Autumn Statement

Your guide to the key measures

Corporate tax

Corporation tax rate

Reductions in the main rate of corporation tax have been announced in previous Budgets, however an additional 1% reduction has been confirmed in the Autumn Statement. Therefore the rate will be reduced from 24% to 23% in April 2013 and then to 21% in April 2014. The government hopes that this will encourage companies to invest in the UK and to establish their operations here. The measures announced in the Autumn Statement will result in the UK having the lowest corporation tax rate in the G7 and the fourth lowest in the G20.

The corporation tax rates in recent years:

FY	2011	2012	2013	2014
Small profits rate	20%	20%	20%	20%
Main rate	26%	24%	23%	21%
Standard fraction	3/200	1/100	3/400	1/400
Marginal rate	27.5%	25%	23.75%	21.25%

Bank levy amendments

The bank levy was introduced by FA 2011. It is payable by UK banks, banking groups and building societies, and foreign banking groups operating in the UK through a permanent establishment. The tax is levied on the total chargeable equity and liabilities reported in the relevant balance sheets of affected banks at the end of the chargeable period. The rate of the bank levy has been increased from 0.088% to 0.13% from 1 January 2013, with a view to offsetting the benefit banks would otherwise obtain following the reduction in the rate of corporation tax.

It has also been confirmed that foreign bank levies will not be deductible for UK corporation tax purposes. Legislation will be introduced in Finance Bill 2013 to this effect. The legislation will also confirm that a deduction against UK corporation tax is not available for an equivalent foreign levy where a claim has been made for bank levy double taxation relief in respect of that levy. These measures have effect from 5 December 2012.

Targeted anti-avoidance

Measures have been introduced with immediate effect which target specific corporation tax avoidance schemes involving financial products. The three schemes are:

- schemes which use a partnership to avoid the group mismatch legislation;
- property return swaps; and
- manufactured payments and loan write-offs.

The schemes are complex and the detailed operations of the schemes are not discussed in this article. An overview is provided below, together with a summary of the new rules.

The provisions relating to the property return swaps legislation and the tax mismatch legislation will apply to accounting periods beginning on or after 5 December 2012. The provisions relating to manufactured payments apply to dividends or interest paid on or after 5 December 2012. For further details and the draft legislation which will appear in the Finance Bill 2013, see HMRC's Tax Information and Impact Note *Corporation tax: mismatch schemes, property return swaps and manufactured payments* .

Tax mismatch schemes: These schemes enable a tax advantage to be obtained where there is an imbalance (or 'asymmetry') in the tax treatment applied to particular transactions involving loans or derivatives. For example, a company may account for a loan in one way, and a partnership of which the company is a corporate member may account for the loan in a different way. The new legislation prevents a profit or loss from being recognised for tax purposes where one company utilises asymmetries in the way debits and credits are brought into account to create a profit.

Property return swaps: The overall aim of this scheme is to convert capital losses into income losses. Group members enter into particular types of derivative contracts, for example contracts relating to the changing values of land. Following the introduction of the measures announced in the Autumn Statement, it will not be possible for companies to convert capital losses into income losses where the derivative contract is entered into between connected parties (ie intra-group), or where the contract is entered into for the purpose of obtaining a tax advantage.

Manufactured payments: This scheme attempts to prevent a tax charge arising in the hands of a financial trader dealing in stock lending. Prior to the announcements made in the Autumn Statement, a manufactured payment of either dividends or interest is deemed to have been made to the lender, even if no formal provision for such payments has been made in the relevant agreements. Following the Autumn Statement, a payment of interest or dividends will be deemed to be made even if provision has been made for:

- payments of interest or dividends; or
- the receipt of other benefits, such as being released from the payment of a liability.

So, a charge will arise where any benefit is received as a result of the arrangement. These deemed receipts will be taxable in the hands of the of the lender as trading income.

Taxation of multinational companies

The way in which multinational companies are taxed in the UK has received a great deal of press coverage throughout recent months. Despite paying other taxes such as VAT, NIC, stamp taxes and business rates, certain multinational companies have been criticised for paying little or no UK corporation tax, whilst generating huge sales in the UK. The government is therefore under pressure to tackle the issue. Given the complexities and wide reaching implications of this issue, it is not surprising that little detail was announced in the Autumn Statement. It is hoped that a detailed consultation process will be carried out to find a workable solution. However, the chancellor did state that additional resources will be provided to the Organisation for Economic Co-operation and Development (OECD) to devise an international framework for dealing with profit shifting.

In addition, further funding will be provided to HMRC to improve its risk assessment capability for large multinational companies. Finally, as transfer pricing is key to the taxation of multinationals in the UK, HMRC's transfer pricing specialist resources will be increased to help identify and resolve transfer pricing issues.

Further expected changes

During the summer, the government consulted on a number of proposed tax changes. Further announcements and draft legislation are expected on 11 December 2012. These will include consultation responses and draft legislation in relation to the following matters which are of relevance to companies:

- an above the line credit for research and development;
- corporation tax reliefs for the creative sector. The chancellor's Autumn Statement confirmed that the relief available will be among the most generous in the world and that a

payable tax credit of 25% of qualifying expenditure will be available, which is higher than the 20% rate referred to in the consultation document;

- changes to the taxation of REITs (see the April 2012 document published by HM Treasury and the Department for Communities and Local Government available via www.lexisurl.com/changestoREITs);
- whether to introduce a rule allowing companies with a non-sterling functional currency to compute their capital gains and losses in their functional currency;
- anti-avoidance measures relating to the general anti-abuse rule, and disclosure of tax avoidance schemes (DOTAS).

Owner-managed businesses

Simplified taxation for small businesses

Under the heading of tax simplification in the Statement (paras 2.93–2.96), it was announced that the government would be adopting some of the Office of Tax Simplification's (OTS's) recommendations on small business taxation.

The OTS had recommended a simplified cash accounting basis for calculating the profits of unincorporated businesses with turnover under a threshold of £30,000. HMRC issued a consultation on small business taxation which showed that the government favoured a higher threshold of £77,000, consolidating the level with the VAT threshold.

HM Treasury intends to make this available on a voluntary basis from 2013. Businesses which opt in will be able to stay within the regime until their turnover exceeds £154,000.

The government also intends to allow unincorporated businesses to claim specified flat rates rather than having to calculate actual amounts. The intention in the consultation document from April 2012 was that this would be available to all unincorporated businesses and the following expenses would be affected:

Expense	Proposal
Business use of motor vehicle	The standard mileage rate will be used to simplify a claim. This is already available for businesses with turnover under the VAT threshold.
Business use of home	A flat rate of expenses will be introduced. A three-tier system is being considered.
Personal use of business premises	A three-tier disallowed percentage will be introduced for businesses such as guest houses, B&Bs etc
Telephone and internet services	Private use that is not significant or material will be ignored and the full amount will be eligible for relief
Subsistence	HMRC will introduce improved guidance
Stationery and related items	Estimates of unit costs will be allowed, such as on a per-letter basis

The Autumn Statement has not confirmed these proposals.

Annual investment allowance and enterprise zone allowances

One of the most surprising announcements in the chancellor's actual statement was that the annual investment allowance would be increased tenfold to £250,000 from 1 January 2013. This is intended to be a temporary measure that is withdrawn after two years, so should be available for expenditure until 31 December 2014.

