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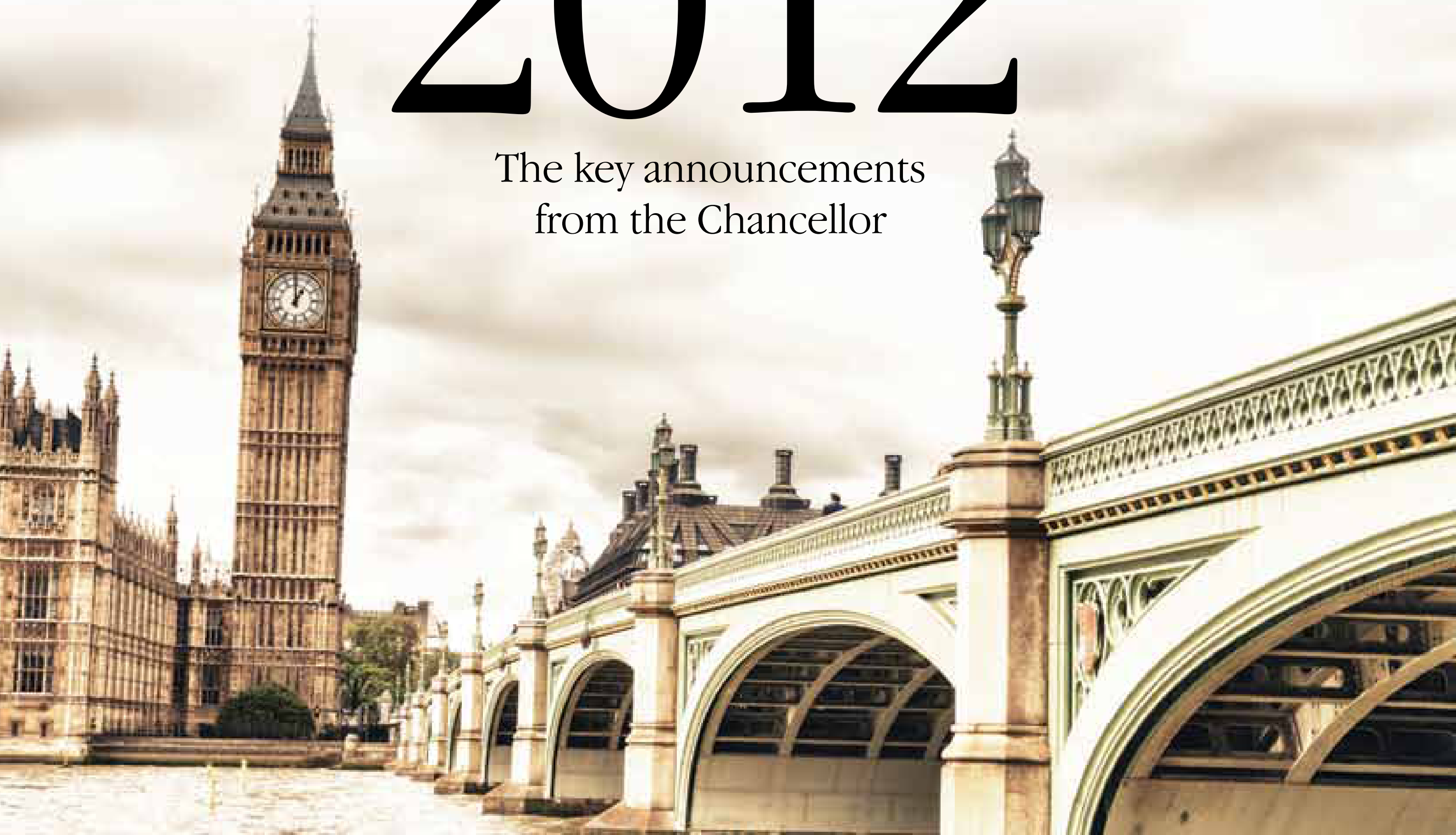
FINANCIAL GUIDE

A GUIDE TO THE AUTUMN STATEMENT 2012

The key announcements from the Chancellor



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A guide to the Autumn Statement 2012

The key announcements from the Chancellor

On 5 December 2012 Chancellor George Osborne delivered his third and arguably most significant Autumn Statement to the House of Commons, against a backdrop of global economic uncertainty.

