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CHARTERED ACCOUNTANTS

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AUTUMN STATEMENT 2011

Chancellor George Osborne presented the Autumn Statement to the House of Commons on 29 November 2011. This newsletter summarises the key points, and rounds up some of the recent changes announced by the Coalition Government.



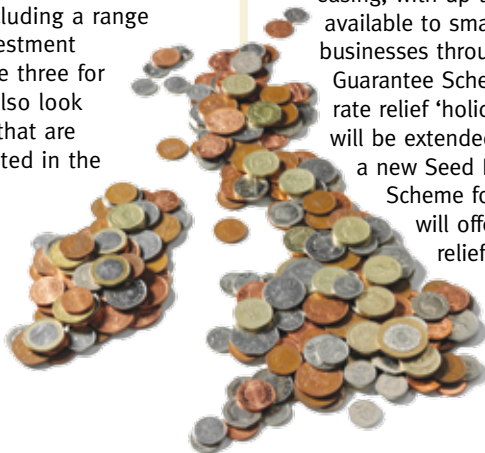
Inside this newsletter

The Autumn Statement replaces the previous Government's Pre-Budget Report, and is used to provide an update on the economy and outline proposed changes to tax and legislation, ahead of the spring Budget.

In economic terms 2011 has been a turbulent year, with financial crisis in the eurozone fostering an uncertain outlook for the wider global economy, and a succession of negative economic reports in the UK sparking fears of a possible double-dip recession. Despite this, the Government has insisted on its commitment to the UK austerity programme.

In this newsletter, we look at the key announcements made by Chancellor George Osborne, including a range of business and investment measures – see page three for further details. We also look ahead to measures that are due to be implemented in the coming months.

If you would like to discuss any of the issues covered in this newsletter, please contact us.



Chancellor sticks to Plan A for the economy

With the latest report from the Office for Budget Responsibility painting a gloomy picture for the UK economy, Chancellor George Osborne vowed that the Government would stick to its austerity programme to protect against 'the sovereign debt storm'.

In line with predictions, the Chancellor announced a reduction in the UK's economic growth forecasts, with the 2011 figure revised downwards from 1.7% to 0.9%. This was accompanied by an increase in Government borrowing, with the forecast for 2011/12 rising to £127bn, and total additional borrowing amounting to £112bn over the next four years. However, the Chancellor rebuffed recent reports that the UK is set to slip back into recession in the coming months.

Key announcements for business include the introduction of further credit easing, with up to £20bn being made available to small and medium-sized businesses through the National Loan Guarantee Scheme. The business rate relief 'holiday' for small firms will be extended to April 2013, and a new Seed Enterprise Investment Scheme for small businesses will offer 50% income tax relief for those investing up to £100,000 in new start-ups, together with a

one year freeze on capital gains tax. A £940m 'Youth Contract' will also aim to boost employment by means of subsidised work placements for young workers.

Also central to the announcements was confirmation of a National Infrastructure Plan to boost the UK's road, rail and broadband facilities, to be funded by £5bn of Government spending, with a further £20bn investment expected from British pension funds.

Meanwhile, public sector workers will experience a further squeeze, with a 1% cap on pay rises, and while some benefits will rise in line with inflation, other tax credits will see below-inflation increases.

Other significant announcements include a mortgage indemnity scheme aimed at helping 100,000 people to buy homes, a doubling of the number of childcare places for two year olds in England, a new cap on regulated rail fare increases, a cancellation of the rise in fuel duty scheduled for January, and a further increase in the bank levy.

Housing measures

Analysis has shown that the stamp duty land tax relief for first time buyers has been ineffective in increasing the number of first time buyers entering the market. This relief will therefore end on 24 March 2012 as planned.

The 'New build indemnity scheme' provides a guarantee for up to 100,000 new mortgages at up to 95% loan to value for new build houses and flats in England. For each new build property sold under the scheme, the home builder will contribute 3.5% into an indemnity fund, with the Government supporting the fund to a total of 9% of the property value. The indemnity fund pays out to the lender if a property financed under the scheme is repossessed and

there is a shortfall. Builders will take the first loss in the indemnity, with the Government only being called upon to pay once the builder's fund has been exhausted.

