RAYMOND JAMES

Autumn Statement Analysis

November 2023

In this edition

Autumn Statement Analysis
22 November 2023

THE BACKGROUND

Just over a year ago, Jeremy Hunt presented his first Autumn Statement in the wake of a financial crisis created by his predecessor's 'mini-Budget'. Last November, the newly installed Chancellor was able to push through tax increases with relative ease: reclaiming the mantle of fiscal responsibility was of key importance for his fellow MPs. Twelve months on, the financial and political environment is rather different.

The UK has recovered some of the market credibility it lost in 2022 and a general election is now fourteen months away, at most. In the weeks before the Autumn Statement there had been a growing rumble among some of Mr Hunt's colleagues for tax cuts and, from a few, a call for a reshuffle that introduces a new, less fiscally strict Chancellor. However, for the time being, Mr Hunt looks relatively safe in his post, given that there have already been five residents of 11 Downing Street in this parliament and that he survived the latest reshuffle.

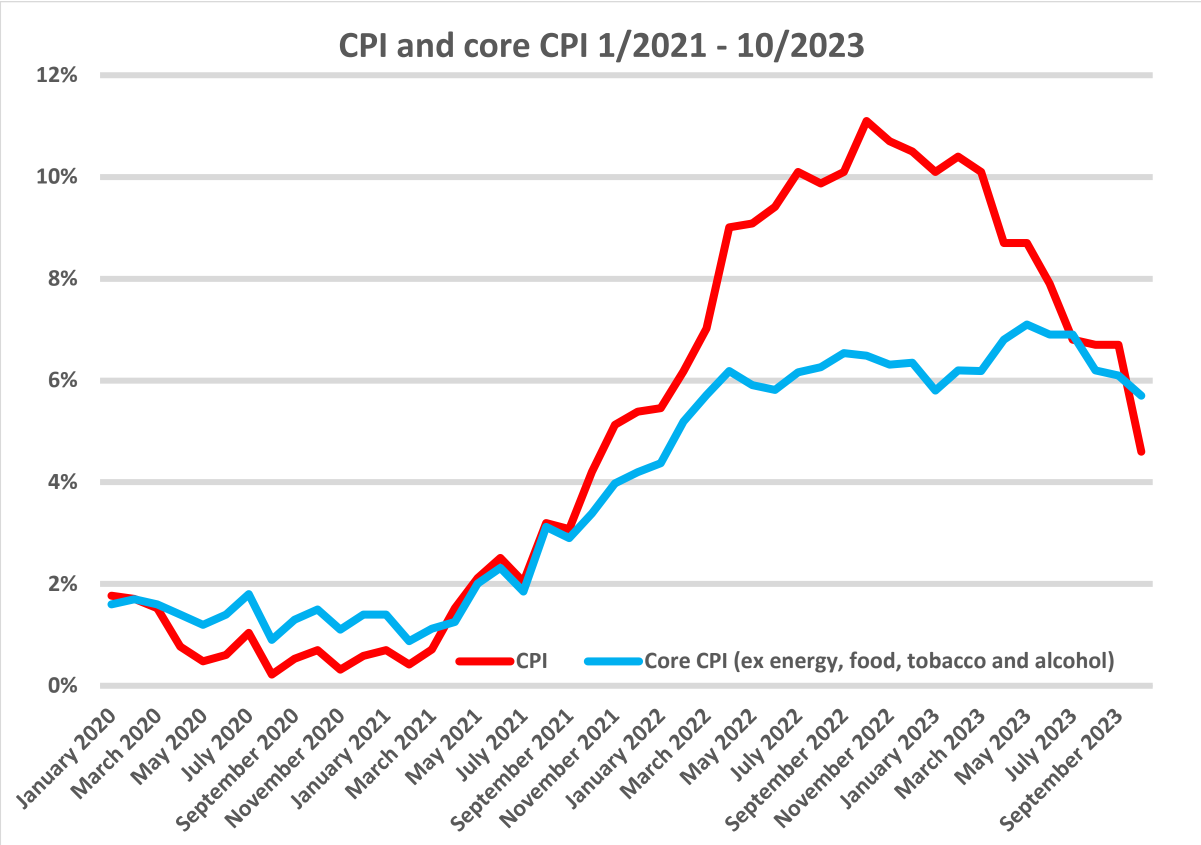
At the time of the Spring 2023 Budget, the Office for Budget Responsibility (OBR) noted that 'Our latest forecast continues to see the tax burden…reach a post-war high … in 2027/28,' Unfortunately for the would-be tax cutters, last month, the independent Institute for Fiscal Studies (IFS) published its Green Budget, in which it said '…the UK public finances are still in a parlous state, and the case for tax cuts at this time remains exceedingly weak.'

