Autumn Statement 2014: a summary

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Section: Economic Policy and Statistics

The 2014 Autumn Statement was presented by the Chancellor of the Exchequer to Parliament on 3 December 2014. At the same time the Office for Budget Responsibility published its updated forecasts in its *Economic and fiscal outlook*.

This note provides a summary of both along with detailed analysis of changes to stamp duty land tax.

Separate Library notes give related information, see: *Autumn Statement 2014: background briefing* (SN/EP/07039, 28 November 2014), *Economic Indicators, December 2014* (RP14/64, 2 December 2014) and *Unemployment by Constituency, November 2014* (RP14/60, 12 November 2014).

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1 Autumn Statement policy measures at a glance

- **Stamp duty land tax** (SDLT) reformed. A single rate will no longer apply to the whole of the purchase price – rates will apply to the part of the price that falls within each band. New bands and rates will be introduced.
- **Diverted profits tax** introduced. A rate of 25% will be applied on profits generated in the UK but moved abroad, from 1 April 2015.
- **Bank's profits** which can be **offset by losses carried-forward** restricted to 50%.
- **Funding for lending scheme** extended for one year until 29 January 2016.
- Increased annual funding of £2 billion for the **NHS**.
- **Personal allowance** increased to £10,600 for 2015/16 instead of £10,500, for those born after 5 April 1948. The higher rate limit will increase to £42,385.
- Employer **National Insurance contributions for apprentices** abolished for under 25s on earnings up to the upper earnings limit.
- Tax advantages of **ISA** (Individual Savings Account) savers will now be inherited by their spouse or civil partner, instead of lapsing.
- Various changes to **business rates.** Doubling of small business rates relief and 2% cap on increase extended to April 2016; discount for shops, pubs, cafes and restaurants increased to £1,500 in 2015/16; transitional rate relief extended to 31 March 2017. A **review** of the future structure of business rates to report by Budget 2016.
- Legislation for **devolving corporation tax to Northern Ireland** to be introduced subject to certain conditions being met.
- Children under 12 will be exempt from **air passenger duty** on economy tickets from 1 May 2015. The exemption will include children under 16 from 1 March 2016.
- Annual tax on **companies that own high value residential property increased** by 50% above inflation for properties worth more than £2 million for 2015/16.
- The supplementary charge on **oil and gas** profits reduced from 32% to 30%**.**
- The annual **remittance charge for non-domiciles** who have been resident in the UK for 12 of the past 14 years is increased from £50,000 to £60,000. A new charge of £90,000 will be introduced for those resident in 17 of the past 20 years is introduced.
- New employer contribution rates will be introduced for several **public service pension** schemes from April 2015.
- **Students** on taught postgraduate masters to be offered student loans from 2016/17.
- **Rail fares cap** of the RPI inflation rate extended to 2015.
- A **revised Charter for Budget Responsibility** will be laid before Parliament the week after the Statement, with a vote on it in 2015.

2 Forecasts for the economy and public finances at a glance

The Office for Budget Responsibility (OBR) has published the following forecasts for the economy and the public finances:

- **Economic growth:** GDP will grow by 3.0% in 2014, and by 2.4% in 2015, revised up from the previous forecast in March. The economy is forecast to grow by between 2-2.5% in each year from 2016 to 2019 of the forecast period, lower in each year than was previously forecast.

- **Inflation:** forecasts have been lowered. The CPI annual inflation rate will be 1.5% on average in 2014, before falling to 1.2% in 2015. It rise back to the Bank of England's target of 2.0% in 2017 and in each of the remaining years in the forecast period.

- **Labour market:** employment levels are forecast to be 30.7 million in 2014, rising to 31.2 million in 2015 and then rising more slowly up to 31.7 million in 2019. Forecasts for the unemployment rate over the next few years have been cut sharply and it is expected to be 6.2% on average in 2014, 5.4% in 2015 and 5.2% in 2016.

- **Earnings:** average earnings growth forecasts have been lowered to 1.8% in 2014 and 2.0% in 2015, from 2.5% and 3.2%, respectively, that was forecast in March. The OBR notes that lower inflation rates will provide a boost to real earnings, although the average level of real earnings isn't forecast to return to its pre-crisis level within the next five years.

