Alexander Beard
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Autumn Statement 2014

Overview

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Introduction

When George Osborne stood up to deliver his Budget in March everything in his garden was rosy – or as rosy as the prevailing world economy would allow. Most of the UK economic indicators were moving in the right direction and it was generally agreed that the UK was recovering from the global recession more quickly than all of its major economic competitors.

Nine months on, as the Chancellor prepared to give his last Autumn Statement before the 2015 General Election, the picture was less healthy. As Osborne himself has acknowledged, the UK cannot be immune to the wider world economy and the slowdown in China and the threat of recession in Europe have both impacted adversely on the domestic economy. Whilst jobs continue to be created in the UK, they are in the main low-paid jobs: add in the fact that more people are becoming self-employed and the government is simply not receiving the tax take it had expected. With government borrowing for April to October 2014 £3.7bn higher than the same period in 2013, there was the possibility that the Chancellor might miss some of his debt reduction targets.

Politically too, the Chancellor had a difficult balancing act to perform. Back in March, the referendum on Scottish independence was a) a long way off and b) going to result in a comfortable No vote anyway. Although the Union ultimately stayed intact, the success of the Yes campaign ultimately meant a large transfer of tax raising powers to the Scottish Assembly – which immediately saw calls from Conservative backbenchers for greater powers for England and in particular, English Votes for English Laws. Many of those same backbenchers were also glancing nervously at their majorities and feeling the hot breath of UKIP on their necks. Back in March, UKIP was only a factor at the European elections. Now, they have two MPs and are taking votes from both the major parties and what could happen at the polls on May 7th is anybody's guess.

Finally, there was the media to satisfy. As George Osborne read the papers on the morning of December 3rd he'd have seen calls to 'do more for the high street' by reforming business rates (in the Telegraph); help small businesses and homeowners by overhauling stamp duty (Times) and to clamp down on the tax loopholes used by the big online firms (Guardian).

So it was that the Chancellor rose to his feet at 12:35pm, knowing that what he had to say in the next hour would go a long way to determining whether he still had a job on May 8th – or whether Ed Balls could add 'call removal company' to his to-do list.

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The Numbers

The Chancellor wasted no time in accentuating the positive, pointing out that the UK continued to grow faster than any other major economy. “We will stay the course,” he declared, “and stay on course for prosperity.” Plenty of problems remained and the Autumn Statement would not be a giveaway – in an echo of previous speeches, he promised to “back aspirations to save, work and own your own home.”

The “warning signs were flashing” over the global economy: despite this the forecast for the UK’s growth was good – and here came the first rabbit out of the hat as the Office for Budget Responsibility had ‘revised its statistics.’ So the growth forecasts for the year, which had been revised upwards from 2.4% to 2.7% in the Budget speech, were now further revised up to 3%.

The forecast was then for growth of 2.4% in 2015, 2.2% in 2016, 2.4% in 2017 and 2.3% in 2018/19. Inflation was expected to remain below the government’s target of 2% for the next three years. Borrowing would fall from £97.5bn to £91.3bn this year, and then progressively come down to £75.9bn, £40.9bn, £14.5bn before reaching a surplus of £4bn in 2018/19. A surplus of £23bn was forecast for the tax year 2019/20 with the Chancellor declaring that Britain would, “be back living within its means.”
Wage growth would also be above inflation for the next five years, whilst unemployment was expected to fall to 5.4% in 2015.

Measures Already Announced

Several measures had been leaked or confirmed ahead of the Autumn Statement: these were duly confirmed – and credit claimed – during the Chancellor’s speech. There would be an extra £2bn for the NHS from 2015 and £15bn for 84 new road projects. £2.3bn was allocated to 1,400 flood defence projects in the hope that Somerset would remain above ground throughout the winter, and plans were confirmed for Britain’s second new ‘garden city’ with 13,000 new homes to be built in Bicester.

As had also been widely trailed, the Chancellor announced that Britain would repay the national debt incurred to fight World War I.

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Stamp Duty

What

The Chancellor announced an overhaul of stamp duty payable on the purchase of property, describing it as "a badly designed tax on aspiration." In future, stamp duty would be payable on a progressive scale, as is the case with income tax. The new bands are as follows:

On the first £125,000	no tax payable
£125,001 to £250,000	2%
£250,001 to £925,000	5%
£925,001 to £1,500,000	10%
Over £1.5m	12%

When

The change became effective from midnight on December 3rd 2014, with anyone having exchanged contracts but not yet completed on their purchase having the option to choose which regime to pay stamp duty under.

Comment

This was the big announcement of the Autumn Statement and will be welcomed by many. Previously, stamp duty had increased in 'steps' – now, as with income tax, it will be progressive.