Statement reaction

Ian Stewart
Chief economist, Deloitte

Sticking with plan A …

The big economic numbers in the Autumn Statement are catching up with the reality of the last six months – a double dip recession in Europe and a weaker global backdrop than expected. Today's borrowing data confirm the toxic effect of low growth on the government's finances. The chancellor has sensibly decided to spread the fiscal squeeze over a longer period than to try to make up for lost ground now with still more tightening. He is sticking to Plan A, but it will take an extra year, to 2017, for the UK's debt burden to start to fall.

Progress has been made. The deficit has fallen by a third from its 2009 peak and the government has a good chance of hitting its main target of eliminating the deficit by 2017. Yet the UK is only half way through an eight year programme of austerity. 70% of the planned tax rises have already taken effect, but 70% of the cuts to public spending still lie ahead.

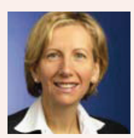
For the wider economy the worst is probably past. The independent Office of Budget Responsibility and most other forecasters expect the economy to grow modestly next year. However, for now, at least, this looks like a choppy, fragile recovery.

Stella Amiss
Corporate tax partner, PwC

Chancellor 'has listened to business'

All in all this was a solid and measured statement for British business. The chancellor made a surprise announcement to further reduce the main rate of corporation tax. A further 1% rate reduction brings the rate to just 21% by 2014. This sets the UK apart on the global landscape and ensures the UK is competitive.

The chancellor has listened to business in producing a statement that delivers stability. The chancellor has not gone back on the corporate tax reform measures announced in recent Budgets and there was no change to rules affecting interest deductibility or availability of loss relief. This underlines the government's drive to deliver on the policy of Britain being open for business.



Margaret Stephens
Global head of infra-structure tax, KPMG

… but disappointment for infrastructure

It is extremely disappointing that the chancellor has not listened to the infrastructure industry and looked at the current tax disincentives for investment in buildings and structures.

The current UK tax system is simply not competitive and businesses which invest in new buildings and structures including gas power stations, roads and other infrastructure will have to pay taxes at much higher effective rates than the new headline rate announced of 21%.

Government estimates the rate reduction to 21% will cost £3bn by 2018, whereas putting capital investment in buildings on an even footing with other business expenditure is estimated to cost much less and indeed raise tax receipts through stimulating growth.

Statement reaction

Philip Fisher
Employment tax and rewards partner, PKF

A Statement 'full of U-turns'

The government's consistent record of policy U-turns has reached a new peak with another string of tax policy reversals in the Autumn Statement. The continuing number of tax policy U-turns shows that the government is listening to common sense feedback from businesses and their advisers but it does not provide the certainty that taxpayers are looking for. It also suggests that proposed legislation is rarely properly thought through. U-turns in the Autumn Statement include:

- increasing the capital allowance annual investment limit to £250,000 – having previously cut it from £100,000 to £25,000;
- quietly abandoning the idea of introducing new legislation on 'controlling persons' that was announced with a fanfare in the Budget to tackle individuals who set up a personal service company to avoid being taxed as an employee (for example, when working at the BBC or government departments);
- abandoning the fuel duty rise;
- returning the cap on pension drawdown to 120% of GAD (Government Actuary's Department estimates after having cut it to 100%;
- proposing an income tax and NIC relief when employees receive shares under the employee shareholder rules due to be introduced from April 2013.

If the government had taken time to think through new proposals and consulted properly on all of these measures in the first place, as the Office of Tax Simplification does, it would have been able to avoid the uncertainty and embarrassment that numerous U-turns inevitably create.

John Whiting
Tax policy director, CIOT

'Controlling persons' proposals dropped

[The announcement that the government will not be proceeding with the proposal to tax 'controlling persons' who operate through their own companies at source, following a consultation on the issue over the summer] is a welcome example of the government consulting, listening and acting on the responses.

The government is entirely correct in its wish to ensure that those running government agencies and other public sector bodies are paying their fair share of tax. But that can be met using a combination of enforcing existing legislation and the new rules for central government appointments.

This is a practical and proportionate way forward. Legislation requiring deduction of PAYE/NICs at source for payments to intermediaries would have added unnecessary complexity to the tax system and would have added to administrative burdens in the private sector who were not the causes of the problem.

This will be useful for certain businesses which have intermittently high capital expenditure, such as hauliers, manufacturers or restaurants. The two year window should be sufficient for smaller businesses to carefully plan to take advantage of this increase, whilst the introduction almost immediately means that there is less incentive to hold off investing in capital expenditure.

Clearly, if any businesses are looking to make significant amounts of capital expenditure in the next month (but not in 2013), one should consider whether there is any benefit in getting the costs to be treated as incurred after 31 December 2012.

This is normally based on when the obligation to pay becomes unconditional as stated in CAA 2001 s 5(1). In the absence of a contract, or specific terms in the contract, the obligation becomes unconditional on delivery. Therefore, simply requesting a delivery date in the new year might make capital purchases eligible for relief in full.

It is worth noting that most provisions relating to the timing of expenditure are anti-avoidance provisions and act to defer the point at which capital expenditure is incurred.

This is most likely to be of interest to businesses with December year ends, where they might be looking to bring capital expenditure within the accounting period.

Also, enhanced capital allowances will be available for qualifying investments made at designated sites in the Ebbw Vale and Have Waterway Enterprise Zones in Wales (para 2.75). Further details are not yet available, however, it is likely that the draft provisions will be contained in Finance Bill 2013.

Controlling persons

At para 2.103 of the Statement, HM Treasury confirms that it will not pursue the proposals contained in the consultation into the taxation of controlling persons. This is because the personal service company rules (IR35) are already considered to be sufficient to prevent loss through disguised employment.

In addition to HMRC's renewed interest in policing IR35, the government states that they will be strengthening the rules to 'put beyond doubt that it applies to office holders'. The consultation intended to introduce legislation in Finance Bill 2013, so it is anticipated that draft legislation in this area will be included in the release on 11 December 2012.

Abusive partnerships

The chancellor mentioned in his speech that HMRC would be pursuing abusive partnership arrangements. The policy costings says that some of the new funding for HMRC to tackle avoidance would go towards tackling partnerships which have entered into structures to avoid tax suffered by the partners on non-partnership income.

HM Treasury also provides a bit of clarity on their *Autumn Statement 2012 policy costings* document which states that this will be focused on long-standing avoidance schemes involving partnership losses. This is thought to relate to film partnerships.

Employment taxes

Employee shares for employment rights

Proposals included in the Growth and Infrastructure Bill currently before parliament create a new class of employee labeled 'an employee owner' (see clause 23 of the Bill). This class of employee is only open to individuals employed by companies.

There are two conditions to be met for an employee to become an employee owner:

- both the employer and the employee must agree that the individual employee is to become an employee owner; and
- the employing company must issue shares worth between £2,000 and £50,000 to the employee in consideration of that agreement.

If an individual does become an employee owner, his rights under the Employment Rights Act 1996 are reduced. An employee owner does not have any right to request to undertake study or training, to request flexible working arrangements or to receive a redundancy payment and has only limited protection against unfair dismissal. An employee owner taking additional parental or adoption leave would also have to give more notice of his or her intention to return to work (16 weeks in place of the normal 8 weeks).