At first sight, the combined gloom of the OBR and the IFS is at odds with the economic story so far in 2023/24. Figures released by the Office for National Statistics (ONS) the day before the Autumn Statement showed that, seven months into the current financial year, government borrowing was £16.9bn *less* than the OBR's March 2023 projection. In the Economic and Fiscal Outlook (EFO) published alongside the Autumn Statement, the OBR accepted that, prior to Mr Hunt's measures, 2023/24 borrowing was set to undershoot its Budget forecast by £15.8bn.

The major reason for the lower than projected borrowing is that tax receipts have been better than expected. At the end of September, halfway through 2023/24:

- Onshore corporation tax accrued receipts were £7.0bn (19.2%) above forecast);
- PAYE income tax and NICs revenue was £6.5bn (3.5%) above forecast; and
- VAT was £6.4bn (8.1%) above forecast.

The OBR attributes the overshoot of tax receipts to 'stronger nominal tax bases', which, translated from economist speak, means that inflation was higher than the OBR expected, so taxable profits, earnings and non-governmental expenditure were correspondingly greater. While inflation has now reached the Prime Minister's January target of halving in 2023 (from 10.7% in November 2022 to 4.6% in October 2023), the OBR's March EFO projection was for CPI inflation to be 2.9% in the final quarter of this year. In its latest EFO, the OBR accepts this figure was overly optimistic and suggests the figure will be around 4.5%. Looking further ahead, the OBR does not see inflation reaching 2% until the second quarter of 2025.



Source: ONS

On the borrowing front, the OBR envisages that the budget deficit will broadly follow the path projected at Budget time. Thus, the government will still be borrowing close to £70bn in 2026/27, by which time total debt is projected to exceed £2,900bn, on its way to breaching the £3 *trillion* threshold the following year.

While only last month Mr Hunt was warning of “difficult decisions” and no room for immediate tax cuts, on Wednesday, the Chancellor adopted a more optimistic view of the UK’s finances. He announced a range of significant and costly tax-cutting measures, not the least of which were the reductions in National Insurance contributions (NICs) which will cost around £10bn a year.

In this Newsletter, we examine how you will be affected by those small print measures and offer a reminder of how much of the tax landscape has already been set until the end of 2027/28.

If you need further information on how you will be affected personally by the areas covered in this newsletter, you are strongly recommended to consult your financial adviser.

THE MAIN MEASURES

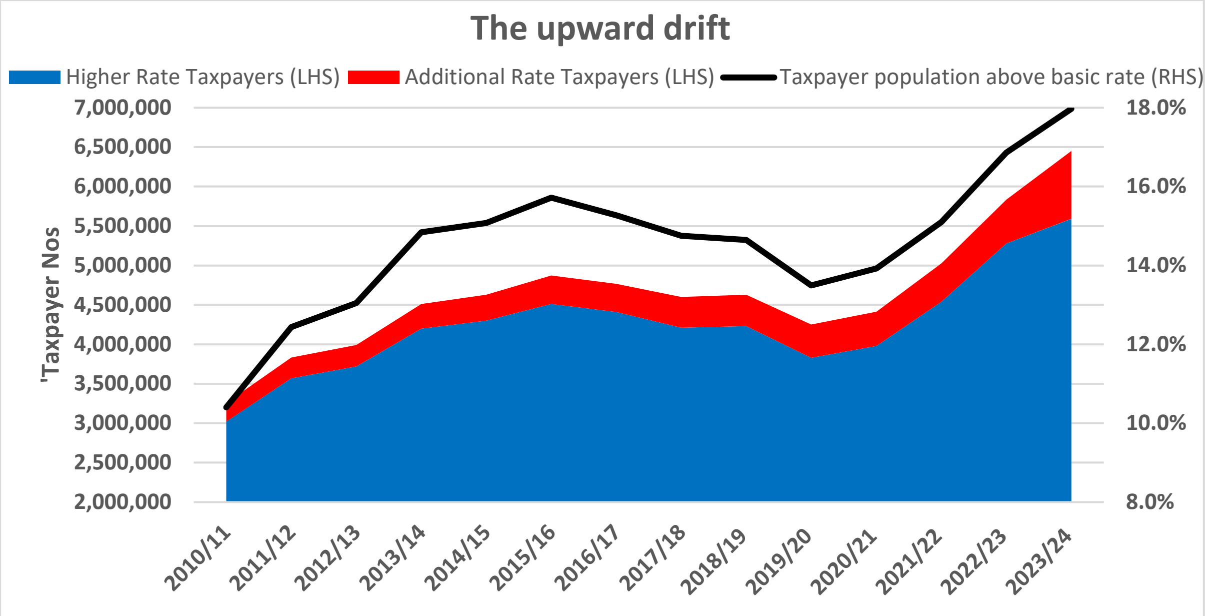
The Chancellor delivered many – but not all – of the tax changes that had steadily flowed into the media in the run-up to the Autumn Statement. However, as always, there were a few surprises and the odd ‘no-show’ of what may have always been straw men, such as inheritance tax abolition.

