

Briefing Paper

UK Autumn Statement 2012:

Summary of key changes as they affect personal savings and wealth

The Chancellor, George Osborne, delivered his second Autumn statement on the 5th December 2012. As surrounds many such announcements these days, key possible changes had been widely discussed in advance. Even CHASM staff got in on the act this year as 'leading academics' in this field at the University. We correctly made predictions on several areas he did change (pensions limits and lower than inflation benefits rises) and a few we are sure he will get around to in due course (further property tax developments such as change in stamp duties on larger houses and council tax reform)¹.

As to the details of what he did announce that will have an effect on household assets, on savings and on personal wealth, the headlines were:

1. **1% capped increases across a range of thresholds, allowances and benefits.** Usually we look for these all to track inflation to prevent something called 'fiscal drag'. This is where taxpayers find themselves in higher tax brackets than they would have previously been when they get at or below inflation wage increases, or where asset values grow with inflation and become taxable because of this growth when they wouldn't have been previously. The allowances that will only rise by 1% include the previously announced higher rate tax band threshold, the capital gains tax exemption rate and (from April 2015) the inheritance tax threshold. In the first of these cases however, the message is actually confusing as the results of previous announcements in the Budget will actually see this band falling from next April – not increasing. The new 1% therefore just reduces this fall a little to now be from

¹ <http://www.birmingham.ac.uk/research/impact/perspective/autumn-statement-2012.aspx>

£34,370 this year to £32,010 for 13/14. These changes together will bring approximately 1 million extra people into paying tax at 40% according to the IFS.

The big change in this statement was the main Personal Allowance - our minimum tax free income threshold. This is to rise to £9,440 (currently this allowance is £8,105) – i.e. a healthy 16.5% year on year. The claim was made that this will reduce the income tax bills for around 2.2million people - although by how much will depend on whether they also receive means-tested benefits which will go down correspondingly if their income is higher after these tax deductions. However, for those on lower pay this is very welcome as it will remove some from having to pay income tax altogether as well as reducing the amounts paid by many others.

These shifts in allowances, when taken together, will have the effect of moving more of the tax burden on to those with higher wages and those who have assets to sell, and away from those on lower incomes.

For those on benefits the Chancellor also announced only a 1% rise to most benefits for the next three years. This will clearly be felt very keenly by those who rely on their benefits keeping pace with the prices they have to pay for the basic essentials of life.

2. **No extra 3p rise in fuel duty as previously planned for January 2013** – thankfully petrol prices have stabilised for the last few months after what seems like daily rises for many months before that. The fact that there will be no increase due to fuel duty rises in January, as had been previously announced, will hopefully mean the kick start to such rises again this could have created is at least delayed. Fuel duty is an important tax in the UK however. Last year it raised £27 billion in tax revenues.
3. **ISA threshold limits are to rise to £11,280** -as the main savings vehicle for over 20million UK taxpayers, any rises in the amount that can be invested in an ISA annually helps those who do have money to save build up their tax free investments.

This may however, be little comfort for many given the rates paid at present on the most widely held ISAs – the cash ISA - remain below inflation.

4. **Corporation tax is to continue falling** – now to drop to 23% for large businesses in April 2013 (was to be 24%) and then to 21% the following April. The economic evidence to support the value of doing this is not clear and not widely agreed upon. Many other countries are putting up their equivalent taxes in response to the financial crisis, not lowering them.

The recent debates in the UK about corporation tax paid by multinational enterprises such as Amazon, Google and Starbucks shows that this tax is in effect largely voluntary for many such businesses who can structure their affairs to minimise or even wipe out their UK corporation tax liability. Of course, this activity is not limited to these three and many similar businesses do the exact same thing. Perhaps the Chancellor believes that if the corporation tax rate becomes low enough they might actually choose to pay it! He might be right, but it will have to go much further down yet to get to that point given the effective rates some companies are paying under their current structures (single figure percentages in some cases). Hopefully if dropping this tax rate results in attracting more business to the UK, or more investment from those already operating here, it will mean at least more tax revenues through their staffs' income tax payments and national insurance contributions perhaps.

For those businesses (and wealthy individuals) who are looking to minimise their tax bills still – by fair means or foul – the autumn statement announced more resources for HMRC after a number of years of cuts. This included money for 2,500 more tax inspectors and £77million specifically for fighting tax avoidance.

For further analysis of the developing story of the impact of wealth ownership and concentration in the UK, see the current (CHASM led) Policy Commission on the Distribution of Wealth².

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² <http://www.birmingham.ac.uk/research/impact/policy-commissions/wealth/index.aspx>