The Growth and Infrastructure Bill is silent on the tax treatment of the shares awarded to the employee as part of the agreement, but the Autumn Statement confirms the government's intention to provide a capital gains tax exemption of up to £50,000 on shares acquired by employee owners as part of the agreement. The Statement also puts forward a suggestion that the government is considering ways to reduce tax liabilities arising as a result of the shares being awarded in the first place. The option specifically mentioned is that the first £2,000 worth of shares awarded under an employee owner agreement should be free from income tax and NIC (see para 1.122).

Reducing burdens on employers imposed by TUPE regulations

Following on from the publication by the Department for Business Innovation and Skills *Call for evidence: Effectiveness of transfer of undertakings (protection of employment – TUPE) regulations 2006*, the chancellor announced that the government will consult on reducing unnecessary burdens imposed by the TUPE regulations (para 1.123).

Simplification of tax advantaged share schemes

HMRC's consultation into the OTS's report on tax advantaged employee share schemes closed on 18 September 2012. The Statement confirms (at para 2.93) that the government intends to bring in a 'package of simplifications' to its employee share schemes during 2013.

OTS review of employee benefits, expenses and employee termination payments

The Autumn Statement states at paragraph 2.96 that the OTS will carry out a review of ways to simplify the taxation of employee benefits, expenses and termination payments.

This review will be wide in scope and no immediate changes should be expected.

Company cars

At para 2.92 there is a brief statement that the government will consider providing time-limited tax incentives through the company car regime to encourage the purchase and development of ultra-low emission vehicles.

There is a brief suggestion that this might be part of a wider set of changes as it also states that this will be considered 'while ensuring that all company cars are subject to a fair level of taxation'.

Other planned changes

Over the summer, the government consulted on a number of proposed tax changes likely to be of interest to employers:

Statement reaction

Mark Buzzoni
Head of the private client group, Taylor Wessing

The chancellor's 'two favourite topics'

The Autumn Statement provided an opportunity for Osborne to tackle two of his favourite topics, increasing 'the contribution of the richest' and highlighting the government's commitment to tackling tax avoidance. The chancellor again confirmed plans to introduce the general anti-abuse rule, alongside announcing the prediction that over £5bn will be raised over the next six years from the UK/Swiss tax agreement. Both will come into force next year.

The high net worth community will be hard hit by the government's focus on pension contributions with those regularly saving more than £40,000 or those making significant lump sum payments feeling the impact of the reduced annual allowance. On the positive side, an increase in the nil rate band for inheritance tax in April 2015 is to be welcomed. However, as the current level has been frozen at £325,000 since April 2009, a 1% rise to £329,000 is a disappointing increase.

Rob Mellor
Hedge funder leader, PwC

Disappointment for hedge fund industry

The hedge fund industry will be disappointed with the chancellor's Autumn Statement. The industry has been lobbying hard for the expansion of the permitted investment transactions list under the investment manager exemption but this was not forthcoming today.

The expansion would allow a wider variety of assets to be managed by UK-based asset managers and therefore create jobs and value in the UK economy, a further signal that Britain is open for business.

David Snell
AIM leader, PwC

A missed opportunity for AIM investment?

Some might say that the government has taken a bold step in announcing a consultation to expand the list of qualifying investments for stocks and shares ISAs to include shares on equity markets such as the Alternative Investment Market and comparable markets. But more needs to be done for the benefit of UK savers investing money in ISAs and the thousands of companies on the AIM market.

Think how much more investment and growth could be generated if the government were to lift the capital gains tax and stamp duty millstones from the AIM market. Some of the hundreds of UK growth companies on AIM today could become the blue-chip giants of tomorrow. They must be handed every opportunity to thrive.

Statement reaction

Matthew Hodkin
Partner, Norton Rose

Clean energy

The Autumn Statement shows how policy develops in times of financial austerity. Prior to this Autumn Statement, the energy policy of the coalition government (and, to a large extent, the opposition) had largely been aiming at the same goal: to use tax and fiscal incentives to encourage investment in green energy production and use equivalent disincentives to investment in 'high carbon' energy production methods. The announcement that the government is to consult on the tax regime for shale gas strongly suggests that there will be incentives for investment in this method of energy production. Whilst little detail is given at this stage as to the approach that will be taken in the consultation, there is an impression that the primary concern on energy policy is to obtain a secure and affordable supply in the medium- to long-term and that renewable energy is a lower priority than might otherwise be thought.

The other item of interest in the green energy sector is the announcement of the possibility of a further review of the carbon reduction commitment. Any review that leads to a further reduction in the administration requirement of the scheme is likely to be welcomed by business (as is the proposed removal of league tables); however, the tax element of the scheme is likely to remain in place until its removal is affordable.

Patrick Stevens
Tax partner, Ernst & Young

Cap on income tax reliefs needs to be 'properly targeted'

The new rules restricting income tax relief for losses and other expenditure is being implemented, apparently without further amendment. Contrary to common perceptions, the cap on income tax relief will not only target the wealthy, but may well affect those with more modest earnings.

For example, those who have had to diversify their business in the light of recent economic developments may find themselves paying tax on more income than they actually receive. The new restriction will prevent losses from one business from being offset against the profits of another, where those losses exceed £50,000 and 25% of the individual's income. So, a farmer who makes £70,000 profit from his bed and breakfast business but makes a £60,000 loss on his farming businesses will pay tax on £20,000 – despite only really having £10,000 of net income.

Similarly, those who have had to borrow in their own name to make loans to trading companies may be also adversely affected, as a result of restrictions on an ability to offset payments of interest to the bank. In addition, the restriction on the ability to offset losses against other income will act as a barrier for those looking to start new businesses and a deterrent for business angels and others looking to invest.

The purpose of this measure seems to be to stop abuse of reliefs but in reality hits far more targets than that. Care needs to be taken in the draft Finance Bill next week to ensure this is properly targeted.

- penalties for late payment and late filing under real time information (see the consultation document published on 14 June 2012);
- the introduction of a statutory residence test for individuals, abolition of ordinary residence as a tax concept and codification of Statement of Practice 1/09;
- tax advantaged employee share schemes – follow-up on the recommendations of the Office of Tax Simplification as well as new ways to extend enterprise management incentives (EMIs) to academics;
- the proposed cap on unlimited tax reliefs for individuals; and
- the proposed general anti-abuse rule.

Further announcements and draft legislation are due to be published on 11 December 2012 on most, if not all of the above.

There is also expected to be a consultation on a range of options for employee, employer and self-employed NICs as part of the government's exploration of possible integration of income tax and NIC, although this is likely to be delayed, as explained in para 2.52, pending further progress on planned changes to the way in which HMRC operates the tax system.

Personal tax

Rates and allowances

The chancellor announced that he has limited increases in the principle tax allowances and thresholds to 1%, which is below the level of inflation. This is in line with the restriction to rises of 1% in public sector pay and most welfare benefits.

Income tax: The personal allowance is to increase to £9,440 for 2013/14. The intention is still to raise the personal allowance to £10,000 in due course (see para 2.50).

