RATHBONES | Incorporating Investec Wealth & Investment (UK)

Autumn Statement

22 November 2023

Chancellor Jeremy Hunt's Autumn Statement announcement covered 110 different measures to help grow the economy; with focus on reducing debt to control inflation, cutting business tax and National Insurance to reward hard work, and backing British business.

The Autumn Statement had been initially trailed as focusing on the longer-term issues facing the country, but the Chancellor decided to prioritise short-term tax cuts over maintaining future expenditure.

The key announcements covered were:

- The main rate of class 1 employee national insurance contributions (NICs) will be reduced from 12% to 10% with effect from 6 January 2024. The main rate of class 4 self-employed NICs will be cut from 9% to 8% from 6 April 2024 and class 2 will no longer be required.
- Full expensing of investments made by companies in qualifying plant and machinery will be made permanent and will therefore continue after April 2026.
- The main income tax allowances and thresholds, the main NICs thresholds plus the inheritance tax (IHT) nil rate bands will stay at their current levels for 2024/25.
- The new and old state pension as well as pension credit will rise by the full triple lock increase of 8.5% for 2024/25. Universal credit and most other benefits will increase by 6.7%.
- Investors will be allowed to make multiple subscriptions to ISAs of the same type each year from April 2024, while partial transfers of ISAs between providers will also be permitted.
- The national living wage will increase to £11.44 an hour.
- All alcohol duties have been frozen until August 2024.
- The government is seeking to persuade people with health conditions to find work. There is extra funding, as well as new sanctions for those who are found to be able to work but refuse to look for employment.

Contents

Introduction

Jeremy Hunt's second Autumn Statement was set against a much less financially turbulent background than his first. However, politics still loomed large with a likely election in the next 12 months prompting calls for tax cuts from within the Conservative party. Until recently the Chancellor had attempted to stall such demands with warnings of "difficult decisions" on the public finances owing to a worsened fiscal outlook since his Spring Budget. One reason that he highlighted for the deterioration was the sharply increased cost of government borrowing.

Nevertheless, the Chancellor, who had argued only two months ago that tax cuts were "virtually impossible", appears to have had a change of heart. Echoing the Prime Minister, Mr Hunt suggested that the achievement of halving inflation in 2023 marked an economic inflexion point that permitted a new policy approach.

The outcome was an Autumn Statement that had been initially trailed as focusing on longer-term issues, but which prioritised short-term tax cuts over maintaining expenditure in later years. On the long-term front, the Chancellor confirmed as expected that 'full expensing' of corporate investment in plant and machinery would be made permanent at a cost of £10.7 billion a year by 2027/28. The most headline-grabbing moves were cuts to national insurance.

Some of the rumours, such as IHT reform, did not come to fruition, but there is still a chance – the Spring Budget is now less than four months away.

Autumn Statement: How could it affect financial planning and investing?

Our specialists explore how the policies and tax changes in the Autumn Statement might affect individuals like you.

How have investment markets reacted?

John Wyn-Evans, Head of Investment Strategy:

A year ago, Chancellor Jeremy Hunt presented his first Autumn Statement in the aftermath of the disastrous "mini" Budget delivered by his immediate predecessor Kwasi Kwarteng. It was time for a "safe pair of hands" to reinstate confidence in the government, of which Prime Minister Rishi Sunak had just taken the reins following the departure of Liz Truss. Hunt duly unveiled nothing that would upset financial markets. Indeed, he introduced a well-received programme of fiscal tightening, although much of it was carefully timed not to take effect until after the next election, which must take place by January 2025 at the latest.

The prelude to the current statement was much less fraught. Even so, a moribund economy against a background of higher interest rates offered the Chancellor limited room for manoeuvre. October's fiscal deficit came in a little higher than expected owing to the increasing cost of servicing the country's debts, but that damage was limited by higher-than-forecast tax revenues. One positive fiscal side-effect of higher inflation is that nominal profits and wages tend to rise too, leading to higher nominal tax payments. The benefit to the government has been amplified by last year's decision to freeze income tax bands, meaning that more people have been dragged into a higher tax bracket, so called "fiscal drag". It's a neat trick politically, because many people will not be aware of the imposition, tending to focus more on headline income tax rates.

