With you today

Rob Lant
Yael Selfin
Robin Walduck
Gary Harley
Colin Ben-Nathan
Alexander Marcham
Economic outlook

Yael Selfin
Head of Macroeconomics
### UK GDP growth projections

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<td>2.1</td>
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Source: Office for Budget Responsibility
## Current receipts expectations

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<td>Autumn Statement 2015</td>
<td>682.2</td>
<td>723.4</td>
<td>762.7</td>
<td>796.5</td>
<td>831.1</td>
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<td>Budget 2016</td>
<td>681.8</td>
<td>716.5</td>
<td>745.8</td>
<td>779.5</td>
<td>820.9</td>
<td>852.2</td>
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<td>679.8</td>
<td>710.6</td>
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<td>768.0</td>
<td>801.8</td>
<td>834.8</td>
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<tr>
<td>Change since Spring</td>
<td>(2)</td>
<td>(5.9)</td>
<td>(7.8)</td>
<td>(11.5)</td>
<td>(19.1)</td>
<td>(17.4)</td>
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Source: Office for Budget Responsibility
## Total managed expenditure (£bn)

<table>
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<tr>
<td><strong>Budget 2016</strong></td>
<td>753.9</td>
<td>771.9</td>
<td>784.6</td>
<td>801.0</td>
<td>810.4</td>
<td>841.1</td>
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<tr>
<td><strong>Autumn Statement 2016</strong></td>
<td>755.8</td>
<td>778.8</td>
<td>797.0</td>
<td>814.5</td>
<td>823.7</td>
<td>855.6</td>
<td>886.4</td>
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<tr>
<td><strong>Difference</strong></td>
<td>1.9</td>
<td>6.9</td>
<td>12.4</td>
<td>13.5</td>
<td>13.3</td>
<td>14.5</td>
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Source: Office for Budget Responsibility

## Total managed expenditure as a % of GDP

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<td>39.1</td>
<td>38.1</td>
<td>37.2</td>
<td>36.5</td>
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<td>37.8</td>
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Source: Office for Budget Responsibility
### Public sector net borrowing £bn

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<td>55.5</td>
<td>38.8</td>
<td>21.4</td>
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<td>(11)</td>
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<td>68.2</td>
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<tr>
<td>Difference</td>
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<td>12.7</td>
<td>20.2</td>
<td>25.1</td>
<td>32.3</td>
<td>31.7</td>
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Source: Office for Budget Responsibility

### Public sector net borrowing as a % of GDP

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<td>(0.5)</td>
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<td>3.5</td>
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<td>2.2</td>
<td>1.0</td>
<td>0.9</td>
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Source: Office for Budget Responsibility
The effect of Autumn Statement decision on public sector net borrowing

### The balance between welfare and public expenditure

<table>
<thead>
<tr>
<th>Year</th>
<th>Other changes</th>
<th>Welfare measures</th>
<th>Current departmental spending</th>
<th>Gross tax rises</th>
<th>Total</th>
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<tbody>
<tr>
<td>2016-17</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>10</td>
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<tr>
<td>2017-18</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>14</td>
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<tr>
<td>2018-19</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>14</td>
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<tr>
<td>2019-20</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>22</td>
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<tr>
<td>2020-21</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>28</td>
</tr>
<tr>
<td>2021-22</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>34</td>
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Source: Office for Budget Responsibility

£ billion

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## Public sector net debt as a % of GDP

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<td>88.0</td>
<td>84.8</td>
<td>81.6</td>
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</table>

Source: Office for Budget Responsibility
Productivity performance, 2010-2014 average (current prices, UK=100)

Source: Office for National Statistics
Relative UK performance has deteriorated

Constant price GDP per worker (2007=100)

Source: Office for National Statistics
Corporation tax

Robin Walduck
Head of International Tax
Key headlines

Stability and certainty
— Recommitment to business tax roadmap; includes cutting rate of corporation tax to 17% by 2020
— Reducing burden of business rates by £6.7 billion over 5 years

R&D
— No explicit policy changes – commitment to reviewing ‘tax environment for R&D’
— Competitive ambition for the UK – build on introduction of above the line R&D tax credit
— Addition of rules in Patent Box regime on collaborative R&D in cost-sharing arrangements

Simplification of SSE rules
— Helpful for groups looking to invest in the UK

Strengthening tax avoidance sanctions and deterrents
— No further details at this stage; will reflect ‘an extensive consultation’; details to be published in draft legislation shortly