The 'higher rate threshold', which the Chancellor defines as the basic rate band limit plus the personal allowance, will increase by 1% per year in 2014/15 and 2015/16, meaning that the threshold will be £41,865 and £42,285 respectively (see para 1.160).

As announced previously, the trust rate of income tax will reduce to 45% (37.5% for dividends) in April 2013, but this is still significantly higher than the basic rate of income tax for individuals. With an increasing level of personal allowance, it is imperative that trustees maximise the benefit for beneficiaries by distributing income up to that level where possible.

Capital gains tax: The annual exemption will increase to £11,000 in 2014/15, and to £11,100 in 2015/16 (see para 1.162).

Inheritance tax: The nil rate band threshold has been frozen at £325,000 since April 2009. It had been understood it was to rise in line with the CPI with effect from 2015 but the chancellor has now changed that policy by announcing the nil rate band will be £329,000 from 6 April 2015 (an increase of approximately 1%) (see para 1.162).

ISAs: The stocks and shares ISA limit will be £11,520 in 2013/14. The government is to consult on expanding the list of qualifying investments to include shares traded on small and medium enterprises equity markets, e.g. AIM (see para 2.59).

Benefits and tax credits

Tax credits: The couple, lone parent and child elements of the Child Tax Credit will be uprated by 1% for the three years from April 2013. The basic and 30 hour elements remain frozen in 2013/14, but will increase by 1% in the following two years. All disability elements will continue to be uprated in line with prices (para 2.61).

Proposals in the Autumn Statement will require claimants to provide evidence of childcare costs and confirmation that a child over 16 is in qualifying education or training (paras 2.69–2.71).
Universal credit: The parameters for the universal credit will be published on 10 December 2012, which will include the income disregards (para 2.63).
Other state benefits: The vast majority of state benefits will be increased by 1% for the three years from April 2013. Disability benefits will continue to be uprated in line with prices. Child benefit will be frozen in 2013/14, but will increase by 1% in the following two years (para 2.60).

No mansion tax

The chancellor announced that there would be no 'new tax on property', understood to be a commitment not to introduce a 'mansion tax' in this parliament. However, his statement does ignore the fact that two new property tax measures are to be introduced from April 2013: the annual charge and the extension of the CGT regime where UK residential property owned is by 'non-natural persons'.

Charities

Following the furore after Budget 2012 concerning the potential capping of income tax reliefs on gifts to charities, the chancellor has confirmed that charities would be exempt from the cap.

The gift aid small donations scheme is to be introduced in April 2013. The scheme will reduce the administration required for charities to reclaim tax on small amounts. Following consultation, the cash limit for donations has been increased to £20.

Pensions taxation

Annual allowance: The annual allowance for pension contributions is to be reduced from £50,000 to £40,000 with effect from 2014/15 (para 2.57).

It is assumed that the unused annual allowance carried forward for years up to 2014/15 will not be affected, although you may wish to advise clients to consider maximising their pension contributions now to avoid any problems later should the carry forward be limited.

The chancellor states that this change will only affect 1% of pension savers, however it is likely to disproportionately impact those in defined benefit pension schemes. This will include those in the public sector and the dwindling number of private sector employees who are still within a defined benefit pension scheme. This is because, for defined benefit schemes, the annual allowance applies not simply to contributions made, but to the total pension input amount (PIA). This is calculated by reference to the change in benefit entitlement during the pension input period (PIP). The opening amount of benefit entitlement is uprated by CPI for the period, and compared to the closing benefit entitlement. The difference is then multiplied by a factor of 16 to arrive at the PIA (para 1.180).

It is easy to see how, perhaps following a pay rise on a promotion, the £40,000 threshold can be exceeded by these employees. This will lead to an income tax charge on the excess. Any annual allowance charge must be reported via self-assessment and there is a worry that employees outside of the self-assessment regime will need to have a fairly detailed awareness of the pension rules in order to notify their chargeability by 5 October following the end of the tax year (which is necessary to avoid a penalty).

Statement reaction

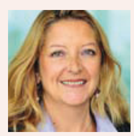
Rosalind Rowe
Real estate tax partner, PwC

Welcome change to the REITs regime

The changes to the REIT regime will be welcomed by the property industry. It is another useful step to help broaden the appeal of REITs, putting them on a level playing field alongside other forms of property investment. It is encouraging that the government is looking at changes to remove inefficiencies and help the sector to grow.

Giving a REIT the opportunity to invest in other REITs will enable start-up REITs, with surplus cash, to provide a 'REIT-like' return through investing in larger REITs while they seek property. Some REITs have polarised into one sector, now other REITs can access a sector on a flexible basis through buying shares in the market rather than committing to a fixed investment in a joint venture.

The current rules mean that a REIT investing in another REIT would have to pay tax on the income it receives. Changing the rules would simplify the regime to enable REITs to spin off properties, increasing the number of REITs and giving investors more choice without penal tax. The REIT and the co-investor can choose when to exit, which would be easily achieved through the sale of the shares in the listed REIT, which can happen independently.



Marion Cane
Director, Ernst & Young

… but no sign of 'mortgage REITs'

It is disappointing that there is again no announcement of a consultation on the introduction of mortgage REITs. Permitting REITs to invest tax efficiently in commercial property debt and residential mortgages, would help create the conditions for further new sources of finance to emerge and address the commercial property sector's over-reliance on bank finance. We believe such a measure would be tax neutral and would ultimately be of benefit to the wider economy.

Ben Wilkins
International assignment partner, PwC

Good news on overseas workday relief

In an otherwise quiet Autumn Statement for expat employers, HMRC has acted in response to concerns about the taxation of foreign nationals coming to work in the UK. Pleasingly, HMRC has now confirmed that overseas workday relief will be available for a fixed period of time, irrespective of whether the employee intends to settle in the UK. This will be welcomed by employers and internationally mobile employees as it brings certainty to what has been an unclear area in the past.

The welcome changes to work day relief provide a clear incentive to foreign nationals to come to the UK to work. We look forward to seeing further detail, in particular what length the fixed period of time will be. This is due to be released on 11 December.

Statement reaction

Heather Self
Director, Pinsent Masons

The cat and mouse game…

In addition to the GAAR, there are specific anti-avoidance measures to tackle avoidance schemes which aim to exploit complex corporate tax legislation. The cat and mouse game therefore continues – will it every stop?

New penalty powers will aim to target the promoters of aggressive tax avoidance schemes - using the principles of 'polluter pays' to discourage the supply, as well as the demand, for tax schemes. Anyone who has bought a 'packaged scheme' from their adviser should make sure they understand what the risks are. HMRC is already targeting these aggressively, and the GAAR will be another weapon in their armoury ... The GAAR is intended to operate at the extreme edge of aggressive planning – if it is too broad, it will overlap with existing rules and just create uncertainty.

On inheritance tax, it's still not clear how existing arrangements will be affected; it may be the case that people will have to take another look at plans that they've had in place for a long time already. A clearance system is definitely needed.

Mission creep remains a problem too. Given that this government appeared to view genuine charitable donations as tax avoidance, there's a risk that the impact of the GAAR could be wider than merely targeting aggressive schemes.