And, naturally, it is the headlines that start to matter more as we approach general elections. Today's Autumn Statement could be seen as firing the starting gun for the next race towards 10 Downing Street, although opinion polls would suggest that Labour leader Sir Keir Starmer left the starting gate a long time ago.

The lead up to the statement, in what seems now to be the accepted modus operandi ahead of such events, featured a trail of hints and leaks as to what might be announced, all designed to test expert reaction and voter preferences. We would observe that the key initiatives delivered fall into two categories: what's good for the long-term health of the economy; and what grabs votes.

In the first bucket came a commitment to extend and make permanent the £9bn-a-year tax break for business, a policy that was splashed across the morning's business pages. It is directed at spending on IT equipment, plant and machinery and allows for full deductibility against taxable profits. We applaud such a pledge. One of the greatest weaknesses of the UK economy in recent years has been the lack of productivity growth. That has been blamed variously on the extended fallout from the financial crisis to the effects of Brexit and the chaos within government, all of which, no doubt, have contributed. Today's announcement - although on a much smaller scale than adopted by the Biden administration in the US with its multi-hundred-billion-dollar CHIPS Act - is intended to kick start much-needed investment in the country's technology capital stock. Crucially, if it is, as currently intended, a permanent feature of the fiscal landscape, it will encourage companies to take a longer-term view of their investments in this key sector.

On the personal taxation front, the last few weeks have seen ideas floated for an abolition of Inheritance Tax or a one penny reduction in the Basic Rate of income tax from 20p to 19p. One of Prime Minister Sunak's ambitions is to get this rate down to 16p, should he survive to see it through. In the end, though, the Chancellor opted for a reduction of 2% in the rate of National Insurance paid by employees. This will kick in on 6 January 2024 and it uses pretty much all of his existing fiscal headroom.

There is plenty of water left to flow under Westminster Bridge before the election, and it is already being suggested that the income tax reduction will be announced during the March Budget. It is not beyond the bounds of possibility, although unlikely, that there will be one more Autumn Statement ahead of the polls, and so there is an element of wanting to keep some dry powder for the campaign.

Market reaction has been limited. This is probably a good thing, as markets have tended to react negatively in recent times to fiscal developments. We usually look at market reaction to these statements through the lenses of currency and bond markets, which tend to be where investors' response is best reflected. The pound did fall by around a cent against the US dollar during Mr Hunt's speech, but this seems to have been on account of a better-than-expected employment data release in the United States resulting in a stronger dollar.

Gilts had been rallying into the speech and then gave back their gains but showed no great divergence against other major developed bond markets. It seems as though the OBR's new economic projections contained few surprises. It concluded that the UK will not fall into recession in 2023 but downgraded its longer-term sustainable growth forecasts while tweaking its inflation expectations higher.

The UK stock market is much less directly affected by domestic policy than in the past, especially within the realm of the large capitalisation FTSE 100 Index. The main reason for the index lagging other markets today appears to be a near-5% fall in the oil price, which is dragging down the share prices of oil majors Shell and BP. That is not related to the statement.

Investors can now return to their task of evaluating the current inflation, interest rate and economic cycles, both here in the UK, and, probably more importantly, in the United States and China, which remain the dominant forces in terms of their impact on global growth.

We continue to believe that there is some light visible at the end of a long tunnel which has seen both bond and equity markets struggle for the last two years, meaning that balanced portfolio returns have been disappointing. Inflation does appear to have peaked, and there will soon be scope for central banks to reduce interest rates, laying the groundwork for a new economic growth cycle.

