KELLANDS

INDEPENDENT NEWS

THE AUTUMN STATEMENT

AUTUMN STATEMENT 2015

THE KEY ANNOUNCEMENTS AT-A-GLANCE

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INDEPENDENT FINANCIAL ADVISER

WELCOME

Spending Review and Autumn Statement 2015

Presented by Chancellor George Osborne on Wednesday 25 November 2015, the Spending Review sets out what government spending will be over the next four years, while the Autumn Statement is an annual update of government plans for the economy.

Compared to the summer Budget 2015, the Office for Budget Responsibility now forecasts higher tax receipts and lower debt interest, with a £27 billion improvement in the public finances.

In the main, this Autumn Statement was reasonably positive for pensioners, but not good news for landlords and second home owners.

There were no changes announced to Income Tax or National Insurance.

The proposed plan to cut tax credits will not go ahead, but it will eventually be phased out with the introduction of Universal Credit.

There was a rise in the State Pension of 2.9%, or £3.35 a week, to £119.30 from 6 April 2016. This will be the biggest 'real terms' rise in 15 years and is based on the 'triple lock' promise – a minimum rise of 2.5% unless wages (2.9%) or inflation (0%) are higher.

The Individual Savings Account (ISA) allowance limit will remain at £15,240 for 2016/17, and the Junior ISA and Child Trust Fund limits kept at £4,080.

The Chancellor also announced there would be an additional 3% surcharge payable on usual rates of stamp duty for landlords and second home owners from 6 April 2016. This is estimated to raise £1bn by 2021 and will go towards house building in priced-out areas.

In addition, from 2019, landlords and buyers of second homes will have to pay Capital Gains Tax within 30 days as part of a digitisation programme of HM Revenue & Customs' tax collection services.

CONTENTS

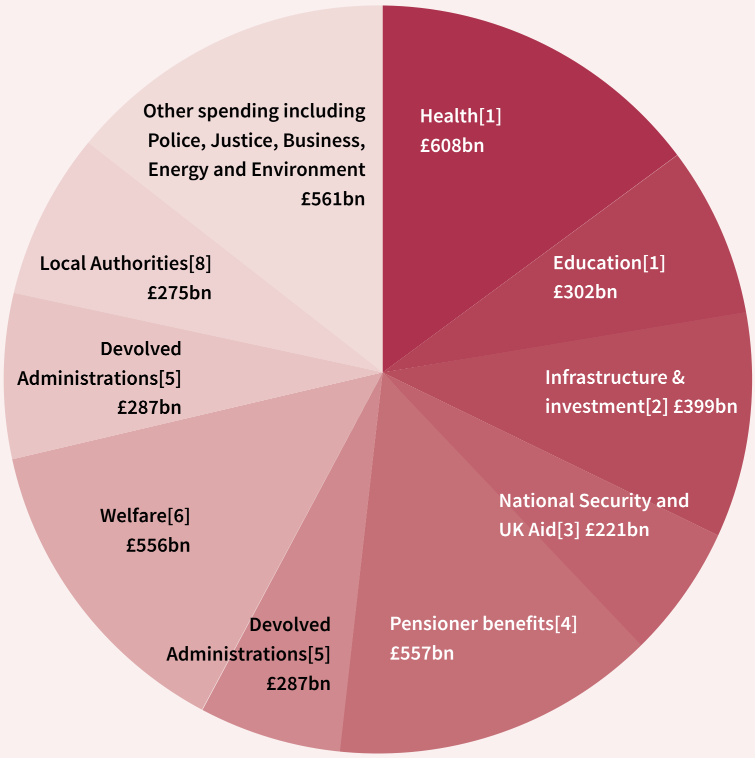
2015 AUTUMN STATEMENT AND SPENDING REVIEW

Summary of what the Chancellor had to say

HEADLINE ANNOUNCEMENTS AT A GLANCE

- Planned £4.4bn in tax credit cuts abandoned, with taper and threshold rates for working tax credits and child tax credits remaining the same
- Government to breach overall welfare cap in first years of Parliament
- Government to borrow £8bn less than forecast, with the aim of securing £10.1bn budget surplus by 2020
- Total spending to rise from £756bn this year to £821bn by 2019/20
- State spending 36.5%, as a share of total output, in five years – a reduction from 45% in 2010
- Overall day-to-day departmental spending to be cut by £20bn, equivalent to 0.8% of total expenditure each year by 2020
- Policing, health, education, international aid and defence budgets protected
- Transport, environment and energy resource budgets falling by 37%, 15% and 22% respectively

Cont...