Chris Harrison
Tax partner, Allen & Overy

What was not said …

Given the press focus on the tax affairs of companies such as Starbucks and Google, it is worth reflecting on what was not said [in the Autumn Statement]. Recognising the difficulty of addressing what is essentially a question of international taxation, the government has not announced new domestic legislation. Instead it is to throw more resources at HMRC, particularly in the transfer pricing area, to ensure multinational companies pay their 'proper' share of taxes in the UK and will, with France and Germany, ask the OECD to take work forward on this front.

Lifetime allowance: The lifetime allowance (i.e. the maximum amount that a member of a pension scheme can accumulate across all his pensions) is to be reduced from £1.5m to £1.25m with effect from 2014/15 (see para 2.57).

The chancellor believes that this change will only affect 2% of pension savers, some of whom may have already protected their accumulated pension rights under previous reductions to the lifetime allowance.

There will be a 'fixed protection regime' which individuals with pension pots in excess of £1.25m (who do not already have lifetime allowance protection) will be able to use to protect their pension savings. It seems likely that this will run along similar lines to the last lifetime allowance protection regime (used for the reduction to the lifetime allowance which took effect from 6 April 2012).

Interestingly, the government also suggests the introduction of a 'personalised protection regime' (in addition to fixed protection). It is unclear what form this will take and the government is to 'discuss the feasibility of this with interested parties in the coming months' (see para 1.180).

Pension drawdown: The capped drawdown limit is to increase from 100% to 120% of the value of an equivalent annuity (see para 2.58).

State pension: The basic state pension will be increased by 2.5% from 6 April 2013 to take the payment to £110.15 per week (see para 2.62).

Targeted anti-avoidance

Income tax relief is to be removed from individuals who pay patent royalties other than as part of a trade or profession. Currently these royalties are Step 2 deductions from total income. The provisions are effective from 5 December 2012.

Taxpayers paying payment royalties as part of a trade or profession will continue to be able to claim income tax relief. See the Tax Impact and Information Notice for more details.

Further changes

Over the summer, the government consulted on a number of proposed changes relating to personal tax. Further announcements and draft legislation are expected on 11 December 2012. It is expected that this will include consultation responses and draft legislation in relation the following:

- the statutory residence test;
- the transitional rules on the abolition of ordinary residence for tax purposes;
- the codification of statement of practice 1/09;
- the cap on unlimited income tax reliefs;
- the general anti-abuse rule;
- the reform of the rules on attribution of gains of non-resident close companies to UK resident shareholders and the transfer of assets abroad provisions following a challenge by the EU;
- the annual charge on UK residential property held by non-natural persons;
- the extension of the CGT regime to tax gains on UK residential property held by non-resident non-natural persons.

Indirect taxes

VAT

The chancellor did not announce any further VAT changes in the Autumn Statement and the statement reiterated the changes announced in the 2012 Budget. The significant changes are as follows:

- static holiday caravans: the reduced rate of VAT will apply to supplies of static and large touring caravans with effect from 1 April 2013;
- hot takeaway food: standard-rated VAT will be applied to hot takeaway food with effect from 1 October 2012. However if the food is heated and left to cool down naturally it will still be zero-rated;
- alterations to listed buildings: approved alterations to protected buildings are now liable to VAT at the standard rate with effect from 1 October 2012; and
- self-storage: with effect from 1 October 2012 supplies of self-storage are now liable to VAT at the standard rate. The capital goods scheme for providers of self-storage has been amended to ensure that small firms are able to benefit from the scheme in the same way as larger competitors.

Carbon taxes

Carbon price floor: The government has announced that it intends to introduce an exemption from the carbon price floor for electricity generators in Northern Ireland. The exemption is subject to European Commission approval.

Carbon reduction commitment (CRC) simplification: The CRC energy efficiency scheme will be simplified with effect from 2013 and the performance league table is to be abolished. No details have been published by the Department of Energy and Climate Change at this stage. The simplification will be reviewed in 2016 in order to gauge how effective it has been and whether it meets its objectives. The tax element of the CRC that was introduced in the *2010 Spending Review* will also be removed as soon as is practicable.

Carbon reduction commitment, allowance price: The forecast allowance price will continue to be £12 per tonne of carbon dioxide for 2013/14. It will increase to £16 per tonne of carbon dioxide in 2014/15. From 2015/16 the price per tonne will increase in line with the RPI.

Other indirect taxes

Fuel duty: The planned increase due to take place in January 2013 has been cancelled and, therefore, the cost of fuel will not be increased by 3.02 pence per litre in January. The chancellor also announced that the 2013/14 planned increase will also be delayed until 1 September 2013, so there will only be one planned increase in 2013. Also all future increases will take place on 1 September each year going forward.

Rural fuel rebate: A rural fuel rebate pilot scheme has recently been undertaken for island communities and appears to have been successful. As a result, the government is currently considering whether to submit an application to the European Commission to extend the scheme to all remote parts of the UK that are likely to have similar cost characteristics.

Air passenger duty (APD): APD rates will increase by the retail price index increase for September 2012, with effect from 1 April 2013.

Other measures

HMRC digital services

Taxpayers will benefit from further investment into HMRC's digital services in the next three years. This will mean that:

- self-assessment taxpayers can conduct all tax transactions online;
- PAYE taxpayers will be able to transact with HMRC online for the first time; and
- small and medium-sized enterprises will be able to access all relevant tax services from a personalised homepage with secure data messaging.

See para 2.115.

Investment in risk tools

HMRC is already moving towards enquiries run via sophisticated risk analysis in the shape of the single compliance process. The HMRC campaigns and task force visits are also targeted using risk analysis. The Autumn Statement contains news of further investment in this technology (see para 2.110).

Data-gathering powers

It is proposed that the existing data-gathering powers in FA 2011 Sch 23 be amended to allow HMRC to issue notices to merchant acquirers (i.e. those who process card payments). The aim is to identify those businesses evading tax by not declaring their full income (see para 2.101).

Further anti-avoidance

The use of 'aggressive' tax avoidance schemes is to be further discouraged by the introduction of:

- new information disclosure rules; and
- new penalty rules for promoters.

See para 1.178.

The chancellor was keen to show that progress has been made on tackling anti-avoidance. He mentioned the general anti-abuse rule, the UK/Switzerland agreement and the information sharing agreement with the US (i.e. legislating for the Foreign Account Tax Compliance Act (FATCA)).

In addition to the closing of several 'tax loop-holes', the Autumn Statement contains several further measures:

- an offshore evasion strategy to be published in Spring 2013 which will include a centre of excellence within HMRC (paras 2.99-2.100);
- increased resources to tackle the avoidance of inheritance tax using offshore trusts, bank accounts and other entities (para 2.109);
- a review of offshore employment intermediaries which are used to avoid income tax and national insurance. These are used to avoid (and in some cases evade) the collection of national insurance contributions by exploiting the condition that the employer must have a place of business in the UK in order to pay secondary Class 1 national insurance (para 2.104).

As a prelude to the Autumn Statement, HMRC published its document *Closing in on tax evasion* on 3 December. It sets out a range of measures – both recently employed and planned for the near future – to combat tax evasion and artificial avoidance. The drive to close the tax gap was confirmed in the Autumn Statement, with the chancellor committing a further £77m to HMRC to invest in raising revenues. They will approach the task on a number of fronts such as:

- using new technology to tie up information available from third parties such as banks and the Land Registry;
- forging agreements with other jurisdictions to share information about taxpayers;
- increasing the threat of penalties and criminal convictions; and
- focusing its attention on high risk affluent groups.