Continued overleaf

Economic update

The economic backdrop to the Autumn Statement was not as bad as might have been expected from a reading of the March 2023 projections by the Office for Budget Responsibility (OBR). In the spring, the OBR's first Economic and Fiscal Outlook of 2023 envisaged that the government would borrow £131.6 billion. Seven months into the financial year, the OBR's projection has dropped by about £16 billion because of stronger than expected tax revenue, giving the Chancellor some extra wiggle room.

This tax windfall owes much to the impact of both price inflation and earnings growth being higher than projected in March. Back then the OBR had suggested that CPI annual inflation would fall to around 3% in the final quarter of 2023 against its latest projection of about 4.5%.

The higher-for-longer combination of inflation, earnings growth and interest rates has brought some significant changes to the OBR's projections for the economy:

- The OBR forecast says inflation will not now fall to 2% until the second quarter of 2025, a year later than previously forecast.
- The outlook for economic growth in the short term has improved, with +0.6% expected for 2023 against a 0.2% contraction in the March forecast. However, the OBR's growth projections for 2024 and 2025 are both 1.1% lower than their March figures.
- Ten-year government bond yields at 4.5% are 1.2% higher than the OBR's March projection. The OBR has now added this figure to its previous projections of government borrowing costs for the entire five-year forecast period. Base rate is now expected to average about 4% in 2027/28, just over 1% above the March projection.
- Government borrowing is projected to be £84.6 billion in 2024/25 and eventually to drop to just below £50 billion in 2027/28. But total government debt will then amount to £2,947 billion (93.2% of GDP) costing £98.4 billion a year to service.

The OBR says the Chancellor will meet his fiscal goal in 2028/29 by £13 billion (0.4% of GDP), double the amount it projected in March. That margin could prove a challenge to maintain for the next government.

Personal tax

Income tax

The personal allowance will remain at £12,570 for 2024/25 and the higher rate threshold will stay at £50,270, both levels that first took effect in 2021/22. The blind person's allowance will be increased to £3,070 for 2024/25.

The 45% additional rate threshold will stay at £125,140. In Scotland, the intermediate, higher and top (additional) rate thresholds for non-savings, non-dividend income will be announced in the Scottish Budget, to be published on 19 December.

Dividend tax

The dividend allowance will be halved to £500 for 2024/25 as already announced.

Income tax for trusts and estates

The standard rate band for trusts will no longer apply in 2024/25, as previously announced and legislated. Instead, trusts with income of £500 or less will have no tax to pay. Where a settlor has created more than one trust, the threshold amount will be £500 divided by the total number of existing trusts, subject to a £100 minimum. If the threshold is exceeded, trust tax rates apply to all income.

There will be no tax for estates where the income does not exceed £500. In such circumstances, estate income paid to beneficiaries will also be free of tax.

National insurance contributions (NICs)

The class 1 primary threshold and class 4 lower profits limit will remain aligned with the personal allowance (£12,570). The upper earnings limit and class 4 upper profits limit will remain aligned with the higher rate threshold at £50,270 through to April 2028. The lower earnings limit (£6,396) and the small profits threshold (£6,725) will remain unchanged in 2024/25.

From 6 January 2024 the class 1 primary (employee) contributions rate on earnings between £12,570 and £50,270 will be cut by 2% to 10%. The 2% rate on earnings above £50,270 will remain unchanged.

From 6 April 2024, class 2 contributions will no longer be required from the self-employed. However, those with profits below £6,725 (unchanged) who wish to retain access to contributory benefits (e.g. state pension) will continue to have the option to make voluntary contributions.

From the same date, the class 4 contribution rate on earnings between £12,570 and £50,270 will be reduced by 1% to 8%. The 2% rate on earnings above the upper limit will be unchanged.

The voluntary class 3 rate will be unchanged at £17.45 a week for 2024/25.

Pay as you earn (PAYE) – self assessment

Individuals with income taxed only through PAYE will no longer be required to file a self assessment return from 2024/25.