BREAKDOWN OF TOTAL PUBLIC SPENDING: 2016/17 TO 2020/21

(1) Department for Health/Education spending only (excluding capital spending). As the SR does not include an RDEL settlement for DfE in 20-21, a stylistic assumption has been used, constant in real terms. Also includes health and education net public service pensions AME.

(2) Total Public Sector capital spending including central government, local government, devolved administrations and public corporations. On this basis, no other segment in this table includes capital spending.

(3) Ministry of Defence (inc pensions AME), Single Intelligence Account and Department for International Development.

(4) Including OBR forecast for the State Pension, Attendance Allowance, Winter Fuel Payment and Pension Credit.

(5) Includes resource spending in the DEL block grants, resource local authority self-financed expenditure in Scotland, Wales and Northern Ireland, and public sector pensions in AME.

(6) OBR social security forecasts minus pensioner benefits.

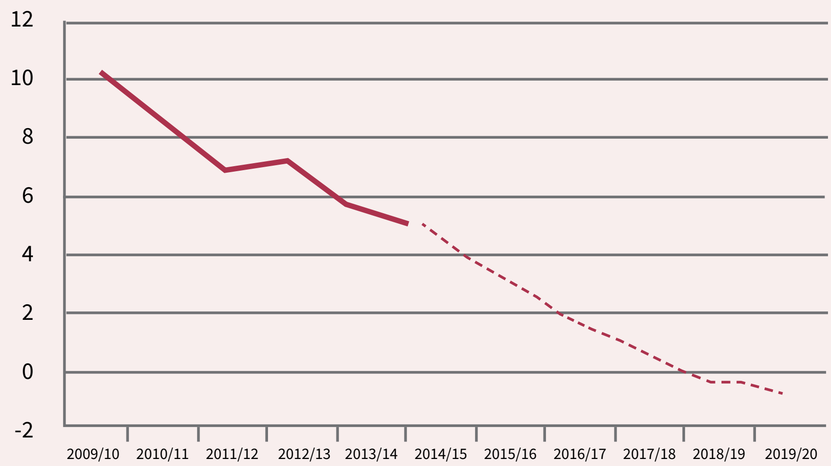
(7) OBR forecast for gross central government debt interest.

(8) OBR forecast for resource Local Authority self-financed resource expenditure (excluding self-financed expenditure in Scotland, Wales and Northern Ireland), DCLG grant funding, pensions and current VAT refunds only. Does not include grants from other central government departments.

ECONOMY

- GDP growth forecast of 2.4% in 2015, 2.4% in 2016 and 2.5% in 2017
- Employment forecast to be 31.1 million in 2015, rising each year to 32.2 million in 2020
- CPI inflation is forecast to be below the 2.0% inflation target in 2015, returning gradually to 2.0% in 2019
- Public sector net borrowing is forecast to fall to 3.9% of GDP in 2015/16, and then to fall each year for the remainder of the forecast period
- Public finances forecast to return a surplus of £10.1 billion in 2019/20 and £14.7 billion in 2020/21
- Public sector net debt is forecast to fall each year reaching 71.3% of GDP in 2020/21

Government borrowing as a % of GDP falling in every year of the forecast, with the deficit eliminated by 2019/20



Outturn series (2009/10 to 2014/15) is published ONS data which does not include Housing Associations. Forecast series (2014/15 to 2020/21) is from OBR November 2015 Economic and fiscal outlook and includes Housing Associations. Source: Office for National Statistics and Office for Budget Responsibility.