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Comment

Views on the Autumn Statement

An Autumn Budget

Chris Sanger
Head of tax policy, Ernst & Young

The Autumn Statement was a return to the mini-Budgets of old.

It was perhaps fitting that the Autumn Statement occurred on a day that London experienced snow for the first time this season, belying the word 'Autumn'. In many ways, the chancellor's address to the House of Commons was somewhat different to what one would have expected, based on the protestations made at the start of this parliament. Aside from the weather, this Statement was far more reminiscent of the Pre-Budget Reports of his two predecessors, than the dry economic analysis that was meant to be the hallmark of the event.

Instead, we saw a document with 95 pages and containing 38 measures, varying from spending changes, to tax rises and even a few tax cuts. Some of these had been pre-announced, and many others were expected given the large amount of informed speculation in the press in the days before, such as the pension contribution restrictions.

The statement had a familiar ring to it. This mini-Budget was a careful balancing act between maintaining the focus on austerity, whilst seeking to spend what little money was available on areas where the chancellor hoped the stimulus message would outweigh the general dour feeling of fiscal tightening. The tools in use were perhaps not unexpected, with the chancellor increasing the impact of fiscal drag by holding back the increase in tax allowances to only one percentage point per annum. To his credit, the chancellor was explicit in his speech that this increase in allowances was in effect a tax rise.

On the stimulus side, the old favourite of capital allowances appeared again, with a yo-yo policy change on the annual investment allowance, increasing for two years the amount qualifying tenfold to £250,000 having only cut it fourfold in April this year. This is clearly about messaging and encouraging investment to be brought forward at a time that the country needs it most.

We also saw a further cut in corporation tax rates in 2014 to 21%, only one percentage point short of the chancellor's aspiration of 20% set out in the real Budget in March. That aspiration is now very close to delivery. Continuing the trend of previous reductions, the chancellor sought to recover savings made by the banks through a rise in the bank levy, a policy which penalises this industry in particular.

No Budget would be complete without a raft of anti-avoidance measures and initiatives, and the chancellor included a number of these, raising up to £385m per annum from, amongst other items, increasing the resources of HMRC to cover 'large business' and expanding HMRC's 'Affluent Unit'. This reflects a considered response to the questions raised by the Public Accounts Committee and the reports of the National Audit Office. This also sits alongside the provision of additional resources to the OECD, alongside France and Germany, 'to speed up the international efforts on dealing with profit shifting and erosion of the corporate tax base at the global level'.

Of course, in the past, one of the big differences between a Pre-Budget Report and Budget was the lack of a Finance Bill. Ironically, the government's worthy initiative of publishing the Finance Bill three months in advance now means that the Autumn Statement is followed by Legislation Day ('L Day' being 11 December this year) when the draft Finance Bill giving rise to these changes are published, providing much of the detail of the proposals not covered in the 95 pages of the Statement. This will include the cap on income tax reliefs and other Budget items such as the GAAR that were left unchanged by the Statement.

So, overall, this appears to be a return to the mini-Budgets of old, with its inevitable mix of policies. All the usual elements were there, and now, with our appetites whetted, we look forward to the seeing many of the details next week. Roll on L Day.

Enforcement and compliance issues

James Bullock
Head of the litigation and compliance group, Pinsent Masons

The Autumn Statement put compliance and enforcement right at the forefront of the government's tax raising (and deficit reduction) strategy, with significant investment in HMRC providing them with the tools to bring in the cash. There is also an interesting angle for the construction, infrastructure and outsourcing sectors – and for any corporate involved in government procurement.

The 'glossy' brochure *Closing in on Tax Evasion* published on 3 December 2012 could have told us all that we needed to know.

Bluntly, the chancellor now regards the collection of tax unaccounted for through evasion and avoidance as one of (if not *the*) principal means of raising additional revenue. The fact that HMRC is authorised to spend money on a 'billboard campaign' – 'We're closing in on undeclared income' –reinforces the fact that the government now feels sufficiently confident as to boast about significant additional resource for HMRC, when all other government departments are required to reduce their operational budgets. 'Spend to save' – launched back in 1996 by the then chancellor Kenneth Clarke – has finally come of age.

And much of what followed in the Autumn Statement itself centred around investment in greater – and increasingly sophisticated – enforcement techniques. An additional £77m is being allocated to target avoidance, evasion and fraud, with the anticipated amount of tax to be recovered in the last year of this parliament being a staggering £22bn – a 70% increase on the amount recovered in 2010/11. Most significantly this will extend to tackling multinationals in relation to the type of corporate tax planning that has attracted so much recent publicity. One gets the distinct impression that (public and press criticism notwithstanding) the government is very happy with the work HMRC has been doing in this regard.

Apart from an additional power extending bulk information notices to credit card 'merchant acquirers', the announcements made in the Autumn Statement in relation to enforcement and compliance were highly practical. The 3 December document even includes a calendar (along the lines of a 'society events' diary running right up to May 2013 – and detailing 'further action' beyond) of the action HMRC proposes to take. A notable theme is the targeting of 'affluent' (note the change of emphasis from 'high net worth') taxpayers, now defined as those with a net worth over £1m. Such taxpayers who are non-compliant can expect a very rough ride. Likewise, there is a clear determination to meet the target of a five-fold increase in criminal investigations by 2014/15. A tally of 400 criminal convictions in 2011/12 is trumpeted (including, specifically, the prosecution of a doctor for a £92,000 evasion). But it will be interesting to see whether HMRC starts to target the *seriously* wealthy for criminal investigations. A pledge to 'increase the number of criminal investigations into offshore tax evaders' suggests that they might. A new – and comprehensive – offshore evasion strategy – will be published in Spring 2013. This ties in neatly with the implementation of the UK/Swiss agreement – and the anticipated flight of 'dirty' money from Switzerland at the start of 2013.

There are two very significant announcements buried in the 'small print' of the Autumn Statement itself. The first is a commitment to 'use HMRC's resources to accelerate its resolution of avoidance schemes, including long-standing avoidance schemes involving partnership losses.' This follows from the announcement in the press release introducing *Closing in on tax evasion* which states that the additional £77m of resource will fund (amongst other things) a 'settlement opportunity' that offers 'a good deal to the Exchequer.' This is something I and others have been calling for over a period of some time. Hopefully this at last means that additional resource will be allocated to ensure that avoidance schemes (some of which can trace their implementation back to the very early 2000s) still under enquiry may finally be brought to closure. HMRC must now decide which schemes it wishes to pursue through the Tribunal – and must then do so with expediency. The introduction of the GAAR (for which we now have confirmation that the draft legislation will be published later this month) will present an excellent opportunity to 'clean up' the past whilst at the same time drawing a line under it.