- **Budget deficit:** headline public sector borrowing has been revised up by £5 billion to £91 billion in 2014/15, compared with £98 billion in 2013/14. It is expected to fall in each subsequent year, before a surplus of £4 billion is recorded in 2018/19. As a percent of GDP, the budget deficit is forecast to be 5.0% in 2014/15, falling to 4.0% in 2015/16 and 2.1% in 2016/17.

- **Government debt:** net government debt in 2014/15 is forecast to be £1.49 trillion or 80.4% of GDP. Debt is forecast to peak as a percentage of GDP in 2015/16 at 81.1% before falling to 72.8% in 2019/20.

- **Fiscal targets:** The fiscal mandate is forecast to be met. The government is not on course to meet the supplementary debt rule (falling debt as a percent of GDP in 2015/16). The welfare cap will be met in all of the years up to 2019/20.

3 OBR forecasts for the economy

The OBR published its *Economic and Fiscal Outlook, December 2014* on the same day as the Autumn Statement. It contains independent official forecasts for the economy up to 2019 and the public finances up to 2019/20. All data below are based on new accounting standards for GDP and the public finances that were introduced earlier this year.

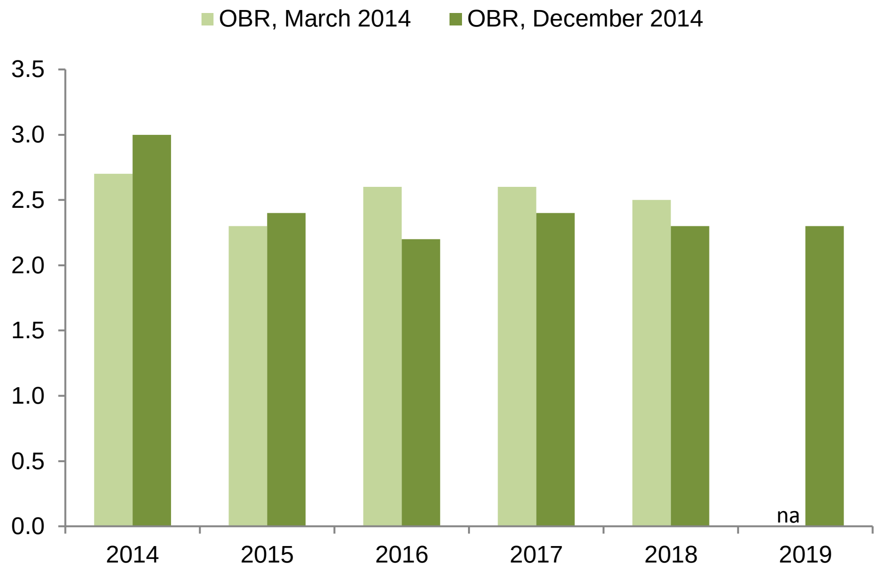
3.1 GDP growth

The OBR forecasts that the UK economy will grow by 3.0% in 2014, up from 2.7% forecast in the Budget in March 2014. Growth of between 2-2.5% a year is forecast for 2015 to 2019. Forecasts have been lowered in each year from 2016.

OBR forecasts: GDP growth (%)

	2014	2015	2016	2017	2018	2019
March 2014	2.7	2.3	2.6	2.6	2.5	..
December 2014	3.0	2.4	2.2	2.4	2.3	2.3