PSNB outturn
PSNB OBR forecast

WELFARE AND TAX CREDITS

- £12bn in targeted welfare savings to be delivered in full
- Housing benefit for new social tenants to be capped at same level as private sector
- Housing benefit and pension credit payments to be stopped for people who leave the country for more than one month
- Department of Work and Pensions budget to be cut by 14%
- Job centres to be co-located in council buildings
- Conditions for benefits to be extended to more than one million more claimants

POLICE, SECURITY AND JUSTICE

- No real-terms cuts in police budgets in England and Wales, with spending to increase by £900m by 2020
- Forces expected to make efficiency savings by sharing resources
- Underused courts to be sold off, raising £700m for new technology
- Defence budget to rise from £34bn to £40bn by 2020, with extra cash for the security services
- Overseas aid budget to increase to £16.3bn by 2020, while Foreign Office budget protected in real terms

HEALTH

- Health budget in England, currently £101bn, to rise to £120bn by 2020/21
- The NHS in England to get upfront cash injection of £6bn next year as part of £10bn added funding

HOUSING BENEFIT AND PENSION CREDIT PAYMENTS TO BE STOPPED FOR PEOPLE WHO LEAVE THE COUNTRY FOR MORE THAN ONE MONTH.

- NHS in England expected to make £22bn in efficiency savings
- An extra £600m earmarked for mental health services
- Grants for student nurses to be replaced by loans
- Cap on training places for nurses removed, with goal of increasing numbers by 10,000
- New social care 'precept' in council tax of up to 2% to allow local councils to raise £2bn for social care
- Better Care Social Fund to be increased by 1.9%
- £15m raised from charging VAT on sanitary products to be given to women's health charities

PENSIONS, SAVINGS AND PERSONAL TAXATION

- State Pension to rise by £3.35 a week to £119.30 next year
- Savings credit to be frozen at current level
- Every individual and small business to have their own digital tax account by the end of the decade

EDUCATION

- Schools budget in England protected in real terms
- Total education budget to rise by £10bn in 2020
- School funding formula to be phased out
- New 30-hour free childcare subsidy for parents of three- and four-year-olds to be limited to those working more than 16 hours a week

PUBLIC SECTOR NET BORROWING IS FORECAST TO FALL TO 3.9% OF GDP IN 2015/16, AND THEN TO FALL EACH YEAR FOR THE REMAINDER OF THE FORECAST PERIOD.

- Sixth form colleges allowed to become academies
- Funding for Further Education colleges to be 'protected in cash terms'

HOUSING AND LOCAL GOVERNMENT

- New 3% surcharge on stamp duty for buy-to-let properties and second homes from April 2016
- Restrictions on shared ownership to be removed and planning system reformed to deliver more homes
- London Help to Buy scheme to offer interest-free loan worth up to 40% of the value of a newly built home
- Plans to hand billions to private developers to build 400,000 new homes in England
- Local government to keep all revenue from business rates by the end of Parliament
- Councils to receive extra £10m to help homeless people
- Local government spending, in cash terms, to be same in 2020 as 2015

BUSINESS, SCIENCE AND THE ENVIRONMENT

- Business department funding to be cut by 17%
- 6 new enterprise zones to be created
- Uniform business rates to be abolished, with elected mayors allowed to raise rates under certain conditions
- Science budget to rise in real terms to £4.7bn
- Apprenticeship levy set at 0.5% of employer wage bill, with £15,000 allowance for eligible firms
- Funding for flood defence to be protected in real terms
- Energy Companies Obligation to be replaced in March 2017 and Renewable Heat Incentive cut by £700m

INFRASTRUCTURE, TRANSPORT AND CULTURE

- Capital funding of transport projects to rise by 50% by 2020
- £250m support for motorways in Kent to relieve pressure caused by Operation Stack
- Culture department to see funding cut by 5%
- Extra cash for Arts Council and UK Sport
- Free museum entry to be maintained

RETIREMENT MATTERS

No further radical changes announced to the private pensions system

Chancellor George Osborne announced a rate of £155.65 for the new flat-rate State Pension. For someone working full-time today, it's approximately 60% of the Living Wage.

For the first time in this Parliament, Mr Osborne did not announce any further radical changes to the private pensions system, giving the Treasury more time to digest the Green Paper consultation from the summer Budget.