The second significant announcement is the news that HMRC will immediately consult with the Cabinet Office 'on the use of the procurement process to deter tax avoidance and evasion and the proposed definitions of key concepts'. Following this consultation, 'new arrangements' will come into effect from April 2013 and the assumption must be that the tax compliance record of private sector bidders will become a relevant factor in relation to the award of government contracts. Corporates wishing to bid for such contracts need urgently to be looking at their tax affairs – and potentially those of their senior management as well. This is a fascinating and innovative development aimed at 'changing behaviours' in the way that has previously been applied to issues such as diversity, the Bribery Act and CSR policies. It will affect (amongst others) construction companies looking to tender for major infrastructure projects (such as the proposed Northern Line extension and HS2) as well as those looking to secure IT procurement projects with public bodies and a host of other public-private contracts.

The impact on MNCs

Tony Beare
Tax Partner, Slaughter and May

The chancellor bows to public pressure in relation to the level of UK taxes paid by multinational groups.

The most significant development affecting the taxation of multinational groups in the week of the Autumn Statement was not contained in the Autumn Statement but was instead to be found in the press release and written ministerial statement on tax avoidance and evasion published on the preceding Monday. This was the culmination of a collective media and public outcry over the low effective tax rates of certain multinational groups which brought to mind the McCarthy era in the 1950s.

The most striking feature of the material published on Monday was the language which it used to describe tax avoidance. Tax avoiders were lumped in with tax evaders in being described as 'tax dodgers' and as using 'schemes and dodges ... to cheat the law-abiding majority'. The fact that tax avoidance is a perfectly lawful activity seems to have escaped the writer of the press release. Whilst much of the material published on Monday focused on tax evasion, it is clear that, in future, multi-national groups are going to face much more rigorous scrutiny in the areas of transfer pricing and thin capitalisation. There will be an increased pressure to show that a fair measure of the group's overall profits are being subjected to tax in the UK and groups can expect to incur greater management time and compliance costs in proving that this is the case.

The material also refers to strengthening HMRC's 'risk assessment capability across the large business sector' and '[increasing] capacity to tackle aggressive avoidance schemes'. It seems likely that the existing disclosure regime will be widened and that additional sanctions for non-compliance with that regime will be imposed. When all of this is taken together with the proposed introduction in 2013 of the general anti-abuse rule, it is clear that tax avoidance in general will be much harder in the future.

Having said that, it is not apparent that tax avoidance will continue to be as desirable for multinational groups as it once was. Recent developments will have brought home to them that they are very much at the mercy of public opinion and that they can no longer rely on the confidentiality of their tax affairs to avoid public scrutiny of the amount of taxes they pay. In future, any group with a low effective tax rate can expect some difficult questions from the media and the possibility of a public backlash. A high effective tax rate will become a badge of honour and proof of social responsibility. It is also worth noting that the UK corporation tax rate continues to fall – the chancellor announced in the Autumn Statement that it would be cut to 21% from April 2014. Whilst this is bad news for those with deferred tax assets representing carried forward losses, it means that avoiding UK corporation tax is not as lucrative as it once was.

One consequence of this clamp-down in the UK may be that other traditional high-tax jurisdictions adopt a similar approach. It seems unlikely that the US, for example, will sit idly by as the UK seeks to increase its share of the world-wide taxable profits of US-headed groups without exacting some measure of retribution in relation to the US activities of UK-headed groups.

A second possible consequence of the current process is that there may well be some pressure within the EU to prevent Member States from offering overly-competitive tax regimes. It was interesting to note the involvement of an EU jurisdiction in relation to each of the groups which was the subject of the recent outcry. There is a clear tension in this context between the EU freedoms and the ability of each jurisdiction within the EU to adopt its own fiscal policy and set its own tax rates. Of course, as the continuing reduction of the UK corporation tax rate shows, the UK itself is not above participation in the competition. It may be hard to discredit the proliferation of tax tourism while at the same time putting out the deckchairs!

The impact on owner-managers

Peter Rayney
Tax consultant, Peter Rayney Tax Consulting Ltd

Most owner managers should be reasonably pleased with the key proposals announced in Mr Osborne's Autumn Statement. As

the UK is still grappling with unparalleled debt and the ripples of the Eurozone crisis, they could not really expect any large tax hand-outs.

Following the Autumn Statement, the owner-managers' tax landscape looks relatively unchanged and, more importantly, relatively unscathed. They are still able to extract dividends from their companies at modest tax rates (with a maximum effective rate of 30.6% from 6 April 2013) and spousal dividend planning remains robust. Companies continue to provide effective tax shelters for 'surplus profits', enabling those profits to be retained at low corporate tax rates.

In recent years, there has been considerable debate about the use of aggressive partnership structures and the possible legislative weapons that HMRC could use to nullify their effectiveness. Businesses that have opted to use these structures are likely to be concerned about the proposals for a detailed HMRC study in this area. Thankfully, the government has opted not to introduce yet more complex legislation to tackle personal service companies, although companies vulnerable to IR35 challenges should be prepared for more vigorous HMRC policing in this area.

For larger owner-managed companies, the planned reduction in the main corporation tax rate to 21% from April 2014 will also be welcomed. Many will ponder whether this will ultimately lead to a single corporation tax rate (and the chance to get rid of 'associated companies'!). Or will the chancellor be looking to retain a commensurately lower tax rate for 'smaller' companies?

Probably the most welcome proposal is the *ten-fold* increase in the annual investment allowance (AIA) from the current £25,000 to £250,000 from 1 January 2013. This effectively reverses the reduction in AIA to £25,000 that only came in from April 2012 so there are likely to be complications for accounting periods straddling the changeover date. The new £250,000 AIA limit is scheduled to last for a two year period, but will give many owner managed businesses an immediate tax write off on all or most of their capital expenditure. Businesses planning to incur significant capital spending should now wait until the new year.

Pension funds have always been an easy target for tax raids but, in my view, the reduction in the annual allowance to £40,000 and lower lifetime cap from 2014/15 is likely to affect relatively few owner-managers. Anecdotal evidence suggests that most of them gave up on traditional forms of pension provision some time ago, preferring to control their own 'pension' pot by investing funds through personal investment companies or suitable property investment. A properly structured family investment company still remains a pretty effective vehicle for retaining and controlling wealth.

It's a pity that the chancellor made no mention of correcting the entrepreneurs' relief (ER) rules introduced for EMI options last year, which potentially enable all EMI shares to qualify for a 10% ER CGT rate (irrespective of the size of the holding). However, in practice, the requirement to hold the EMI shares for at least 12 months (after the exercise of the option) completely misses the point that the vast majority of EMI options are exercised shortly before a sale of the company. Many will also be dismayed to learn that the government intends to push ahead with its controversial and impractical proposals to allow shares to be issued to employees in exchange for giving up many of their employment rights.

The owner-managed business sector will be thankful that it has avoided the spotlight, which has been reserved for large multinational groups. Following intense media coverage about tax avoidance by a number of multinationals, this sector is likely to bear the brunt of HMRC scrutiny. The Treasury clearly believes there are substantial tax revenues waiting to be collected in this area.

In summary, it seems it is business as usual for the owner-managed business sector. Owner-managers will be more concerned to see the chancellor taking decisive steps to stimulate the economy and improve trading conditions and business confidence, while keeping a firm hand on the fiscal tiller.

The private client perspective

Peter Vaines
Partner, Squire Sanders

Some Christmas cheer from the chancellor.