The OBR calculates that the overall effect of the Autumn Statement will be to reduce the tax burden by 0.5% of GDP. Nevertheless, it also notes that the burden still rises in each of the next five years to a post-war high of 38% of GDP. In 2019/20 the corresponding figure was 33.1%.

Income tax

Personal allowance and tax band freezes

The freeze on the personal allowance and higher rate threshold, due to end after 2027/28, remains in place. The result will be more taxpayers and still more higher rate taxpayers. If you do not already pay more than basic rate tax, you may do soon.



Source: HMRC

Additional rate tax

Additional rate tax (initially at 50%) was introduced in 2010/11 on income of over £150,000. The rate was reduced to 45% in 2013/14 (47% for 2023/24 in Scotland, where it is called top rate). The threshold was reduced to £125,140 for 2023/24, to coincide with the point at which the personal allowance is phased out. Consequently, the population of additional/top rate taxpayers has more than tripled from 236,000 in 2010/11 to an estimated 862,000 in the current tax year.

Had the additional rate threshold been inflation-linked since 2010/11 – as tax thresholds used to be – in 2024/25 it would be around £235,000. The OBR calculates that, by 2027/28, the personal allowance and higher rate threshold freezes will raise an extra £34.3bn relative to CPI indexation.

Dividend tax

The dividend allowance was halved to £1,000 for 2023/24 and will be halved again in 2024/25 to just £500 – one tenth of its original level in 2016/17. Dividend tax will remain at the rates introduced in 2022/23 of 8.75% (basic/ordinary), 33.75% (higher/upper) and 39.35% (additional).

The successive halvings to the dividend allowance are projected to affect almost three in four of those individual investors who received dividend income in 2022/23, adding to HMRC's already creaking administrative workload.

Planning Point

The combination of frozen allowances and tax bands plus continuing inflation makes independent tax planning increasingly important for married couples and civil partners. For example, rearranging who holds which income-producing investments or taking advantage of the transferable marriage/civil partner's allowance could save you tax.

NICs

The following NIC thresholds/limits continue to be frozen until 5 April 2028:

- The Class 1 Primary Threshold (employee), Upper Earnings Limit (employee), Secondary Threshold (employer) and Upper Secondary Threshold (Employer).
- Class 2 Lower Profits Threshold (self-employed).
- The Class 4 Lower and Upper Profits Limits (self-employed).

The Lower Earnings Limit (£6,396 for employees) and Small Profits Threshold (£6,725 for the self-employed) will also be unchanged in 2024/25.

However, the Chancellor announced significant changes in some NIC rates:

Self-employed

For 2024/25, the Class 2 rate (self-employed) flat rate NICs will no longer have to be paid by those with annual profits of at least £6,725, although credits for contributory benefits will continue to be given. For the self-employed with lower profits, voluntary Class 2 contributions (frozen at £3.45 a week) will remain an option to secure benefits.