The Government will raise the discounts for the 'Right to Buy scheme'. For each home purchased, the Government will provide an additional affordable home, in addition to plans to deliver up to 170,000 affordable homes through the new 'Affordable Homes programme'.

A new £400m 'Get Britain Building' investment fund will support firms in need of development finance. This will be aimed at making progress on stalled sites which have planning permission and are otherwise ready to start.

Travel and infrastructure

Fuel duty

The planned 3.02p per litre fuel duty increase that was due to take effect on 1 January 2012 will be deferred to 1 August 2012, and the inflation increase that was planned for 1 August 2012 (expected to be 1.92p per litre) will be cancelled.

Roads and rail

A new National Infrastructure Plan is intended to improve Britain's road and rail systems, with over 30 specific projects on motorways and rail lines detailed. £5bn of funding will come from government spending, with an anticipated £20bn investment coming from UK pension funds. An additional £1bn of new private sector investment in regulated industries will be supported by government guarantee.

Train fares have been expected to increase to RPI plus 3% to pay for the investment in railways and new trains. However, the Government will now limit the increase to Transport for London and regulated rail fares to RPI plus 1% for one year from January 2012.

Air Passenger Duty

The extension of Air Passenger Duty (APD) to flights taken aboard business jets, effective from 1 April 2013, will go ahead. Details will be set out following the APD consultation on 6 December 2011.

Superfast broadband

£100m will be invested to create up to 10 'super-connected cities' across the UK, with 80-100 megabits per second superfast broadband and city-wide high-speed mobile connectivity. The four national capitals will all receive support from this fund, and a UK-wide competition will decide on up to six further cities that will also receive funding. These will be announced in the 2012 Budget.

A £20m Rural Community Broadband Fund will be opened to roll out superfast broadband to rural areas, and this may be extended if successful.

Pensions Update

Automatic pension enrolment delayed for small businesses

The Government has announced that small businesses will be given more than an extra year to comply with the requirements of the new automatic pension enrolment system.

Auto-enrolment is being phased in from October 2012, on a staged basis, beginning with larger employers. Following the announcement, the original April 2014 starting deadline for employers with less than 50 workers has been deferred until the start of the next Parliament.

Under the system, employers will have to enrol automatically all eligible workers into any qualifying pension scheme. This could be an existing company scheme (if it meets, or can be changed to meet, the necessary criteria) or NESTs (National Employment Savings Trusts), a simple low-cost pension scheme being introduced by the government.

All businesses will eventually need to contribute at least 3% on a band of qualifying pensionable earnings for eligible jobholders. However, to help employers adjust, compulsory contributions will be phased in.

Employees will also contribute to their pension scheme – this will start at 1% of their salary, before later rising to 4%. An additional 1% in the form of tax relief will mean that there is a minimum 8% contribution rate.



Changes to the state pension age

The Chancellor has revealed that the rise in the state pension age to 67 will now come into effect between April 2026 and April 2028, saving an estimated £60bn between 2026/27 and 2035/36.

Meanwhile, the Government recently announced its intention to delay its plans to increase the state pension age to 66, following concerns that many thousands of women will have to wait longer to collect their pensions.

Under the plans, the pension age for women was set to rise from 60 to 65 by 2018, followed by a second increase in the pension age to 66, in April 2020. However, the second rise in the pension age will now take place in October 2020, benefiting around 245,000 women.



Business and investment

The Autumn Statement contained announcements affecting many aspects of business life.

Tax changes

At the last Budget the Government cut the main rate of corporation tax to 26%, and it will fall by a further 1% each year until 2014, when it will reach 23%.

Changes to the tax rules with immediate effect will ensure the amount of tax relief given to employers making asset-backed pension contributions to registered pension schemes accurately reflects the amount of payments made, and does not give rise to unintended excess relief.

The climate change levy discount on electricity for climate change agreement participants available from 1 April 2013 will be increased to 90%.

As announced, the Government will remove the VAT relief for low value goods (below £15) sent to the UK from the Channel Islands with effect from 1 April 2012.

Enterprise Zones

Enterprise Zones in six assisted areas – Black Country, Humber, Liverpool, North Eastern, Sheffield, and Tees Valley – will qualify for enhanced capital allowances. In these areas, 100% allowances will be available for plant and machinery investment incurred between April 2012 and March 2017. Discussions continue with the devolved administrations regarding enhanced capital allowances in their Enterprise Zones.

