25 November 2016

Autumn Statement 2016

On 23 November, the Chancellor of the Exchequer, Philip Hammond, presented his Autumn Statement 2016 setting out the government's plans for the economy and public finances. This bulletin focuses on certain measures announced at the Autumn Statement relating to pensions, savings, insurance and social security.

Triple Lock on State Pensions

In his speech, the Chancellor recommitted to the triple lock on state pensions for the remainder of this Parliament. He commented that, looking forward to the next Parliament, the government will need to ensure that it tackles the challenges of rising longevity and fiscal sustainability; and reviews public spending priorities and other commitments for the next Parliament in light of the evolving fiscal position.

The triple lock, which was introduced in 2010, annually uprates the state pension by whichever of price inflation, average earnings growth or 2.5 per cent is highest. Over time it tends to increase the value of the state pension relative to both prices and earnings.

Money Purchase Annual Allowance Reduced

Pension contributions that receive tax relief, paid by an individual or on behalf of an individual, are restricted by an Annual Allowance. The standard annual allowance is currently £40,000 (with lower amounts applying to higher earners). A lower limit, called the Money Purchase Annual Allowance (MPAA), of £10,000 applies to contributions to money purchase schemes (also known as defined contribution schemes) by those who have already taken flexible pension benefits which include income.

The MPAA was introduced alongside the increased pension flexibilities that were introduced in 2015 – specifically the removal of restrictions on the amount that can be drawn down from a pension fund and the ability to contribute to a pension arrangement whilst flexibly drawing down from a pension fund. The allowance means that individuals who have taken flexible benefits (such as flexi-access drawdown) can continue paying contributions into their defined contribution pension funds as long as their annual contribution is below £10,000. The MPAA restricts the extent to which individuals can 'recycle' their funds to gain tax relief – i.e. gain tax relief by contributing to a pension, draw income and use this income to contribute to a pension to claim tax relief again.

The Chancellor announced in the Autumn Statement that the MPPA will be reduced to £4,000 from April 2017, in order to limit the extent to which pension savings can be recycled to take advantage of tax relief.

HMT has published a consultation on this proposal which closes on 15 February 2017.

Salary Sacrifice Schemes' Advantages Removed

Whilst the Chancellor announced that from April 2017 most salary sacrifice will be subject to the same tax treatment as cash income, this will not apply to pensions (including advice).

In salary sacrifice schemes, employees exchange some of their salary for a non-cash benefit in kind (such as a mobile phone), generally at a preferential rate to allow for more favourable tax and/or National Insurance treatment. For salary sacrifice in respect of pensions, an employee may opt to receive a lower salary in return for their employer paying the difference into their pension arrangement (rather than the employee making contributions from their pay). The employee's earnings that are subject to National Insurance are lower meaning that both the employee and the employer may pay lower National Insurance contributions.

Arrangements relating to childcare, Cycle to Work and ultra-low emission cars are also exempt from the changes. All arrangements in place before April 2017 will be protected for up to a year, and arrangements in place before April 2017 for cars, accommodation and school fees will be protected for up to 4 years.

Alignment of Income Tax and National Insurance

The Chancellor announced that the National Insurance primary (employee) threshold and National Insurance secondary (employer) threshold will be aligned at £157 per week from April 2017. For the current tax year 2016-17, these are very slightly different at £155 and £156 per week respectively. These thresholds are the amount an employee can earn before National Insurance contributions become payable. The announcement is in line with a recommendation made by the Office of Tax Simplification (OTS) as part of its review on the alignment of tax and National Insurance contributions. As part of the Autumn Statement, correspondence between the Chancellor, Financial Secretary to the Treasury and the Office of Tax Simplification (OTS) about the review has been published.

Investment in Infrastructure and Innovation

There were a number of references in the Autumn Statement to the government's plans to invest in infrastructure and innovation in order to improve productivity. The government is creating a National Productivity Investment Fund (NPIF) which will be targeted at 4 areas that are critical for this - housing, transport, digital communications, and research and development. The NPIF will provide for £23 billion of spending between 2017-18 and 2021-22.

Insurance

The Ministry of Justice is consulting on proposals intended to reduce the number of whiplash claims and allow insurers to cut premiums for motor insurance. The government will bring forward supporting legislation in the Justice Bill.

The Chancellor also announced that insurance premium tax will rise from 10% to 12% in June 2017.

Autumn Statement Abolished

With the aim of promoting certainty and simplicity, following the spring 2017 Budget and Finance Bill, Budgets will be delivered only in the autumn. As required by law, the Office for Budget Responsibility (OBR) will continue to produce a spring forecast to which the government will respond in a Spring Statement. This is not intended to be a vehicle for announcing fiscal policy changes, but the Chancellor will retain the right to do so if economic circumstances require it.

Other Selected Announcements

- The Universal Credit taper will be reduced from 65% to 63% from April 2017. This is the rate at which the benefit is withdrawn as earnings increase.

- The Autumn Statement announced a number of changes in respect of the tax treatment of foreign pensions. These include:

  - foreign pensions and lump sums will be brought fully into tax for UK residents, to the same extent as domestic ones
  - the eligibility criteria for foreign schemes to qualify as overseas pensions schemes for tax purposes will be updated.

If you would like to discuss any of these issues in more detail or have any questions please get in touch with your usual GAD contact.

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