Planning Point

Despite the cut in the main employee rate, total NIC rates remain at high levels. This can be turned to your advantage by using salary sacrifice to make pension contributions as the table below shows:

	Personal contribution		**Salary sacrifice employer contribution (sacrificed amount + NIC saving)**	
Tax rate	**20%**	**40%**	**20%**	**40%**
	£	**£**	**£**	**£**
Gross salary	1,000	1,000	Nil	Nil
Employer pension contribution	Nil	Nil	1,138	1,138
Employer NIC (13.8%)	138	138	Nil	Nil
Total employer outlay	1,138	1,138	1,138	1,138
Employee salary	1,000	1,000	Nil	Nil
Less: income tax	(200)	(400)		
NICs (10.00%/2.00%)	(100)	(20)		
Net pay = net pension contribution	700	580		
Tax relief	175	386.67		
Total pension contribution	**875**	**966.67**	**1,138**	**1,138**
Gain			***30.1%***	***17.7%***

Company cars and vans

The appropriate percentages used in benefit-in-kind calculations for all cars will be unchanged for 2024/25.

Car and van fuel benefit charges and the van benefit charge will be frozen for 2024/25 rather than increased in line with CPI.

Capital gains tax (CGT)

The annual exempt amount for individuals and personal representatives was cut from £12,300 to £6,000 for 2023/24 and will be halved to just £3,000 for 2024/25.

The annual exempt amount for most trusts will also be cut by half to £1,500 (minimum £300) for 2024/25.

The 2024/25 amounts will effectively be frozen as the default indexation provisions were removed by the Finance Act 2023.

Planning Point

The further reduction in the CGT annual exempt amount in 2024/25 makes it important to consider whether the exemption can be used before the end of this tax year.

The lower CGT allowance also increases the importance of maximising ISA contributions, as ISAs remain free of CGT as well as UK income tax.

Individual Savings Accounts (ISAs)

While contribution limits will be frozen for 2024/25, several ISA changes were announced to take effect from 6 April 2024:

- Multiple subscriptions to ISAs of the same type will be possible each year.
- Partial in-year transfers of ISA funds between providers will be permitted.
- The requirement to reapply annually for an existing dormant ISA will disappear.
- The investment range of the Innovative ISA will be extended to include Long-Term Asset Funds and open-ended property funds with extended notice periods.
- The minimum account opening age for adult ISAs will be harmonised at 18. As a result, the cash-only adult ISA option available to 16- and 17-year-olds will be withdrawn.

In addition, HMRC will discuss with ISA providers how to allow certain fractional shares contracts to be held within ISAs.

Tax administration

From 2024/25, individuals with income taxed only through pay as you earn (PAYE) will no longer be required to file a self-assessment return.

The current Making Tax Digital (MTD) threshold of £30,000 will be maintained and design changes will take effect from April 2026 to simplify and improve the system. Taxpayers who join MTD from 6 April 2024 will be subject to the new penalty regime for the late filing of tax returns and late payment of tax. The requirement to provide an End of Period Statement will be removed.

An overdue change to off-payroll working rules will enable HMRC to reduce the PAYE liability of a deemed employer to allow for taxes already paid by a worker and their intermediary on payments received where an error has been made in the application of the rules.

For self-employed individuals and partnerships, from 6 April 2024, the current income tax cash basis will be expanded to become the default method for small businesses. Consequently, the existing turnover, interest and loss relief restrictions will be scrapped.

Inheritance tax (IHT)

The last weeks before the Autumn Statement saw some speculation that the Chancellor would ‘do something’ on IHT, often labelled as the UK’s most hated tax. In the event, there were no changes, meaning the IHT nil rate band and residence nil rate band (RNRB) are set to remain at their current levels (£325,000 and £175,000 respectively) until 5 April 2028. The estate threshold at which the RNRB starts to be tapered also stays unchanged at £2m. The main nil rate band has been subject to repeated freezes – it was first set at £325,000 in April 2009 and would be over £500,000 in 2024/25, had it been index-linked.

Planning Point

So far, 2023 has been a rollercoaster year for many investments, thanks to the headwinds of above-target inflation and rising short-term and long-term interest rates. If you hold investments showing losses or small gains, then you might want to gift them now as part of your IHT planning:

- The reduced values mean more can be gifted without creating a CGT liability.
- The beneficiary of your gift will enjoy any recovery in value, but only the original gift will count for IHT purposes.
- If the gift is outright, there is no immediate IHT and none if you survive for the following seven years.
- In many instances gifts that are not outright – for example using trusts – can also escape immediate or future IHT.

