



Autumn Statement – 29 November 2011

Summary of the Main Provisions

Introduction

One of George Osborne's early decisions as Chancellor was that there would be no more Pre-Budget Reports. Instead, the tradition of the Autumn Statement was to be reintroduced, allowing the Chancellor to give an interim view of the UK's finances.

However, the Chancellor's 2011 Autumn Statement looked very much like a Pre-Budget Report of old. Mr Osborne made a wide range of announcements (and re-announcements) on everything from nursery care for disadvantaged two-year-olds to 100% capital allowances for the Black Country enterprise zone. More details are likely to emerge when the draft Finance Bill 2012 legislation is published on 6 December.

The raft of measures were nearly all aimed at stimulating growth and limited the time that the Chancellor could spend on addressing budgetary matters. This may have suited Mr Osborne, as the news was not good. Updated projections from the Office for Budget Responsibility show that the Treasury budgetary target will not be met until 2016/17 – two years later than predicted at the time of the March 2011 Budget.

Key announcements

The key announcements include:

- State pensions and working age and disability benefits to rise in line with consumer prices index (CPI) inflation of 5.2% from next April.
- An increase in the state pension age to 67, phased in over two years from April 2026.
- A deferral of the planned January 3p fuel price increase to August, with the August increase cancelled.
- A new Seed Enterprise Investment Scheme (SEIS) to be launched from April 2012, with 50% tax relief for investments of up to £100,000 and a capital gains tax (CGT) exemption for reinvestment.
- A freezing of the CGT annual exemption for 2012/13.
- A variety of measures to increase the availability of finance for small and medium-sized enterprises.
- The extension of the small business rate relief for a further six months from 1 October 2012.

ECONOMIC BACKGROUND

One of George Osborne's first actions on becoming Chancellor was to establish the Office for Budget Responsibility (OBR) to provide an independent view of government finances. The OBR's view is that the Chancellor's 2010 plan is now off-target and the UK's finances will not be back in balance by 2014/15, as Mr Osborne (and the OBR) said in March. Instead the plan has slipped by two years, taking the break-even date to beyond the next election. Thus the Chancellor has been forced into an effective extension of his plan, announcing reductions in total managed expenditure of 0.9% a year for the two years *after* the end of the current spending review period (2014/15).

The blame for the fiscal deterioration is largely down to disappointing economic growth. In turn, the Treasury attributes the lower growth to:

- Higher than expected inflation, driven by a sharp increase in global commodity prices. The OBR believes this to be the main reason for slower than expected economic growth since the June 2010 Budget;
- The eurozone crisis, which is feeding through to household and corporate spending decisions and to tighter global credit conditions; and
- The persistent impact of the 2008/09 financial crisis, which has destroyed more productive capacity than the OBR (and others) originally thought to be the case.

The OBR now expects 2011 and 2012 to produce just 0.9% and 0.7% annual growth, compared with forecasts it made in March of 1.7% and 2.5%. However, for 2015 and 2016 the OBR projects that growth will be 3% a year – an indication of the eventual bounce back needed even for the newly extended plan to work.

In the interim, unemployment is expected to increase to 8.7% next year before falling back to 8% in 2014, below the current level of 8.3%. The combination of high unemployment and low growth will lead to increased expenditure and reduced tax income. For 2015/16, the OBR expects the resulting rise in borrowing during the year to be £24 billion.

If there is one piece of good news amid the prolonged period of austerity, it is that the OBR shares the Bank of England's view that inflation will fall sharply. The OBR's projections are that inflation (CPI) will be down to 2.7% in 2012 and 2.1% in the following year.

TAX

Seed Enterprise Investment Scheme (SEIS)

A new Seed Enterprise Investment Scheme (SEIS) will be launched with effect from April 2012. It will provide 50% income tax relief to encourage individual investments of up to £100,000 in start-up companies. Investors will also have a capital gains tax exemption on gains realised and then re-invested through SEIS in 2012/13.

In addition, the Government will simplify and refocus the Enterprise Investment Scheme and Venture Capital Trusts.

Capital gains tax (CGT)

The annual exempt amount for CGT will be frozen at £10,600 for 2012/13.

Business rates relief

The temporary small business rate relief will be extended for a further six months from 1 October 2012. Businesses will also have 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.

Enterprise zones

100% capital allowances for plant and machinery investment over five years from April 2012 will be made available in the following enterprise zones: the Black Country; Humber; Liverpool; the North East; Sheffield; and Tees Valley. The Government will also approve proposals from the Lancashire and Humber Local Enterprise Partnerships to form enterprise zones on and around the BAE Systems' sites in these areas.

The existing enterprise zone in the North East will be extended to include land around the Port of Blyth, subject to due diligence. The Government will also consider establishing an enterprise zone in Battersea, which will be linked to the redevelopment of the power station.

Business tax developments

An 'above the line' tax credit will be introduced in 2013 to encourage research and development (R&D) activity by larger companies. The Government will consult on the details in the 2012 Budget and will ensure that R&D incentives given to small and medium-sized enterprises (SMEs) are not reduced as a result of this change. This builds on measures in the 2011 Budget to increase the amount and accessibility of R&D tax credits for SMEs.