Under the new rules, the crucial point at which a purchaser will pay more stamp duty is £937,000 – so this might be described as a tax on purchasing as opposed to living in a mansion (or one bedroom flat in certain parts of London...). According to the Chancellor, 98% of property purchases will incur less tax under these proposals. The current regime, which saw a purchase for £250,000 incur £2,500 of stamp duty and a purchase for £250,001 bring a levy of £7,500, was clearly unbalanced. This may well be one of those common sense revisions of the tax system which sees the Chancellor ultimately reap more tax as there will be less need to subvert the system.

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Personal Taxation, Allowances and Savings

What ISAs are to be transferable to a surviving spouse or civil partner tax free on death.

When This move becomes effective immediately

Comment Having announced a huge shake up of the rules governing ISAs in the Budget, George Osborne had little scope for change in the Autumn Statement, but did bow to pressure from consumer groups and his backbenchers by announcing that ISAs could be transferred to partners/spouses without creating a tax liability on death.

What The ISA limit will increase to £15,240

When From April 2015

Comment Again, having announced a huge increase in the annual amount that can be invested in an ISA in March, the Chancellor was never going to offer much more than a token increase this time.

What The personal tax allowance will rise to £10,600 (instead of the £10,500 originally planned) and the higher rate tax threshold to £42,385.

When Both from April 2015

Comment When you consider that the original aspiration at the beginning of this parliament was to have a £10,000 personal tax allowance, the fact that it will reach £10,600 before the next election is something to be proud of. The converse of course, is that it will play its part in keeping the government's tax receipts lower than they had originally planned for.

The move to increase the higher rate allowance is part of a declared ambition to move the starting point for 40% tax up to £50,000.

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Personal Taxation, Allowances and Savings (continued)

What U-turn on proposals to introduce a single nil-rate Inheritance Tax band across multiple trusts.

When N/A

Comment These proposals were announced in the Budget 2014, aiming to prevent people taking advantage of tax rules through establishing multiple trusts. Instead, the government will consider new rules to target this form of avoidance.

What Extension of the Inheritance Tax exemption

When For deaths on or after 19th March 2014

Comment The government announced that it was extending the Inheritance Tax exemption previously announced for the armed services to emergency services personnel and humanitarian aid workers.

What Changes to the 'non-dom' fee structure

When No timescale set

Comment The Chancellor was at great pains to stress that he did not want to put the 'non domicile' tax status at risk but this was said against a backdrop where there is still a deficit to cut and an opening announcement which admitted tax receipts had not been to the level the government expected.

As an apparent 'middle ground', the Chancellor announced that it was fair to expect long-term 'Non-Doms' to pay a little more and announced two levels of increasing fee for those who have been resident in the UK for 12 of the past 14 years and 17 of the past 20 years.

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Personal Taxation, Allowances and Savings (continued)

What New Pensioner's Bonds

When From January 2015

Comment The Chancellor confirmed plans announced during the Budget to provide two new market leading, fixed-rate bonds, only available to those over the age of 65. Interest rates on these bonds will be confirmed in mid-December.

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Annuities and Pensions

What 55% pension death tax abolished

When From April 2015

Comment As previously announced, the government again drew attention to their decision to scrap the 55% 'death tax' on pensions. Individuals will now be able to pass on their unused defined contribution pension savings to a friend or family member on death, tax free (if they die before age 75), or at either their marginal rate of tax (if the individual passes away after the age of 75) or at 45% (if the funds are taken as a lump sum).

What The Chancellor also announced that joint life and guaranteed term annuities may now be passed to beneficiaries tax free if you die before the age of 75.

When From April 2015

Comment This removes the so-called 'death tax' on annuities and brings them into line with income drawdown plans. Again, it is a move which had been anticipated.

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Business

What	Diverted Profits tax of 25% on UK profits moved out of the country
When	From April 2015
Comment	The 'Google tax' had been widely trailed before the Autumn Statement and the Chancellor duly introduced a 'diverted profits' tax for multinationals, set at 25% of UK profits moved out of the country. He expected this to raise £1bn over the next five years.

What	Changes to banking profits and losses
When	From April 2015
Comment	The announcement highlighted further restrictions on the banks, limiting the amount of profits that can be offset by losses to 50%. This move is expected to raise a further £4bn over the next five years and seeks to redress the fact that many banks could have ended up not paying Corporation Tax for another 15 to 20 years, due to losses during the financial crisis.

What	LIBOR fines
When	Ongoing
Comment	The Chancellor announced that £1.2bn of fines levied on the banks for manipulation of the foreign exchange markets would be earmarked for improvements to GP services. Fines for manipulation of LIBOR would go to the emergency services, the Gurkhas, veterans with hearing problems and new helicopters and VAT refunds for the search and rescue services.