Venture Capital Schemes

The Chancellor announced a new Seed Enterprise Investment Scheme (SEIS) to encourage investment in new start-up companies. SEIS will provide income tax relief of 50% for individuals who invest in shares in qualifying companies, with an annual investment limit for individuals of £100,000 and a cumulative investment limit for companies of £150,000.

In addition, the scheme will offer a capital gains tax 'holiday' for investments made. This will provide for a capital gains tax exemption on gains realised on disposal of an asset in 2012/13 and invested through SEIS in the same year.

The Enterprise Investment Scheme (EIS) will be simplified by relaxing the connected person rules and the definition of shares that qualify for relief. At the same time the focus of the scheme will be tightened by the introduction of a new test to exclude companies set up for the purpose of accessing relief, exclude acquisition of shares in another company and exclude investment in Feed-in-Tariffs businesses.

In addition to these changes, the Government will remove the £1m investment limit per company for Venture Capital Trusts (VCTs) to reduce the administrative burdens of the scheme.

The Government had already announced that from 6 April 2012 the employee limit for both EIS and VCT purposes will be increased to fewer than 250 employees (currently 50), while the gross asset limit will rise to £15m before the investment.

In addition, the maximum annual amount that can be invested in a company will increase to £10m and the maximum annual amount that an individual can invest under the EIS will rise to £1m.

Business rates

The Government will extend the small business rate relief 'holiday' for a further six months from 1 October 2012 and give businesses the opportunity to defer 60% of the increase in their 2012/13 business rate bills as a result of the Retail Prices Index uprating, to be repaid equally across the following two years.

Employment regulation

The qualifying period for unfair dismissal claims is to be increased from one year to two years from April 2012 to help address employers' fears about the risks of taking on a new member of staff. The Government will consult on the level of fees, to be introduced for individuals who want to bring cases to employment tribunals.

Planning law

The Government will:

- review planning appeals procedures, seeking to make the process faster and more transparent, improve consistency and increase certainty of decision timescales. Proposals will be brought forward for implementation in summer 2012
- consult on a proposal to allow the reconsideration of those planning obligations agreed prior to April 2010 where development is stalled; and

- consult on proposals to allow existing agricultural buildings to be used for other business purposes such as offices, leisure and retail space, to make it easier for rural businesses to find the premises they need to expand.

Credit easing

The Government announced a package of up to £21bn of credit easing measures to support smaller and medium-sized businesses, comprising:

- a National Loan Guarantee Scheme. Up to £20bn of guarantees for bank funding will be made available over two years. This will allow banks to offer lower cost lending to smaller businesses, subject to state aid approval; and
- making available an initial £1bn through a Business Finance Partnership, which will invest in smaller and medium-sized businesses in the UK through non-bank channels.

Innovation

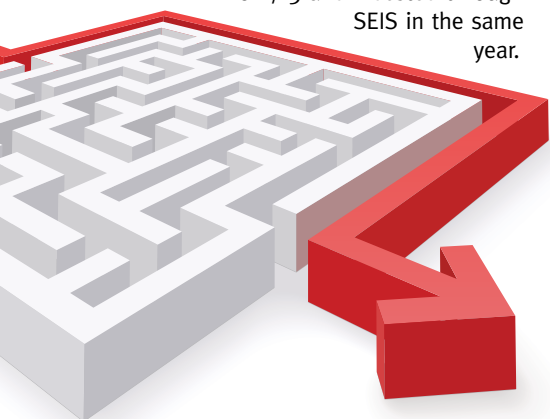
The Government has announced that it will:

- invest an additional £75m in supporting technology-based SMEs to develop, demonstrate and commercialise new products and services
- invest an additional £200m in science, including an £80m investment in the Institute for Animal Health and £25m for large-scale technology demonstrators; and
- introduce an 'above the line' tax credit in 2013 to encourage research and development (R&D) activity by larger companies.

The Government will consult on the detail at Budget 2012 and aims to ensure that SME R&D incentives are not reduced as a result of this change. This builds on measures at Budget 2011 to increase the R&D tax credits for SMEs.