From 2016/17, a tapered reduction to the amount of the annual allowance of £40,000 is to be introduced for individuals with adjusted income of over £150,000. Adjusted income includes the value of any employer pension contributions in order to prevent avoidance via the use of salary sacrifice arrangements.

The annual allowance of £40,000 will be reduced by £1 for every £2 that adjusted income exceeds £150,000, down to a minimum annual allowance of £10,000. Therefore, anyone with adjusted income of £210,000 or more will only receive the £10,000 minimum.

YOUR PENSION CONTRIBUTION LIMITS FOR THE CURRENT TAX YEAR 2015/16

- You can contribute as much as you earn in a year, up to £40,000 a year
- You can also use HM Revenue & Customs' 'carry forward' rules to use the past three years' pension contribution limits, if you haven't alread
- Once you start drawing from your pension, your annual limit reduced to £10,000
- The lifetime pension limit is reducing from £1.25m to £1m next year

The lifetime allowance applies to the total funds that can be built up within your pension arrangements, and there will be a tax charge should you subsequently withdraw the funds in the form of a pension that exceeds this limit.

ACTION POINT
If you earn over £150,000, your annual pension allowance will gradually reduce to £10,000 until you earn £210,000, at which point you will no longer qualify for tax relief on contributions. To discuss the planning options available to you, please contact us.

Pensioners' credit

Cuts for people who go abroad for over a month

People who go abroad for over a month will no longer be eligible for pensioners' credit.

At present, housing benefit and pension credit recipients can go abroad for up to 13 weeks while continuing to receive payouts.

The spending review says: 'The benefit system should not subsidise those on benefits to go abroad for extended periods. This reform will ensure the benefit system is not paying the rent of people who go abroad for more than four weeks at a time.'

Basic State Pension increase

Rising in line with the highest out of CPI inflation, RPI inflation or Bank rate

The basic State Pension will increase next year by £3.35 to £119.30 per week. Chancellor George Osborne claims this will make pensioners £1,125 a year better off.

Meanwhile, the 'triple lock', which ensures the State Pension rises in line with whichever is highest out of CPI inflation, RPI inflation or Bank rate, will be maintained.

NEW STATE PENSION RATE

Higher rate means tested benefits for the lowest earners in society

The full rate for people collecting the new State Pension from 6 April 2016 will be set at £155.65. Chancellor George Osborne says this is a higher rate than means tested benefits for the lowest earners in society.

People who contracted out of the top-up S2P and Serps schemes over the years will get less than this.

STATE PENSION – WHAT YOU NEED TO KNOW

The basic State Pension is currently £115.95 a week, and it will rise to £119.30 from next April. It is currently topped up by additional State Pension entitlements – S2P and Serps – accrued during working years.

This two-tier system will change from 6 April 2016 and be entirely replaced for those retiring after April 2021 by a 'flat rate' pension. George Osborne has announced that the starting rate will be £155.65 a week.

Workers need to have 30 years of qualifying National Insurance contributions to get the current full State Pension, but will need 35 years of contributions to get the full flat rate State Pension in future.

Even if you paid in full for a whole 35 years, if you contracted out for some years on top of that, it might still reduce what you get.

Rises in the State Pension are presently calculated on the basis of something called the 'triple lock'. This means that payouts always increase by whatever is the highest of inflation, average earnings or 2.5%.

ACTION POINT

If you can afford it, by delaying drawing the State Pension may boost your income in the future. Deferring for just one year could make you more than £10,000 better off if you live for 24 and a half years – an average of the life expectancy of men and women. To discuss the planning options available to you, please contact us.

Annuities

Setting up a second-hand market

The Government has been investigating the possibility of setting up a second-hand market in annuities.

In the Spending Review and Autumn Statement 2015, the Treasury said: 'The Government will remove the barriers to creating a secondary market for annuities, allowing individuals to sell their annuity income stream.

The Government will set out further details on this measure, including the framework for the consumer protection package, in its consultation response this December.'

Income drawdown

No Inheritance Tax levy on cash left in savers' pension pots

The Government has confirmed that it won't levy Inheritance Tax on cash left in savers' income drawdown pension pots when they die.