On 6 December 2011, further details will be published of the Patent Box, and of the reform of the Controlled Foreign Company rules and R&D tax credits.

Bank Levy

The Bank Levy is intended to raise at least £2.5 billion each year. The rate of the Bank Levy will increase to 0.088% (from 0.078%) from 1 January 2012 to offset the forecast shortfall in receipts for 2011 and future years.

Employer pension contributions

Changes will be made to the tax rules to ensure that 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 excess relief.

BENEFITS AND TAX CREDITS

State pensions

- The state pension age will be increased to 67 between April 2026 and April 2028. Future increases in the state pension age will be based on demographic evidence.
- The full basic state pension will rise by £5.30 to £107.45 a week in April 2012. The full couple rate for those whose entitlement is based on their spouse's or civil partner's pension will rise by £8.50 to £171.85 a week.

- The standard minimum income guarantee in Pension Credit will increase by 3.9% in April 2012 to £142.70 a week for single pensioners and £217.90 a week for pensioner couples.
- The threshold for Savings Credit will be raised in April 2012 to £111.10 for single pensioners and to £177.20 for pensioner couples.

Other benefits and tax credits

- Most working age and disability benefits will be uprated in line with the consumer prices index (CPI) in 2012/13 – an increase of 5.2%.
- The child element of the Child Tax Credit will also be uprated in line with CPI, and will rise by £135 a year in 2012/13. The £110 increase above inflation that was planned for 2012/13 will not go ahead.
- The disability elements of tax credits will be uprated by CPI. However, the couple and lone parent elements of the Working Tax Credit will not be uprated in 2012/13.

TRANSPORT TAX AND DUTIES

Fuel duty

The 3.02p per litre (ppl) 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 (currently expected to be worth 1.92ppl) will be cancelled. So there will only be one RPI increase next year. The details of the design of the fair fuel stabiliser will be published in the 2012 Budget.

Rail fares

The increase to Transport for London and regulated rail fares will be limited to RPI plus 1% for one year from January 2012.

Air Passenger Duty

Air Passenger Duty (APD) will be extended to flights taken on business jets, effective from 1 April 2013. Details will be set out on 6 December 2011.

BUSINESS FINANCE

The Enterprise Finance Guarantee (EFG)

From January 2012, the EFG will be extended to include businesses with an annual turnover of up to £44 million.

Business Finance Partnership

Businesses will be helped to raise funds from non-bank sources by making available an initial £1 billion through a Business Finance Partnership, to invest in mid-sized businesses and SMEs in the UK. The process of allocating funds will start early in 2012.

Stirk Lambert & Co – Chartered Accountants. Russell Chambers, 61a North Street, Keighley, BD21 3DS
Tel 01535 662686 Fax 01535 610356 E-mail mail@stirk Lambert.co.uk website www.stirk Lambert.co.uk

The National Loan Guarantee Scheme

Banks that participate in the new National Loan Guarantee Scheme will be able to raise up to a total of £20 billion of cheaper funding over the next two years under a government guarantee, provided they pass through this lower cost of funding to smaller businesses. In many cases, this will lead to a reduction of up to one percentage point on the cost of business loans under the scheme.

The scheme will focus on new loans and overdrafts. Firms with a turnover of up to £50 million should be able to apply for these funds through participating banks in the usual way. The scheme will be operational as soon as possible, subject to state aid approval.

EMPLOYMENT AND REGULATION

Employment law

The qualifying period for unfair dismissal claims will be increased from one year to two years from April 2012. The Government will also introduce fees for individuals who want to bring cases to employment tribunals and will consult on their level. In addition, the Government will:

- Look for ways to provide a quicker and cheaper alternative to a tribunal hearing in simple cases – a ‘Rapid Resolution’ scheme;
- Complete a call for evidence on the effectiveness of the TUPE (Transfer of Undertakings – Protection of Employment) regulations and will consult on proposals for any changes in early 2012;
- Complete a call for evidence on the impact of reducing the collective redundancy process for redundancies of 100 or more staff from the current 90 days to 60, 45 or 30 days; and
- Begin a call for evidence on two further proposals for reform of UK employment law:
 - The introduction of compensated no-fault dismissal for businesses with fewer than ten employees;
 - A move to a simpler, quicker and clearer dismissal process, potentially including working with the Advisory, Conciliation and Arbitration Service (ACAS) to make changes to their Code or by introducing supplementary guidance for small businesses.

General deregulation

There will be a review of regulators to ensure that enforcement arrangements are appropriate, proportionate, fit for purpose and risk-based. The Government has also decided to accept the recommendations of Professor Löfstedt’s review of health and safety regulations and will look to go further.

This guide is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking action on the basis of the contents of this publication. The guide represents our understanding of the law and HM Revenue & Customs practice as at 30 November 2011, which are subject to change. These proposals may also be changed in the Spring 2012 Budget and subsequent legislation, or at any other time.