As expected, the Office for Budget Responsibility (OBR) downgraded its forecast for growth for the year 2012. The OBR believes that the UK economy will shrink by 0.1 per cent in 2012, compared with its Budget 2012 forecast of 0.8 per cent growth.

Against this challenging backdrop, the Chancellor's 2012 Autumn Statement outlined a range of measures aimed at making the savings needed to protect the economy and invest in programmes for growth.

HM Revenue & Customs will also be given an extra £77 million to tackle tax avoidance and evasion by companies and wealthy individuals.

Personal

Income tax

From 6 April this year, the basic personal allowance will increase to £9,440, which is £235 more than previously announced in the 2012 Budget. The total increase in the personal allowance is £1,335.

The income limit for age-related allowances will increase by £700 from £25,400 to £26,100 in 2013/14. The married couples allowance will increase to a maximum of £7,915 from 6 April 2013 (£7,705 in 2012/13) and a minimum of £3,040 (£2,960 in 2012/13).

Higher rate taxpayers will see increases in the higher rate threshold of one per cent for 2014/15 and 2015/16 of £41,865 and £42,285 respectively. This will be the first cash increase in the higher rate threshold this Parliament.

Capital gains tax

Over the same period, the capital gains tax exemption will benefit from a one per cent increase each year. Therefore the exempt amount will be £11,000 in 2014/15 and £11,100 in 2015/16.

Inheritance tax

The inheritance tax threshold will increase by 1 per cent from £325,000 to £329,000 in 2015/16. In the 2010 emergency Budget, the Government froze the nil band for inheritance tax for four years. It will be the first increase under this Government but remains lower than the current rate of inflation. In its 2007 pre-Budget report, Labour changed the IHT rules to allow couples to combine their allowances.

Pensions and savings

Individual Savings Accounts and Child Trust Fund

The investment subscription limits have been increased, as previously announced, in line with inflation. In 2013/14, Individual Savings Account (ISA) subscription limits will be increased from £11,280 to £11,520. Of this amount, the cash subscription limit is restricted to a maximum of £5,760. At the same time the Junior ISA and Child Trust Fund subscription limits will both increase from £3,600 to £3,720.

The investment limits for Individual Savings Accounts (ISAs) and Child Trust Fund accounts are as follows:

Individual Savings Accounts (ISAs)	**2013/14**	**2012/13**
Overall investment limit	£11,520	£11,280
Including cash maximum of	£5,760	£5,640
Junior ISA investment limit	£3,720	£3,600
Child Trust Fund investment limit	£3,720	£3,600

Pension tax relief

With effect from the tax year 2014/15 there are changes to the annual allowance for pensions and the standard lifetime allowance.

The annual allowance

The annual allowance will be reduced from £50,000 to £40,000 for the tax year 2014/15. The annual allowance is the maximum amount of an individual's annual pension contributions that attract tax relief.

You will be affected by the change if your total pension savings made in 'pension input periods' that end in a tax year are greater than the annual allowance plus any available unused annual allowance that you can carry forward from the three previous tax years. The approach to your contributions being tested against the annual allowance depends on the type of your pension scheme. Your pension scheme administrator should advise you if your pension contributions in their scheme are more than the annual allowance.

The carry forward rules

If your total pension contributions for the tax year are more than the annual allowance you may still be able to claim tax relief as you can carry forward any unused allowance from the previous three years to the current tax year. You will only have to pay tax on any amount of pension contributions in excess of the total of the annual allowance for the tax year plus any unused annual allowance you carry forward. These carry forward rules are not being changed. The effect of this is that for 2014/15 you will be able to carry forward up to £50,000 unused allowances from each of the tax years 2011/12 through to 2013/14.

