancellor decided to defer. There will be a more modest review of the NIC treatment of employee expenses.