The Spending Review and Autumn Statement 2015 said: 'The Government will legislate to ensure a charge to Inheritance Tax will not arise when a pension scheme member designates funds for drawdown but does not draw all of the funds before death.

This will be backdated to apply to deaths on or after 6 April 2011.'

AUTO-ENROLMENT

Increases in contributions pushed back by six months

Over 5.4 million individuals have already been auto-enrolled into a pension, and the number of opt-outs from automatic enrolment have been low, making the current amount of people who are saving for their retirement the highest since 1997.

The total minimum auto-enrolment payment is currently 2% of salary – split between contributions from individuals and employers, and tax relief from the Government.

Workers aged between 22 and State Pension age and earning at least £10,000 a year from one job are now automatically enrolled into a pension, unless they make an active move to opt out.

Chancellor George Osborne announced that increases in auto-enrolment contributions have been pushed back by six months, meaning the full combined 8% of contributions will not be mandatory until April 2019. The delay has been introduced to help employers with the administration of the increase.

To simplify the administration of automatic enrolment for the smallest employers in particular, the next two phases of minimum contribution rate increases will be aligned to the tax years.

The increase in the employer minimum contribution from 1 to 2% and the total minimum contribution increase from 2 to 5% will now take place in April 2018, rather than 1 October 2017 as had previously been planned. The further employer contribution increase to 3% and total contribution increase to 8% will now take place in April 2019.

ACTION POINT
If you are an employer, it is a legal requirement to offer a workplace pension scheme. To discuss or review your requirements, please contact us.

MR OSBORNE SAID: 'TO HELP BUSINESSES WITH THE ADMINISTRATION OF THIS IMPORTANT BOOST TO OUR NATION'S SAVINGS, WE'LL ALIGN THE NEXT TWO PHASES OF CONTRIBUTION RATE INCREASES WITH THE TAX YEARS.'

BUY-TO-LET AND SECOND HOMES

Higher stamp duty payable from April 2016

Buy-to-let landlords and people buying second homes will soon have to pay more in stamp duty, Chancellor George Osborne has announced.

From April 2016, you will have to pay a 3% surcharge on the stamp duty charged for the property.

Mr Osborne said the new surcharge would raise £1bn extra for the Treasury by 2021.

Other changes announced by the Chancellor included an extended Help to Buy scheme in London and more money for the Starter Homes programme.

Buy-to-let landlords are already due to receive a lower rate of tax relief on mortgage payments.

In his summer Budget, Mr Osborne said that landlords would only receive the basic rate of tax relief – 20% – on mortgage payments, a change being phased in from 2017.

Landlords will have to pay an extra £230 in stamp duty based on the purchase of an average property worth £286,000.

Up to £60m of the money raised from the stamp duty surcharge will go to help homebuyers in England in places where holiday homes have forced up local prices.

HELP TO BUY

The Help to Buy (equity loan) scheme in England will also be extended to 2021, one year longer than planned.

An extension to the scheme in London will see buyers who can find a 5% deposit given a loan worth up to 40% of the property. The loan will be interest-free for five years. Elsewhere, the existing maximum loan is for 20% of the property's value.

In total, the Government will put an extra £6.9bn into housing. This includes an extra £2.3bn for the Government's starter homes programme, and £4bn given to housing associations and local authorities to build more homes for shared ownership.

Another £200m will be used to build homes for rent, which will allow tenants to save for a deposit.

There will also be a pilot scheme to trial the Government's Right to Buy programme for housing association tenants. Five housing associations will take part to help design the final scheme.

AN EXTENSION TO THE SCHEME IN LONDON WILL SEE BUYERS WHO CAN FIND A 5% DEPOSIT GIVEN A LOAN WORTH UP TO 40% OF THE PROPERTY.

CAPITAL GAINS TAX

Change to the date on which property owners must pay their tax

Chancellor George Osborne has changed the date on which property owners must pay their tax.

This measure reduces the payment window for Capital Gains Tax (CGT) due on residential property from 10–22 months to 30 days after the transaction, and will be effective from April 2019.