Well, it looked like a Budget and sounded like a Budget – and we even have a draft Finance Bill next week – so I guess it was a Budget. George made it sound so good that you could almost believe everything is OK – and the dark looks from Vince Cable made it even more plausible. It is a pity we only have this theatre twice a year. The chancellor obviously wanted to be helpful but it shows how desperate he must be when he makes a big deal about increasing the inheritance tax nil rate band from £325,000 to £329,000 – from 2015. My heart rather sank at this point.

However, it was not all doom and gloom. The reduction in the pension tax relief to £40,000 (in 2014) was not as bad as expected although he did reduce the lifetime cap to £1.25 million.

The increase in the personal allowance and the CGT exemption are all welcome – but the higher rate tax threshold is going down next year by £2,300. I could have sworn that he said that it was going up – and when I checked I find that he did. Just at the point where he said 'I want to be completely clear with people' he said that 'the higher rate threshold will be increased ... so the income at which people start paying the 40% rate will go up to £41,865'. However, this figure (of course) includes the personal allowance so what he means is that the higher rate tax threshold will be reduced in 2013.

Mr Osborne has clearly taken on board that high tax rates generate lower tax revenues (HMRC have given him the figures for last year just to prove the point) and he gave the merest hint that maybe the reduction in the top tax rate of 50% to 45% is only the beginning – but perhaps I am clutching at straws.

He has some tax loopholes in his sights and a handful will be closed immediately such as income tax relief for non trade patent royalties. HMRC are investigating the abusive use of partnerships, but no further details are available. There will be an improved DOTAS regime and lots more tax officers will be engaged on the detection of tax evasion. HMRC will be publishing their strategy for offshore evasion in Spring 2013 which goes along with their proposal to look more closely at offshore employment intermediaries.

The general anti-abuse rule is to be enacted next year (with appropriate amendments to the 'double reasonableness test') and it remains to be seen whether this will help or hinder the proper application of the tax rules.

And of course there is Switzerland and the Swiss Cooperation Agreement which is coming into force on 1 January. There are great hopes for an increase in tax yield. I am sure this will be true – if only from the tax on the increased profits made by tax advisers for the thousands of disclosure forms which are being submitted on behalf of clients.

It is however, helpfully confirmed that any funds received by HMRC under the Swiss agreement will not be treated as taxable remittances where they are made in respect of foreign domiciled individuals.

We have to wait until next week to see what is happening with the proposals for UK residential property worth more than £2m held by non natural persons. Any thoughts that the annual charge might have been withdrawn were soon dispelled. It is definitely being introduced. It is true that the annual charge will be a completely new tax, and it will be on property, and it is also true that in his speech the chancellor said 'we won't introduce a new tax on property'. (I think he was wanting to be completely clear). What he meant is that he *will* be introducing a new tax on property. It won't be a 'mansion tax' charging a new tax on expensive property; it will be an 'annual charge' – a new tax on expensive property. Any resemblance to a mansion tax is entirely coincidental.

The Statement did contain one really chilling statistic. The top 5% of earners pay 50% of the total income tax receipts. I hope this worries Mr Osborne – because it looks incredibly dangerous to me.

Economic view

John Hawksworth
Chief economist, PwC

As expected the OBR revised down its growth forecasts significantly compared to those in the March Budget. As a result the budget deficit will remain higher for longer, with projected borrowing excluding special factors of £56bn in 2016/17 as compared to £21bn in the March Budget forecast. But the OBR judged that most of the deterioration was cyclical rather than structural. So the chancellor was able to limit additional austerity to further public spending cuts of around £5bn in 2017/18, while boosting capital spending and cutting business taxes in earlier years.

At the time of the Budget in March, the Office for Budget Responsibility (OBR) was expecting UK GDP growth to be around 1% in the current financial year, picking up to 2.3% next year and then around 3% on average over the following three years. Even at the time this looked relatively optimistic and subsequent events – notably renewed problems in the Eurozone that have hit UK exports and business confidence – have caused the OBR to reduce their growth forecasts significantly (as can be seen by comparing the first two rows of the table below).

The OBR's projections are now closer to the views of PwC and other forecasters. Growth is expected to be led by a revival in business investment, with consumer spending remaining relatively subdued until 2016. The forecasts assume persistently slow growth in the Eurozone, but no major intensification of the crisis there.

Lower expected economic growth has inevitably led to lower projected tax revenues and so higher expected public borrowing. As the table shows, the annual budget deficit, after adjusting for special factors, is now forecast by the OBR to remain over £50bn in 2016/17, as compared to just £21bn in their March forecast – a difference of around 2% of GDP. The net public debt stock is now projected to peak at over 83% of GDP in 2015/16 (excluding special factors), one year later than before and at a markedly higher level compared to the 76.3% of GDP peak in 2014/15 projected back in March.

Crucially, however, the OBR has concluded that most of this deterioration in economic growth and the public finances is a temporary cyclical phenomenon rather than a permanent structural problem.

This means that the chancellor's key fiscal target – to eliminate the structural budget deficit (i.e. adjusted for the state of the economic cycle and excluding net public investment) by the end of a rolling five year forecasting period – can still be met with only a relatively small additional real public spending cut of around £5bn in 2017/18.

The OBR's assessment was helpful for the chancellor because it avoided the need for much larger additional spending cuts or tax rises. Indeed for the next four years the chancellor was able to present a broadly fiscally neutral package including a switch of around £5bn from current spending to capital investment over the next two years.

On the tax side, cuts in some areas (e.g. delayed fuel duty rises, a higher personal allowance and a 1% reduction in the main corporation tax rate from 2014) were balanced by tax increases elsewhere (e.g. on pension tax relief, indexation of the higher rate threshold, the bank levy and tax avoidance).

Overall, we would see the Autumn Statement package as being marginally positive for economic growth in the medium term, although the net effect will inevitably be small in macroeconomic terms given the limited funds that the chancellor had at his disposal.

The real risk for the chancellor though is that more of the weakness in growth and the public finances will turn out to be structural rather than cyclical. If that turns out to be the case, then further tax rises or spending cuts may yet be needed to balance the books in the medium term.

Comparison of key OBR forecasts at the time of the 2012 Budget and the Autumn Statement

GDP growth (%, financial years)	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Budget (March 2012)	1.0	2.3	2.8	3.1	3.0	n/a
Autumn Statement (Dec 2012)	0.1	1.5	2.1	2.4	2.7	2.8
Public sector net borrowing (£ bn)*						
Budget (March 2012)	120	98	75	52	21	n/a
Autumn Statement (Dec 2012)	120	112	99	82	56	31
Cyclically-adjusted current budget balance (% of GDP)*						
Budget (March 2012)	-4.2	-2.7	-1.5	-0.7	0.5	n/a
Autumn Statement (Dec 2012)	-4.3	-3.0	-2.1	-1.3	-0.1	0.8
Public sector net debt (% GDP)*						
Budget (March 2012)	71.9	75.0	76.3	76.0	74.3	n/a
Autumn Statement (Dec 2012)	75.4	79.5	82.2	83.6	83.2	81.4

**Excluding effects of Royal Mail pension fund transfer and APF gilt coupon transfers*
Sources: OBR, HM Treasury