GDP growth: OBR forecasts
Annual % change, real terms



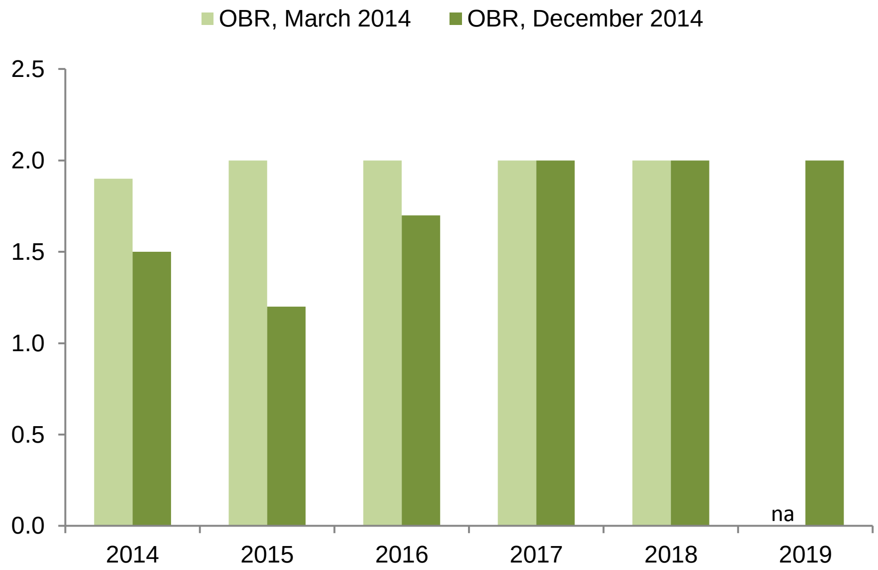
3.2 Inflation

The inflation rate has been declining in recent months as food and petrol prices have been falling, prompting the OBR to revise down its forecast for CPI inflation in the next few years. Forecasts for 2015 have been cut from 2.0% at the time of the Budget to 1.2% now. The OBR now forecasts that inflation will return to the Bank of England's target of 2.0% in 2017 and remain there for the rest of the forecast period.

OBR forecasts of CPI inflation (% change on previous year)

	2014	2015	2016	2017	2018	2019
OBR, March 2014	1.9	2.0	2.0	2.0	2.0	
OBR, December 2014	1.5	1.2	1.7	2.0	2.0	2.0

Inflation: OBR forecasts
Annual % change, CPI



3.3 Employment and unemployment

Forecasts for the number of people employed has been raised across the whole forecast period, reflecting faster than expected growth since the Budget. The employment level is forecast to be 30.7 million in 2014, rising to 31.7 million by 2019.

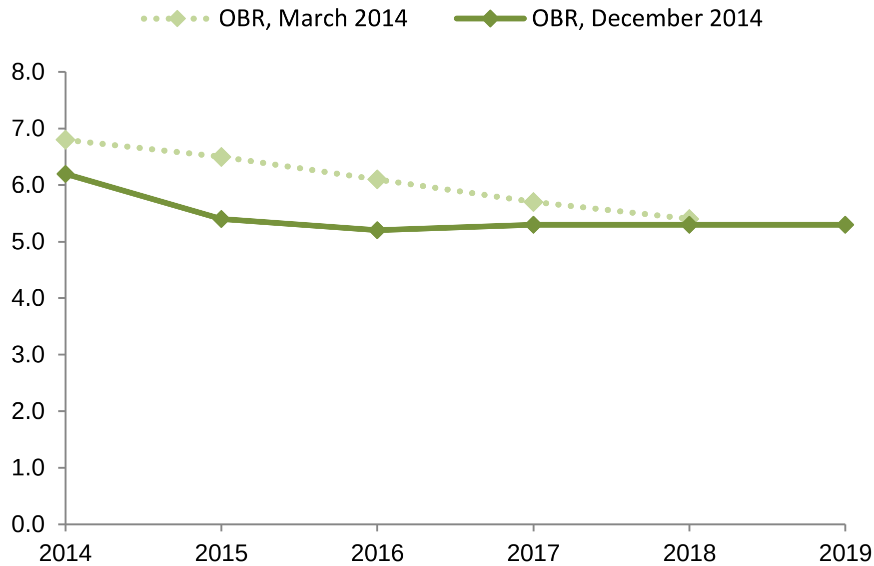
OBR forecasts for the unemployment rate have been revised down sharply, reflecting faster-than-expected falls since the Budget. The OBR forecasts an unemployment rate of 6.2% in 2014, falling to 5.4% in 2015: this compares with 6.5% forecast at the Budget. The unemployment rate is forecast to stabilise around 5.2-5.3% from 2016.

Forecasts for the number of people claiming unemployment benefits (the claimant count) have also been lowered, with around 840,000 people expected claiming them in 2015, down from a forecast of 1.13 million at the time of the Budget.