Off-payroll working (IR35)

HMRC will be able to reduce the PAYE liability of a deemed employer to account for taxes paid by a worker and their intermediary on payments received where an error has been made in applying the off-payroll working rules.

Company cars and vans

The benefit-in-kind appropriate percentages for all cars will remain unchanged for 2024/25. Car and van fuel benefit charges and the van benefit charge will also remain at 2023/24 levels.

Capital gains tax

The annual exempt amount for individuals and personal representatives will be halved to £3,000 in 2024/25, as previously announced. The annual exempt amount for most trusts will be cut to £1,500 (minimum £300).

Inheritance tax

The nil rate band for 2024/25 will remain at £325,000, which was the level first set in 2009/10. The residence nil rate band (RNRB) will likewise stay at £175,000 and the RNRB taper will continue to apply where the value of the deceased's estate is greater than £2 million.

Stamp duty land tax (SDLT)

The SDLT bands for residential property in England and Northern Ireland will remain unchanged until 1 April 2025. From that date, the 0% band threshold will be halved to £125,000 and a 2% rate applied between £125,000 and £250,000.

Enveloped dwellings (ATED)

The annual chargeable amounts for the ATED will be increased by 6.7% for 2024/25.

State pensions and social security benefits

The basic state pension, new state pension and pension credit standard minimum guarantee will be increased by 8.5% in April 2024, in line with May to July earnings growth under the triple lock provisions. All other UK-wide benefits will increase by 6.7% from April 2024.

Local Housing Allowance rates in Great Britain will be raised to the 30th percentile of local market rents in April 2024. At present they are based on April 2020 rental levels.

Pensions

Nine documents were published relating to the pensions framework. These included calls for evidence on a lifetime provider model to allow individuals to move towards having one pension pot for life and also on the creation of a 'public consolidator' for defined benefit schemes, to be run by the Pension Protection Fund.

Additional tax-related papers were issued about amending the relief at source arrangements, as previously proposed, and clarifying the impact of the abolition of the lifetime allowance from 6 April 2024.

Continued overleaf

Individual savings accounts (ISAs)

Various reforms were announced for ISAs. From April 2024:

- Investors will be allowed to make multiple subscriptions each year to ISAs of the same type.
- Partial transfers of ISA funds in-year between providers will be allowed.
- There will no longer be a requirement to reapply annually for an existing dormant ISA.
- The Innovative ISA will be expanded to allow investment in 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, removing the current cash-only adult ISA for 16 to 17-year-olds.
- Contribution limits will be unchanged.

The government will engage with providers about permitting certain fractional shares contracts as eligible ISA investments.

Venture capital schemes

The sunset clauses for the enterprise investment scheme (EIS) and venture capital trusts (VCTs) will be extended from 6 April 2025 to 6 April 2035.

Main personal allowances and reliefs		2024/25	2023/24
Personal allowance[1]		£12,570	£12,570
Marriage/civil partners' transferable allowance		£1,260	£1,260
Married couple's/civil partners' allowance at 10%[2]	– maximum	£11,080	£10,375
(if at least one born before 6/4/35)	– minimum	£4,280	£4,010
Blind person's allowance		£3,070	£2,870
Rent-a-room relief		£7,500	£7,500
Property allowance and trading allowance (each)		£1,000	£1,000

[1] Personal allowance reduced by £1 for every £2 of adjusted net income over £100,000.
[2] Reduced by £1 for every £2 of adjusted net income over £37,000 (£34,600 for 2023/24), until the minimum is reached.

Income tax rates and bands	2024/25	2023/24
UK taxpayers excluding Scottish taxpayers' non-dividend, non-savings income		
20% basic rate on taxable income up to	£37,700	£37,700
40% higher rate on next slice over	£37,700	£37,700
45% additional rate on income over	£125,140	£150,000
All UK taxpayers		
Starting rate at 0% on band of savings income up to[3]	£5,000	£5,000
Personal savings allowance at 0%: basic rate taxpayers	£1,000	£1,000
higher rate taxpayers	£500	£500
additional rate taxpayers	£0	£0
Dividend allowance at 0% – all individuals	£500	£1,000
Tax rates on dividend income: basic rate taxpayers	8.75%	8.75%
higher rate taxpayers	33.75%	33.75%
additional rate taxpayers	39.35%	39.35%

[3] Not available if taxable non-savings income exceeds the starting rate band.