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Business (continued)

What Funding for Lending is to be extended for another year

When Until 29th January 2016

Comment The success of the Funding for Lending scheme means that it has been extended for a further 13 months. The scheme will continue to target getting capital to where it is most needed: UK SMEs.

What The doubling of the small business rate relief was extended

When Until April 2016

Comment The doubling of the rate relief means that 385,000 of the country's smallest businesses receive 100% relief on their rates, with a further 190,000 benefitting from tapered relief. The Chancellor announced an extension in the doubled relief, with the scheme now set to run until 2016.

What The £1,000 business rate discount was increased to £1,500

When From April 2015

Comment The business rate discount mainly benefits small cafes, pubs and restaurants on the high street. 300,000 properties will benefit from the increased discount when it comes into force next year.

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Business (continued)

What Support for Peer to Peer (P2P) lending

When Ongoing

Comment The government announced measures to encourage and support P2P lending, including; a new bad debt relief for lending through P2P platforms; a consultation on whether to extend ISA eligibility to lenders using crowdfunded, debt-based securities; an intention to review financial regulation which currently stands in the way of institutional lending through P2P platforms.

What Clampdown on investment fund managers

When No timescale set

Comment As part of the government's measures to increase taxation by reducing elements of tax avoidance, the Chancellor pledged to specifically target investment fund managers who disguise their guaranteed fee income as capital gains in order to avoid income tax.

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Other Business Announcements

'Small Business Saturday' was a phrase that cropped up several times in both the Chancellor's speech and the preceding Prime Minister's Questions: expect to hear it a lot more before May of next year. George Osborne was keen to take further steps to help SMEs. The research and development tax credit was increased, and further support came from a commitment to a further £500m of bank lending plus £400m of government backed venture capital funds investing in small businesses.

The Chancellor also announced that the inflation linked increase in business rates would be capped at 2%.

Other measures included the extension of the theatre tax breaks to orchestras, a new tax credit for children's TV productions and a £45m package of support for first time exporters – particularly those exporting to the still growing emerging economies of Asia, Africa and Latin America.

There was a further boost for the drive to create more apprenticeships, with the announcement that there would be no employer national insurance payable on apprentices.

Public Sector Pensions

The Chancellor confirmed his commitment to completing Lord Hutton's pension reforms, bringing total savings of £1.3bn a year to the Treasury. The government will "fully implement" the review, which undertook a 'fundamental structural review' of public sector pensions in the UK. The Chancellor was never going to reach any other conclusion given the increasing strain the cost of inflation linked pensions is putting on the public purse.

Transport

There was good news for families going on holiday, with the Chancellor announcing that air passenger duty for children under 12 would be abolished from May 2015, and abolished for children under 16 from March 2016.

As expected, the duty on fuel was also frozen.

Education

The government announced a new funding scheme for postgraduate students to help them to complete their Masters level education, as part of its commitment to fostering 'aspiration'. The new scheme will give students access to an income-contingent loan of up to £10,000, which they will repay at a rate that beats commercially available funding. The details of the scheme are still to be thrashed out so it is not expected to be implemented until 2016-2017.

The "Northern Powerhouse"

The term 'northern powerhouse' has featured in many of the Chancellor's recent speeches and in the Autumn Statement he took this one step further as he sought to "balance" the economic growth across the UK. He announced that there would be a Sovereign Wealth Fund for the North of England, allowing the tax receipts from shale gas exploration to be directly invested in the region.

Welfare

As expected, the Chancellor announced further cuts in welfare spending which, he said, was already £1bn lower than had been anticipated in March. He confirmed the announcement in October that there would be a two year freeze in working age benefits, and stated that migrants would lose their unemployment benefits if they have "no prospect" of work after six weeks.

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Conclusion

Having spoken for 50 minutes, the Chancellor sat down to loud cheers from the government benches as well as having ticked the boxes demanded that morning by the Times, Telegraph and Guardian. He declared that the UK had “a long term economic plan” and was finally “on course for prosperity.”

The headline announcement from the statement was unquestionably the change to Stamp Duty, which the Chancellor described as ‘one of the worst designed and most damaging taxes of all’. The new scheme brings Stamp Duty closer in to line with Income Tax and potentially lowers the cost of buying a home for hundreds of thousands of people.

The Chancellor was keen to stress, however, that the Statement as a whole was ‘not a giveaway’. Instead, the policies announced would continue the government’s long held belief that the route to a prosperous economy was to continue along a path of austerity measures.

It is probably fair to say that we can expect more of the same when he presents his Budget speech in March. This does not appear to be a Chancellor who will be handing out pre-election giveaways. Whether that will endear him to the electorate remains to be seen…

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