HMRC administrative and operational measures: Closure Rules, HMRC Litigation and Insolvency Analytics

Commitment to BEPS Action 2 and 4
— No commentary on other BEPS action items
January 2017
Hybrid mismatch arrangements legislation effective; note on 5 Dec of minor amendments due in Finance Bill 2017 (FS timing claims, deductions for amortisation)

April 2017
Changes to substantial shareholdings rules – remove the investing requirement; exemption for companies owned by qualifying institutional investors

April 2017
Corporation tax rate 19%

April 2017
Reform of loss relief rules (50%; £5m allowance; 25% for banking sector)

April 2017
Interest expense deductibility (30%; £2m net interest threshold; widening of exemption for public benefit infrastructure; same application for banks/insurers)

Royal Assent 2017
Partial Closure Notice powers become effective

April 2017
Corporation tax rate 19%

April 2020
Corporation tax rate 17%
Sector specific matters

Banking: confirmation on bank levy charge
— Restricted to UK balance sheet liabilities from 1 January 2021
— Exemption for certain UK liabilities relating to funding of non-UK companies/non-UK branches
— Details to be released in response to consultation
— Legislation in Finance Bill 2017-18

Funds: dividend distributions to corporate investors
— Changing rules to allow exempt investors to obtain credit for tax paid by AIFs
— Proposals in secondary legislation in early 2017

Property: bringing non-resident companies into the corporation tax regime
— To be consulted on at Budget 2017
— Would include the limitation on corporate interest deductibility and loss relief rules
— Application primarily to non-resident landlord companies?
— Application to capital gains?
Autumn Statement 2016:

— Standard rate to be increased to 12% effective from 1 June 2017
— Anti-forestalling provisions
— 1% increase circa £400 million
— Transitional arrangements?

Note: (a) VAT is consistent with the IPT Higher rates except for this period.
Strengthening the Tax Avoidance Disclosure Regimes for Indirect Taxes

- Scheme promoters primarily responsible for disclosing schemes to HMRC
- Scope extended to include all indirect taxes
- Hallmarks likely to be widened
- Effect from 1 September 2017
- More details in DFB 2017 published on 5 December 2017
Employment tax

Colin Ben-Nathan
Head of employment tax
Salary sacrifice
- Restrictions on tax/NIC advantages from April 2017
- Transitional measures for existing arrangements
- Carve outs for pensions, childcare, cycle-to-work, annual leave and ultra-low emission cars

IR35 and the public sector
- From April 2017 responsibility for assessing status and paying tax/NIC will rest with engager
- 5% tax free allowance removed for public sector PSCs

Termination payments
- Secondary (employer) Class 1 NIC to apply to payments over £30,000 (as well as tax)
- Only base pay equivalent of non-contractual PILONs will be taxed as earnings

NIC/income tax alignment
- The only move towards alignment was a £1 change to threshold!
- Nothing on the more important structural changes proposed by the Office of Tax Simplification
Employment Tax

**Pensions**
- Money Purchase Annual Allowance to reduce to £4,000 from April 2017
- Taxation of foreign pensions will be 'more closely aligned' with taxation of UK schemes
- The end of the road for ‘section 615’ schemes for those employed abroad
- Other more specific technical changes – detail to be confirmed

**PAYE Settlement Agreement process**
- Simplification of PSA process to go ahead from April 2018
- Draft legislation expected in Finance Bill 2017

**Making Tax Digital**
- Publication of responses to the Summer consultation expected in January 2017

**Other measures**
- Employee Shareholder Status to be abolished
- Future consultations and calls for evidence, including on:
  - the valuation of benefits-in-kind; and
  - income tax relief for employees’ business expenses
Private client

Alexander Marcham
Private client director
Key headlines

— HMRC to press ahead with changes to non-domiciled taxation and to inheritance tax treatment of UK residential property, effective 6 April 2017. Legislation expected 5 December 2016

— 'Requirement to correct' past failures to pay UK tax on offshore holdings

— A relaxation of the Business Investment Relief conditions is also expected from 6 April

The main surprise change was...

— Consultation to create a legal requirement for advisers to register ‘offshore structures … and …related client lists’

Other measures

— An increase in personal allowances and the basic rate band

— The creation of a £1,000 tax-free allowance and reporting exemption for those with minimal levels of property or trading income