This change only applies to CGT on the sale of a property, albeit many sales will still remain tax-free.

You may have to pay CGT if you make a profit ('gain') when you sell (or 'dispose of') property that's not your home, for example:

- Buy-to-let properties
- Inherited property
- Second homes

This will not affect gains on properties which are not liable for CGT due to Private Residence Relief. The Government will publish draft legislation for consultation in 2016.

INDIVIDUAL SAVINGS ACCOUNTS

Extending the list of qualifying investments

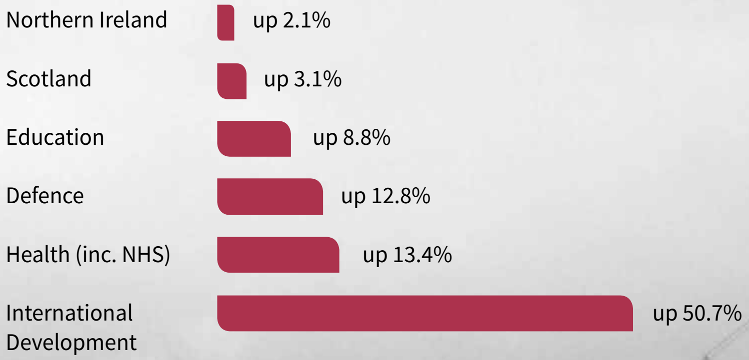
Chancellor George Osborne is extending the list of qualifying investments for the new Innovative Finance Individual Savings Account (ISA) from Autumn 2016 to include debt securities offered via crowdfunding platforms.

He is also planning to extend the ISA rules so after death your estate still continues to benefit. From 2016, ISA savings of a deceased person will benefit from tax advantages during the administration of their estate.

The ISA allowance limit will remain at £15,240 for 2016/17, and the Junior ISA and Child Trust Fund limits kept at £4,080.

AUTUMN STATEMENT: **THE WINNERS**

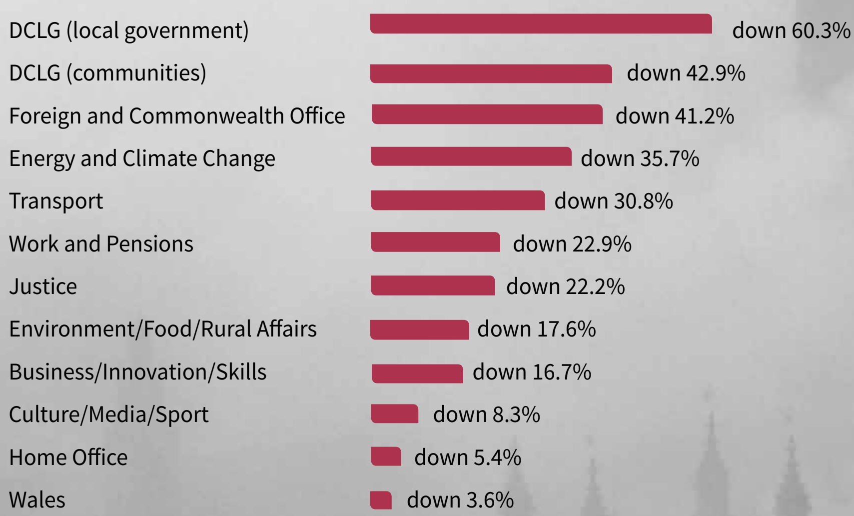
These are the departments who are seeing their total day-to-day spending rise between 2014/15 and 2019/20:



Source: HM Treasury

AUTUMN STATEMENT: **THE LOSERS**

These are the departments seeing their total day-to-day spending cut between 2014/15 and 2019/20:



Source: HM Treasury
DCLG = Department for Communities and Local Government

ARE YOUR FINANCIAL PLANS STILL ON TRACK AFTER THE SPENDING REVIEW AND AUTUMN STATEMENT 2015?

There were some positive announcements for individuals and businesses, but it's clear that raising tax revenue is very much on the Chancellor's agenda to help balance the UK's books. To review what action you may need to take to keep your plans on track, please contact us.

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