The current IHT rules for lifetime gifts are not well understood and in some respects are surprisingly generous. How long they will last after the coming election is open to speculation.

Stamp Duty Land Tax (SDLT)

No changes were made to SDLT, which applies only in England and Northern Ireland. The 0% threshold of £250,000 is destined to revert to £125,000 from 1 April 2025, with the £125,001-£250,000 band becoming subject to a 2% rate.

Slice of value		Rate %
First-time buyers*	**Other buyers+**	
Up to £425,000	Up to £250,000	0
£425,001-£625,000	£250,001-£925,000	5
	£925,001-£1,500,000	10
	Over £1,500,000	12

*Maximum property value £625,000.
+ Additional residential and all corporate residential purchases of £40,000 and more – add 3% to rates.

Fuel duty

It has become a tradition for Chancellors to announce a freeze on fuel duty, much to the frustration of the OBR, which currently is duty-bound to adopt the *stated* (but unfollowed) government policy for RPI-linked duty increases. Mr Hunt said nothing on the topic in the Autumn Statement, although the OBR did note that a continued freeze would ultimately mean the fiscal rules would not be met.

Social security benefits

The triple lock will apply to the new state pension and the basic state pension, increasing payments by 8.5% from April 2024. Other UK-wide benefits will increase by 6.7%, in line with CPI inflation in the year to September 2023.

Local Housing Allowance (LHA) rates in Great Britain will be raised to the 30th percentile of current local market rents in April 2024. At present, the LHA is based on April 2020 rental levels.

Planning Point

The increase in state pensions is welcome, taking the new state pension to £221.20 a week (£11,502 a year). Nevertheless, the state pension alone remains too low to provide a comfortable retirement. In early 2023, the Pensions and Lifetime Saving Association (PLSA) suggested that to achieve a 'moderate living standard' in retirement in 2022 would have required the yearly levels of *net* income set out below:

	Single person	**Couple**
UK excluding London	£23,300	£34,000
London	£28,300	£41,400

The PLSA should be updating their figures soon, but as an approximation of the 2024 figures, you could add about 17% to the above numbers - inflation over the last two years to September 2023.

Pensions

A raft of papers were issued covering various aspects of pension schemes. These included:

- Clarification on the impact of the abolition of the Lifetime Allowance from 6 April 2024.
- A paper on digitising the existing framework for providing tax relief at source on pension contributions.
- A call for evidence on the introduction of a 'lifetime provider model', eventually allowing individuals to have one pension pot for life, which moves with them as they change employer.
- A further call for evidence on how defined benefit (final salary) pension schemes can increase investment in 'productive finance', i.e. investment providing equity capital and finance for UK businesses, including start-ups, infrastructure and private equity, as well as longer-term investments, typically in illiquid assets.

Corporation tax

After the increases and reversals of the past few years, no new changes to the main rates of corporation tax were announced. For the coming financial year, the rates are:

Total profits	To 31 March 2025
Up to £50,000	19%
£50,001-£250,000	19% on first £50,000 + 26.5% on excess
Over £250,000	25%

Planning Point

As the end of the calendar year – and financial year for plenty of private companies – nears, many shareholder directors will be considering their options to withdraw profits ahead of the election expected in 2024. The change to corporation tax rates (from 1 April 2023), income tax, dividend tax and now also NICs have further complicated the calculations on whether to draw a bonus or dividend.

For example, for a higher rate taxpaying director of a company with a year-end of 31 December 2023, the mathematics will generally favour a bonus (assuming the employment allowance is not available and the shrinking dividend allowance is ignored) unless the company's profits are under £50,000 and thus fully taxed at the small profits' rate of 19%:

	Bonus £	**Dividend £**		
Gross profits	N/A	**<£50,000**	**>£50,000 <£250,000**	**>£250,000**
Marginal corporation tax*	N/A	19%	24.65%	23.52%
Gross profit	1,000.00	1,000.00	1,000.00	1,000.00
Corporation tax	N/A	(190.00)	(246.50)	(235.20)
Dividend payable	N/A	810.00	753.50	764.80
Employer's NIC @ 13.8%	(121.27)	N/A	N/A	N/A
Bonus	878.73	N/A	N/A	N/A
Director's NIC @ 2%	(17.57)	N/A	N/A	N/A
Income tax @40%/33.75%	(351.49)	(273.38)	(254.31)	(258.12)
Net receipt	**509.67**	**536.62**	**499.19**	**506.68**

* Allowing for pro-rata adjustment for corporation tax rates either side of 31 March 2023.