Lifetime allowance

The lifetime allowance is to be reduced from £1.5 million to £1.25 million with effect from the 2014/15 tax year onwards.

The lifetime allowance is the maximum amount of pension benefit you can build up over your life that is available for tax relief. If, when you take your pension benefits, these are worth more than the lifetime allowance there is a tax charge (the lifetime allowance charge) on the excess.

The lifetime allowance charge is a tax charge paid on any excess in the value of your pension benefits over the lifetime allowance limit. The rate depends on how this excess is paid to you. If the amount over the lifetime allowance is paid as:

Lump sum - the rate is 55 per cent
Taxable pension - the rate is 25 per cent

Fixed protection 2014

Those individuals who apply for fixed protection 2014 will have a lifetime allowance of the greater of £1.5 million and the lifetime allowance (£1.25 million from April 2014). There are certain conditions that have to be met - please contact us for further information.

It is proposed that individuals with fixed protection 2014 will be able to take a tax-free lump sum at the time they take a pension. The maximum lump sum that can be taken is up to 25 per cent of their pension rights, subject to an overall limit of 25 per cent of £1.5 million. However, some scheme rules may only allow a smaller tax-free lump sum to be taken.

Individuals will be able to apply for fixed protection 2014 after the legislation comes into force, which is expected to be in summer 2013. A signed form must be lodged with HM Revenue & Customs by 5 April 2014.

It is also planned that where an individual dies before 6 April 2014, and any lump sum death benefits are not paid until on or after 6 April 2014, then the lump sum will be tested against the lifetime allowance at the time of the individual's death rather than at the point the lump sum is paid.

Pensions drawdown policy

The income drawdown limit which is currently capped at 100 per cent of the value of an equivalent annuity is to be restored to 120 per cent of GAD. Capped drawdown was introduced as part of the Government's reforms to abolish compulsory annuitisation at age 75. The income drawdown provisions allow pensioners to take an income from their pension fund while the fund remains invested, and thus without taking an annuity.

Autumn Statement 2012 at a glance

Economic Growth

- Forecasts for next few years are: 1.2% in 2013, 2% in 2014, 2.3% 2015, 2.7% in 2016 and 2.8% in 2017.

Pensions and Benefits

- Most working-age benefits to rise by 1% for each of next three years.
- From 2014/15 lifetime pension relief allowance to fall from £1.5m to £1.25m – annual allowance cut from £50,000 to £40,000.
- Capped drawdown limit increased for pensioners of all ages with these arrangements from 100% to 120% of the value of an equivalent annuity.
- Basic state pension to rise by 2.5% next year to £110.15 a week.
- Child benefit to rise by 1% for two years from April 2014.

Taxes and Allowances

- Personal basic income tax allowance for those aged under 65 increasing by £1,335 in cash terms to £9,440 in 2013/14.
- Higher rate threshold to rise to £41,450 in 2013/14, to £41,865 in 2014/15, and in 2015/16 it will be £42,285.
- Main rate of corporation tax to be cut by extra 1% to 21% from April 2014.
- Capital gains annual exempt will increase to £11,000 in 2014/15 and £11,100 in 2015/16.
- Temporary doubling of small business rate relief scheme to be extended by further year to April 2014.
- Inheritance tax threshold to be increased to £329,000 in 2015/16.
- Bank levy rate to be increased to 0.130%.
- £5bn over six years expected from treaty with Switzerland to deal with undisclosed bank accounts.
- ISA contribution limit to be raised to £11,520 from 6 April.
- Prosecutions for tax evasions up 80%, with anti-abuse rule to come in next year.

Protecting and growing your wealth

This guide provides a summary of the key announcements made in the Autumn Statement 2012 relating to personal financial planning. To discuss how we can help you protect and grow your wealth, please contact us to review the measures that may be relevant to you or your business.

Want to protect and grow your wealth?

Contact us today.

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