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Autumn Statement Highlights

25 November 2015



Landlords the biggest losers as Osborne backs off tax credit cuts in bid to balance the books

The Chancellor of the Exchequer delivered his Autumn Statement and there were plenty of announcements that could affect your finances, from another attack on buy-to-let landlords, a toughening up of tax on the sale of property and new State pension rates.

The big picture

Declaring that the “first duty of government is to protect economic and national security”, George Osborne announced that the public debt burden is expected to fall in every year of this Parliament. This puts the public finances on course to deliver a surplus of £10 billion by 2019-20.

The Office for Budget Responsibility (OBR), responsible for providing and analysing economic forecasts, is forecasting GDP growth of 2.4% this year, 2.4% in 2016 and 2.5% in 2017.

It expects inflation to remain low, with the consumer prices index rising slowly from 0.1% this year to 1% next year and only reaching the Bank of England’s 2% target in 2019.

Publishing its own forecasts alongside the Autumn Statement, the OBR said there was “considerable uncertainty about near-term prospects for house price inflation”. However, it said it expected house price growth to remain around 5% a year until 2019.

The Government earmarked £61 billion for transport this Parliament including £250 million over the next five years to tackle potholes. There was no announcement on fuel duty.

The major announcements

Following defeat in the House of Lords, the Chancellor backed off from controversial cuts to tax credits which would have left millions of families worse off from next April. Housing was also high on the agenda. There was a package of measures, described as the “most ambitious plan since the 1970s” to tackle the “crisis of home ownership” in Britain. Osborne promised to deliver 400,000 new “affordable” homes by 2020-21.

The Chancellor also promised to extend the Help to Buy equity loan scheme to 2021. The new Help to Buy ISA aimed at helping aspiring first-time buyers get a foot on the property ladder also got a mention as it will be launched on 1 December.

Two of the most significant changes also focused on housing.

Stamp duty on second homes

A higher rate of stamp duty will be charged on purchases of buy-to-let properties and second homes. From 1 April next year anyone buying such homes will face a 3% surcharge on top of the current stamp duty rates. It will be a further blow to landlords, who may well be starting to feel under siege following curbs on the 'wear and tear allowance' and mortgage interest tax relief announced in the July Budget (see landlord tax attack below).

Capital Gains Tax on property

Capital Gains Tax due on the sale of second homes and buy-to-lets will be payable within 30 days from April 2019. Currently, the government said it usually takes between 10 and 22 months.

In another move that could affect landlords, there will also be curbs on the payment of housing benefits. Housing benefit payments will be stopped for people who leave the country for more than a month. There will also be caps on housing benefit in the social rented sector.

Pensions

The basic state pension will be increased to £119.30 a week from April, a rise of £3.35. Pension credit payments will be stopped for people who leave the country for more than a month.

The starting rate for the new 'single-tier' state pension will be £155.65 per week. This will be available to those who reach pensionable age from April next year.

However, two out of three people who reach retirement age next year will receive less than the full amount. Money will be deducted for any time you were "contracted out" of the second state pension, formerly Serps, an earnings-related top-up to the basic pension.

Increases in contribution rates for those automatically enrolled into workplace pensions will be aligned with tax years.

Inheritance Tax

The Government backed down from its threat to crack down on the use of deeds of variation, which allow wills to be altered after someone's death. It said: "The government will not introduce new restrictions on how deeds of variation can be used for tax purposes but will continue to monitor their use."

Annuities

In the March Budget Osborne announced that everyone should be able to take advantage of the new pension freedoms, including individuals who had already bought an annuity. He launched a consultation to look into creating a secondary annuity market where people would be able to sell their annuity for a cash lump sum. The Government said it is keen to press ahead with these reforms and it will set out more details next month.

ISAs

There was disappointment for some savers as the annual amount you can save into an individual savings account (ISA) will remain at its current level for 2016-17. The ISA limit will be kept at £15,240. The Junior ISA and Child Trust Fund limits will be kept at £4,080.

From autumn next year a new kind of ISA will join the existing cash and stocks-and-shares options. The 'Innovative Finance ISA', will allow you to put crowdfunding debt in a tax-efficient wrapper.

Digital tax returns

By the end of this Parliament digital tax accounts will be introduced enabling individuals and small businesses to manage their tax affairs online. By 2020, most businesses, self-employed people and landlords will be required to keep track of their tax affairs digitally and update HMRC at least quarterly via their digital tax account.

What we already know ...

On pensions

As expected, there was no mention of pension tax relief which is currently under review. Osborne had already made it clear that any announcements will have to wait until the spring Budget while ministers consider the radical options of a flat rate of tax relief or a new pensions ISA.

However, in just four months' time the Government will slash the tax relief that high earners currently benefit from on pension contributions. The annual allowance of £40,000 will be tapered to £10,000 on contributions made by those earning more than £150,000. The result being that the amount of tax relief on pension contributions will be restricted. In a double whammy for some savers the Government will also cut the lifetime allowance, the maximum amount it allows you to hold in your pension pot over your entire lifetime. This will be reduced to £1 million from £1.25 million in April.

Action to take

You should consider contributing the maximum amount you can into your pension before April. This could be a substantial amount as it is possible to 'carry forward' any unused annual allowance from the previous three years. Last year (2014-15), the maximum annual contribution was £40,000, while in 2013-14 and 2012-13 it was £50,000. This means you may be able to pay in as much as £140,000 extra.

However, if you are in danger of breaching the lifetime allowance making further contributions could be a mistake. The aim is to get your pension pot as close to the £1 million limit as possible without risking going over it.

Landlord tax attack

At present, landlords can claim 10% tax relief each year on their rental income from furnished accommodation to cover 'wear and tear', whether improvements to furnishings are made or not. From next April landlords will only be able to claim a deduction for the costs they actually incur if they replace furnishings.

Action to take

This is just the start of a major overhaul of tax on buy-to-let property which could cause havoc for some landlords, turning a formerly profitable business into a loss-making enterprise. If you are a landlord make sure you understand what it could mean for your profits, and take preventative action if necessary.

The value of investments and any income from them can fall and you may get back less than you invested.

Past performance is not a guide to future performance.

Any tax advantages mentioned are based on personal circumstances and current legislation which are subject to change.

No investment is suitable in all cases and if you have any doubts as to an investment's suitability then you should contact us.

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