Scottish taxpayers' non-dividend, non-savings income[4]	2024/25	2023/24
19% starter rate on taxable income up to	TBA	£2,162
20% basic rate on next slice up to	TBA	£13,118
21% intermediate rate on next slice up to	TBA	£31,092
42% higher rate on next slice up to	TBA	£150,000
47% top rate on income over	TBA	£125,140

[4] *Scottish Budget to be published on 19 December 2023.*

Trusts	2024/25	2023/24
Income exemption generally	£500	n/a
Standard rate band generally	n/a	£1,000
Dividends (rate applicable to trusts)	39.35%	39.35%
Other income (rate applicable to trusts)	45%	45%

High income child benefit charge: 1% of benefit per £100 of adjusted net income of £50,000 – £60,000.

Business tax

Capital allowances: full expensing

Full expensing, which was originally due to expire on 31 March 2026, is to be made permanent. This allows companies incurring qualifying expenditure on the provision of new plant and machinery to claim a 100% first-year allowance for main rate expenditure and a 50% allowance for special rate expenditure.

Expenditure on plant and machinery for leasing remains excluded, but the government will consult on a potential removal of this exclusion. The government will also consult on wider changes to simplify capital allowances legislation.

Research and development (R&D) tax reliefs

The R&D expenditure credit and the small or medium enterprise (SME) schemes will be merged for accounting periods beginning after 31 March 2024. The rate under the merged scheme will be 20% and the notional tax rate applied to loss-makers will be the corporation tax small profit rate of 19%.

The enhanced support for R&D-intensive SMEs will continue. The intensity threshold for the level of R&D expenditure required to qualify for enhanced support will be reduced from 40% to 30% from 1 April 2024. Loss-making companies claiming the existing SME tax relief will be eligible for a higher payable credit rate of 14.5% if they meet the definition of R&D intensity.

For claims made after 31 March 2024, the use of nominations for R&D tax credit payments will be removed, meaning that payments must go directly to the claimant company.

Creative industries

The government intends to increase the generosity of the Audio-Visual Expenditure Credit for visual effects expenditure and will work with the industry on how best to design this with the intention of implementing changes from April 2025.

Business rates

The small business multiplier will be frozen for another year and the 75% relief for retail, hospitality and leisure properties will be extended for 2024/25. The standard multiplier will be uprated by 6.7%.

Investment zones

The investment zones programme will be extended from five to ten years. New investment zones have been announced in Greater Manchester, the West Midlands and the East Midlands, with specific focuses. There will also be two investment zones in Wales: in the Cardiff and Newport area and the Wrexham and Flintshire region.

Freeport tax reliefs

The sunset date for the freeport tax reliefs will be extended to 30 September 2031 for freeports in England, conditional on agreement of delivery plans. For freeports in Scotland and Wales the reliefs will be extended from five to ten years, subject to agreement with the devolved administrations.

Making tax digital (MTD)

The £30,000 threshold for MTD for income tax self assessment will remain. This means people with gross income from self-employment and property below this threshold will not have to file tax returns using MTD.

Continued overleaf

Foster carers and people unable to get a national insurance number will also be exempt.

The government will also simplify the requirements for all taxpayers providing quarterly updates and for taxpayers with more complex affairs, such as landlords with jointly-owned property. An end of period statement will no longer have to be provided.

Cash basis

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

Training costs for self-employed people

HMRC will rewrite guidance about the tax deductibility of training costs for sole traders and the self-employed to provide more clarity to business on what costs are deductible.