In December 2011 the Prime Minister will set out the Government's strategy to support the life sciences work of universities, the NHS, private investors and businesses, to attract and develop talent, and improve incentives.

Following consultation over summer 2011, the Government will publish on 6 December 2011 further details of the Patent Box and its reform of the Controlled Foreign Company rules and R&D tax credits.



Jobs and education

The Government plans to invest an extra £600m to fund 100 additional Free Schools by the end of this Parliament. This will include new specialist maths Free Schools for 16-18 year olds, supported by strong university maths departments and academics.

It will also invest an additional £600m to support those local authorities with the greatest demographic pressures. This funding is expected to deliver up to an additional 40,000 school places.

Youth Contract

The Government is introducing a new 'Youth Contract', worth a total of £940m over the Spending Review 2010 period.

The Government will fund wage incentives for 160,000 young people to make it easier for private sector employers to take them on. In addition it will fund at least 40,000 incentive payments for small firms to take on young apprentices, and extra support from Jobcentre Plus for unemployed 18-24 year olds.

An offer of a work experience or Sector Based Work Academy place will be made to every unemployed 18-24 year old who wants one after three months on Jobseeker's Allowance, together with a new £50m a year programme to support some of the most disadvantaged 16-17 year olds into education, an apprenticeship or a job with training.

2012/13: Tax credits and the state pension

For 2012/13, the child element of the Child Tax Credit will be uprated by £135 per year in line with CPI, but the planned £110 above inflation increase will not go ahead.

The disability elements of tax credits will be uprated in line with CPI, but the couple and lone parent elements of the Working Tax Credit will not be uprated.

In line with the 'triple guarantee', the full basic State Pension will rise by £5.30 to £107.45 per week. The full couple rate will rise by £8.50 to £171.85 per week. The standard minimum income guarantee in Pension Credit will increase by 3.9% to £142.70 per week for single pensioners and £217.90 a week for pensioner couples. The threshold for Savings Credit will increase to £111.10 for single pensioners and £177.20 for pensioner couples.



Looking ahead to 2012

Income tax and personal allowances

The personal allowance for those aged under 65 increases to £8,105 from 6 April 2012. However, the advantage to higher rate taxpayers will be countered by a lowering of the higher rate threshold, to £34,370.

Capital allowances

The current system of capital allowances will see significant changes from April 2012, including a reduction in the amount of expenditure on plant and machinery which qualifies for a 100% year one write-off (via the annual investment allowance) from £100,000 to just £25,000.

In addition, for chargeable periods ending on or after 1 April 2012 (for businesses within the charge to corporation tax) and on or after 6 April 2012 (for businesses within the charge to income tax), the rates of writing down allowances will be reduced to 18% (main rate pool) and 8% (special rate pool).

Pensions tax relief lifetime limit

The lifetime allowance on money that can be accrued in a pension fund and still receive tax relief, is set to fall from £1.8m to £1.5m from April 2012.

Research & Development

The additional corporation tax deduction given to small and medium-sized enterprises for qualifying R&D expenditure will rise from 100% to 125%. It will have effect for expenditure incurred on or after 1 April 2012.

Inheritance tax

A reduced inheritance tax rate of 36% will apply from 6 April 2012 to death estates, where 10% or more of the net estate is left to charity.

If you are affected by the changes, please contact us for more information and advice.

What they said...

'After 18 months in office the verdict is in: Plan A has failed and it has failed colossally... cutting too far and too fast has backfired and every one of a year ago has completely unravelled'

Ed Balls, Shadow Chancellor

'This Autumn Statement works with the realities of today and provides an imaginative framework for UK businesses as it strives to secure growth and jobs. This is "Plan A Plus" in all but name'

John Cridland, Confederation of British Industry

'The biggest challenges to UK businesses remain global demand and economic uncertainty. Firms will give the Chancellor credit for pulling the levers under his control, but will remain concerned about the wider economic environment'

David Kern, British Chambers of Commerce

'Taken as a package, the announcements in the Autumn Statement address many of the concerns raised by small businesses... the key now is for the Government to be consistent, and set to the task of translating the policy intentions into tangible actions on the ground'

John Walker, Federation of Small Businesses