Capital allowances

In the Spring 2023 Budget, the Chancellor announced 100% first year allowances for companies investing in new plant and machinery to replace the old 130% super allowance. However, the new 100% allowance was initially given only a three-year lifespan, a move which was seen by some commentators as purely designed to enable the OBR's financial projection to show the government meeting its five year debt reduction goal. As widely predicted, the Chancellor has now decided that the 100% allowance will become a permanent feature of the corporation tax regime. The additional cost in corporation tax foregone will reach around £11bn in 2028/29, but gradually reduce in the long run.

Research & Development (R&D) tax reliefs

A radical overhaul of R&D tax reliefs will take effect from 1 April 2024. The Research and Development Expenditure Credit (RDEC) and the scheme for small and medium-sized enterprises (SME) will be merged. Expenditure incurred in accounting periods beginning on or after 1 April 2024 will fall under the new regime.

From 1 April 2024, R&D claimants will no longer be able to nominate a third-party payee for R&D tax credit payments, subject to limited exceptions. Additionally, no new assignments of R&D tax credits will be possible from 22 November 2023.

Value Added Tax

The threshold for value added tax registration, which was fixed at £85,000 from 1 April 2017 continues to remain frozen until 1 April 2026.

Business rates

For 2024/25, the business rate multipliers were due to rise by 6.7% in line with CPI inflation to September 2023. However, the Chancellor revealed that the increase would only apply to the standard multiplier (taking it to 54.6p), while the small business multiplier would remain frozen for a fourth consecutive year at 49.9p.

The 75% business rates relief for eligible retail, hospitality, and leisure businesses, up to £110,000 per business, which had been due to end in April 2024, will be extended for another year.

National Living/Minimum Wage

The new National Living Wage (NLW) and National Minimum Wage (NMW) hourly rates for 2024/25 will be:

	Current rate	Rate from 1 April 2024
NLW*	£10.42	£11.44
NMW: 21-22 year olds*	£10.18	£11.44
NMW: 18-20 year olds	£7.48	£8.60
NMW: 16-17 year olds	£5.28	£6.40
NMW: Apprentice	£5.28	£6.40

* NLW applies from age 21 from 1/4/2024, previously 23.

The 9.8% increase to the National Living Wage reflects the government's goal for this to equal two thirds of median hourly pay by October 2024. It means that an individual working a 35-hour week at the NLW will have annual income of £20,821, over £9,300 more than the 2024/25 new state pension.

The NLW uplift has a knock-on effect on the NMW, which has increased by 14.8% for 18-20 year olds and 21.2% for 16-17 year olds and apprentices to bring their rates closer to NLW.

Past performance is not a reliable guide to the future. The value of investments and the income from them can go down as well as up. The value of tax reliefs depend upon individual circumstances and tax rules may change. The FCA does not regulate will, tax, trust or benefit advice. This newsletter is provided strictly for general consideration only and is based on our understanding of current law and HM Revenue & Customs practice as at 22 November 2023 and the contents of the Autumn Statement 2023. No action must be taken or refrained from based on its contents alone. Accordingly, no responsibility can be assumed for any loss occasioned in connection with the content hereof and any such action or inaction. Professional advice is necessary for every case.

Disclaimers: The information and illustrations contained in this newsletter are for general consideration only and is subject to change dependent on specific legal implementation. Tax treatment depends on individual circumstances and may also change in the future. You should not take, or refrain from taking, action based on its content and no part of this document should be relied upon or construed as any form of advice or personal recommendation.

Accordingly, Raymond James has no responsibility whatsoever for all and any losses that may result from such action or inaction and it is essential that professional advice is taken. With investing, your capital is at risk.

If you have any questions, please speak to your Wealth Manager in the first instance.

All tables have been provided by Technical Connection courtesy of information available from https://www.gov.uk/government/publications/autumn-statement-2023

RAYMOND JAMES®

Head Office Ropemaker Place 25 Ropemaker Street London EC2Y 9LY
www.RaymondJames.uk.com