VAT: energy-saving materials

VAT relief on the installation of energy-saving materials will be extended to additional technologies, such as water-source heat pumps. Buildings used solely for a relevant charitable purpose will be brought within scope. The changes will take effect from February 2024.

Construction industry scheme (CIS)

Compliance with VAT obligations will be added to the CIS gross payment status test. HMRC will also gain extended powers to remove gross payment status immediately in cases of serious non-compliance involving VAT, income tax and corporation tax self assessment and PAYE. The majority of payments by landlords to tenants will be removed from the scope of the CIS. The changes will take effect from 6 April 2024.

Tax avoidance and fraud

It will become a criminal offence for promoters of tax avoidance to continue to promote schemes after receiving a Stop Notice requiring them to stop promoting schemes described in that notice.

HMRC will be able to bring disqualification action against directors of companies involved in promoting tax avoidance. The changes will take effect from the date of Royal Assent to Autumn Finance Bill 2023, together with the doubling of the maximum sentences for tax fraud to 14 years announced in the Spring Budget 2023.

Top-up tax

There will be amendments to the multinational and domestic top-up taxes to reflect recent internationally agreed guidance and make clarifications following consultations. The Undertaxed Profits Rule will be added to the multinational top-up tax for accounting periods beginning on or after 31 December 2024.

Planning

A new planning service will be introduced to speed up planning decisions. Applicants will have to pay the full cost of the process, which will be refunded if the planning authority does not meet the stated timescale. Some planning constraints will be removed to accelerate the expansion of electric vehicle charging infrastructure.

National insurance contributions 2024/25

Class 1

	Employee – Primary	Employer – Secondary
NICs rate	10%[1]	13.8%
No NICs for employees generally on the first	£242 pw	£175 pw
No NICs for younger employees[2] on the first	£242 pw	£967 pw
NICs rate charged up to	£967 pw	No limit
2% NICs on earnings over	£967 pw	N/A

[1] Applies from 6 January 2024. 12% between 6 April 2023 and 5 January 2024.

[2] No employer NICs on the first £967pw for employees generally under 21 years, apprentices under 25 years and veterans in first 12 months of civilian employment. No employer NICs on the first £481pw for employees at freeports in Great Britain in the first three years of employment.

Employment allowance

Per business	£5,000

Not available if the sole employee is a director or if employer’s NICs for 2023/24 are £100,000 or more.

Continued overleaf

Earnings limits and thresholds

Limits and thresholds	Weekly	Monthly	Annual
Lower earnings limit	£123	£533	£6,396
Primary threshold	£242	£1,048	£12,570
Secondary threshold	£175	£758	£9,100
Upper earnings limit (and upper secondary thresholds for younger/veteran employees and apprentices under 25)	£967	£4,189	£50,270

Class 1A Employer

On car and fuel benefits and most other taxable benefits provided to employees and directors	13.8%

Class 2 Self-employed

Flat rate (voluntary)	£3.45 pw		£179.40 pa
Small profits threshold			£6,725 pa
Lower profits limit			£12,570 pa

Class 4 Self-employed

On annual profits of	£12,570 – £50,270	8%
	Over £50,270	2%

Voluntary

Class 3 flat rate	£17.45 pw	£907.40 pa

RATHBONES | Incorporating Investec Wealth & Investment (UK)

The information contained within this brochure does not constitute financial advice or a personal recommendation. Investors should remember that the value of investments, and the income from them, can go down as well as up and that past performance is no guarantee of future returns.

Belfast	02890 321002	**Cheltenham**	01242 514756	**Guildford**	01483 304707	**Manchester**	0161 832 6868
Birmingham	0121 232 0700	**Edinburgh**	0131 226 5000	**Leeds**	0113 245 4488	**Sheffield**	0114 275 5100
Bournemouth	01202 208100	**Exeter**	01392 204404	**Liverpool**	0151 227 2030		
Bristol	01172 444 860	**Glasgow**	0141 333 9323	**London**	020 7597 1234		

investecwin.co.uk