OBR forecasts: employment and unemployment

	2014	2015	2016	2017	2018	2019
Employment, millions						
March 2014	30.4	30.6	30.9	31.2	31.4	..
December 2014	30.7	31.2	31.4	31.5	31.6	31.7
ILO unemployment rate, %						
March 2014	6.8	6.5	6.1	5.7	5.4	..
December 2014	6.2	5.4	5.2	5.3	5.3	5.3
Claimant count, millions						
March 2014	1.20	1.13	1.06	0.98	0.94	..
December 2014	1.04	0.84	0.83	0.84	0.85	0.86

Unemployment rate: OBR forecasts
ILO measure, %



3.4 Average earnings

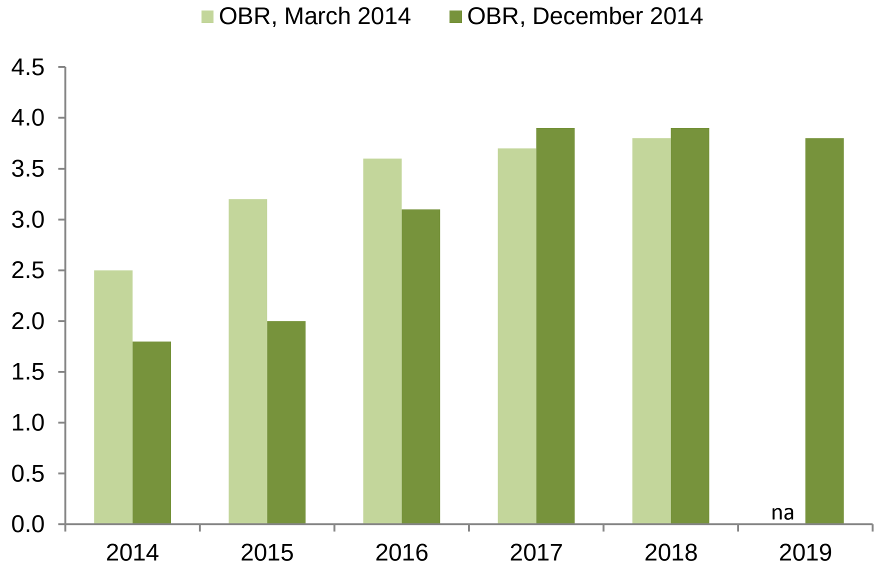
The OBR has lowered its forecasts for average wages – in cash terms – over the next few years. Wages are now expected to rise by 1.8% in 2014 (down from a forecast of 2.5% made in March) and 2.0% in 2015 (down from 3.2%).[1] . The OBR notes that lower inflation rates will provide a boost to real earnings over the next few years, although the average level of real earnings isn't forecast to return to its pre-crisis level within the next five years.

OBR forecasts of average earnings (% change on previous year)

	2014	2015	2016	2017	2018	2019
OBR, March 2014	2.5	3.2	3.6	3.7	3.8	
OBR, December 2014	1.8	2.0	3.1	3.9	3.9	3.8

1 The OBR's measure of average earnings (using national accounts data) is different to other, more commonly-used, measures of earnings such as Average Weekly Earnings and the Annual Survey of Hours and Earnings.

Average earnings: OBR forecasts
Annual % change



4 OBR forecasts for the public finances

OBR forecasts: public finances

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Net borrowing, £ billion						
March 2014	86	68	42	16	-4	..
December 2014	91	76	41	15	-4	-23
Net borrowing, % of GDP						
March 2014	4.8	3.6	2.1	0.8	-0.2	..
December 2014	5.0	4.0	2.1	0.7	-0.2	-1.0
Net debt*, £ trillion						
March 2014*	1.49	1.57	1.63	1.67	1.68	..
December 2014	1.49	1.56	1.61	1.64	1.65	1.65
Net debt*, % of GDP						
March 2014*	80	82	81	79	76	..
December 2014	80	81	81	79	76	73

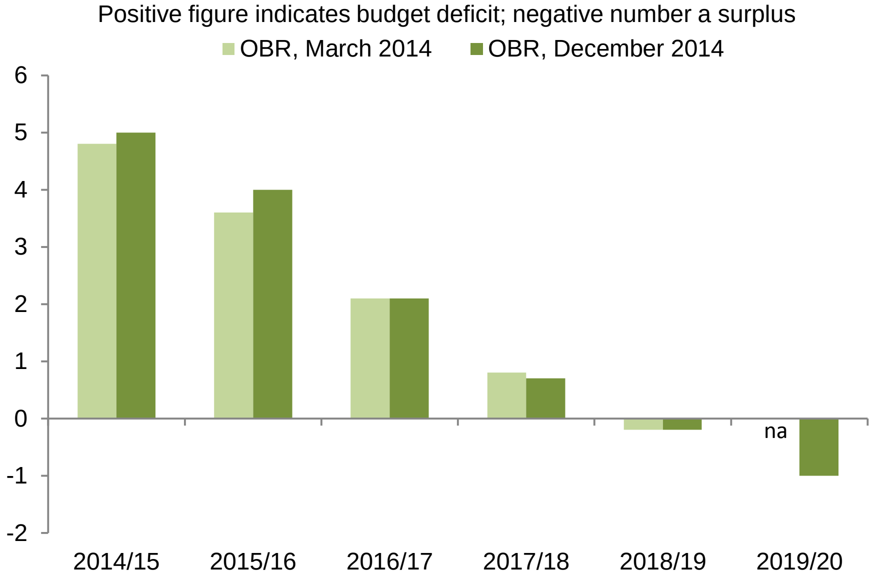
Note: *Net debt forecasts from March 2014 have been estimated by the Library (based on the information available in table 4.46 of the OBR's *Economic and Fiscal Outlook*) so that they are on a comparable basis w ith the December 2014 forecasts. This is due to new accounting standards introduced in the intervening peiod.

4.1 Public sector borrowing

The OBR forecasts that headline public sector borrowing will total £91 billion in 2014/15, £5 billion more than was forecast at the time of the Budget (£86 billion). Borrowing in 2015/16 has also been revised up by £8 billion from £68 billion to £76 billion. The forecast deficit from 2016/17 to 2019/20 is roughly unchanged. The deficit will become smaller in each year. In 2018/19 the government is forecast to run a surplus of £4 billion, rising to £23 billion in 2019/20.

As a percentage of GDP, borrowing is forecast to fall from 5.0% in 2014/15 to 0.7% in 2017/18, before surpluses are recorded in 2018/19 and 2019/20. Government borrowing peaked at 10.2% of GDP in 2009/10 following the financial crisis and recession.

Public sector borrowing: OBR forecasts
% of GDP



4.2 Public sector debt

Forecasts of government net debt rise more slowly in this year and next, but then fall more quickly in subsequent years than was forecast at the time of the Budget in March. However, the amount of debt overall is higher in every year. This is almost entirely due to recent accounting changes in the way public sector finances are calculated, which added, for example, the debt of Network Rail to the stock of public sector debt.[2]

In 2014/15 net debt is forecast to total £1.49 trillion, rising (as the government continues to borrow) up to 2018/19 when it will be £1.65 trillion.

As a percentage of GDP, debt is forecast to be 80.4% in 2014/15, rising to a peak of 81.1% in 2015/16 before falling at an accelerating pace to 72.8% in 2019/20, returning it to around the level it was in 2011/12 – still almost double what it was before the recession at 37% in 2007/08.

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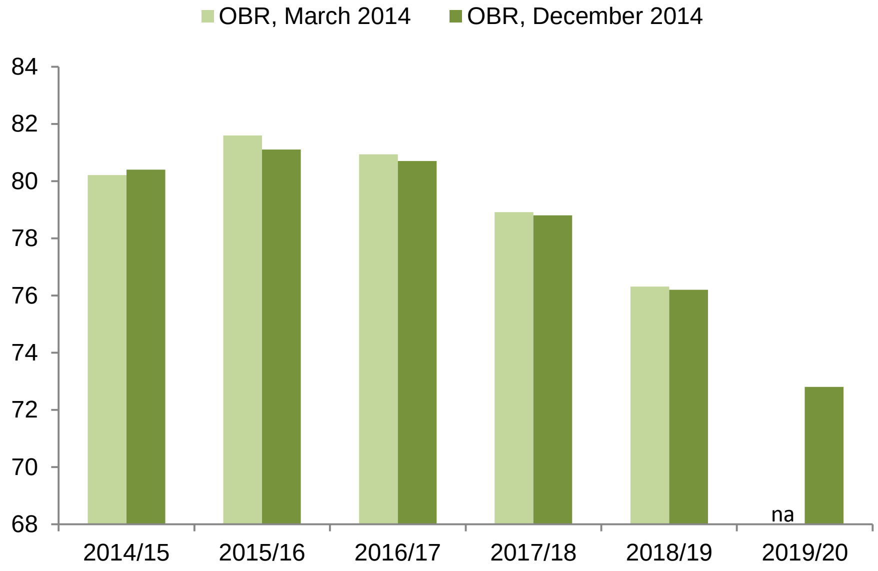
2 For more information on these changes, see the Library briefing *Public sector finances: 2014 revisions*

Public sector net debt: OBR forecasts
% of GDP
(see notes in table above)



4.3 Fiscal rules

Fiscal mandate

The fiscal mandate requires that the cyclically-adjusted current balance – a measure of underlying government borrowing that excludes investment spending and effects from the economic cycle – be in surplus by the end of a rolling five-year period. The OBR forecasts that the cyclically adjusted current balance will be +1.5% in 2018/19, meaning that the government is on track to meet this target (as was also the case at the time of Budget in March 2014).

OBR forecasts: Cyclically adjusted current balance, % GDP

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
March 2014	-2.2	-1.5	-0.2	0.7	1.5	..
December 2014	-2.7	-2.2	-0.5	0.7	1.5	2.3

Note: negative figures indicate a deficit, positive figures a surplus

Supplementary target

The supplementary target requires that public sector net debt falls as a share of GDP between 2014/15 and 2015/16. The OBR forecasts that debt will rise by 0.7 percentage points in this period (from 80.4% to 81.1% of GDP). This means that the government is on course to miss this target (as was also the case at the time of Budget in March 2014).

Welfare cap

The welfare cap is a limit on the amount that government can spend on certain social security benefits in the five years from 2015/16. The OBR forecasts that the cap will be met in all of the years up to 2019/20. For more see the Library briefing: *The welfare cap.*

5 Stamp duty land tax

The Chancellor announced a major reform to the taxation of residential property. At present stamp duty land tax is charged at a single rate on the whole purchase price of a property, with different rates for different value bands. When a property exceeds the threshold for a higher rate of duty, tax is charged at the higher rate on the whole value of the sale – the 'slab' basis – rather than the part of the price above the threshold – the 'slice' basis. The tax has been charged on the 'slab' basis for over forty years.[3]

In his speech Mr Osborne proposed that with immediate effect the tax would be assessed on a 'slice' basis, so that the rates of duty would apply only to the part of a property's selling price that fell within each value band:

> Stamp duty is charged at a single slab rate on the whole purchase price of a home. It means big jumps in tax when house values tip into a new band … If you buy a property worth £250,000, you pay £2,500 in tax. Buy a house worth just one pound more and you pay over £7,500, three times as much. And in recent years the burden of stamp duty has increased on low and middle income families trying to buy a new home, as prices have risen …
>
> So I am today abolishing the residential slab system altogether. In future each rate will only apply to the part of the property price that falls within that band – like income tax. Here are the new marginal rates. You will pay no tax on the first £125,000 paid. Then 2% on the portion up to £250,000. Then 5% up to £925,000. Then 10% up to £1.5 million. Then 12% on everything over that. As a result stamp duty will be cut for the 98% of homebuyers who pay it … The whole reform represents a tax cut of £800 million per year. Only homes that cost just over £937,000 will see their stamp duty bill go up under this system – gradually to start with, rising to more substantial sums for the most expensive homes. A £5 million pound house will see its stamp duty rise from £350,000 to £514,000 – but of course, this is a charge that is only paid once, when the property is bought.
>
> I can tell the House that these changes to stamp duty become effective from midnight tonight. Anyone who has exchanged contracts but not completed by midnight will be able to choose whether to pay under the old system or the new, so no one in the middle of moving house will lose out.
>
> The changes will apply in Scotland until the Scottish government's new regime comes into effect next April.[4]

The *Autumn Statement* sets out the new rates of duty, and illustrates the difference between the two rate schedules:[5]

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[3] The rates of duty over the last fifty years are shown in, HMRC *National Statistics: Rates of stamp duty*, September 2012. Statistics on stamp duty receipts are collated on Gov.uk.

[4] HM Treasury, *Chancellor George Osborne's Autumn Statement 2014 speech*, 3 December 2014

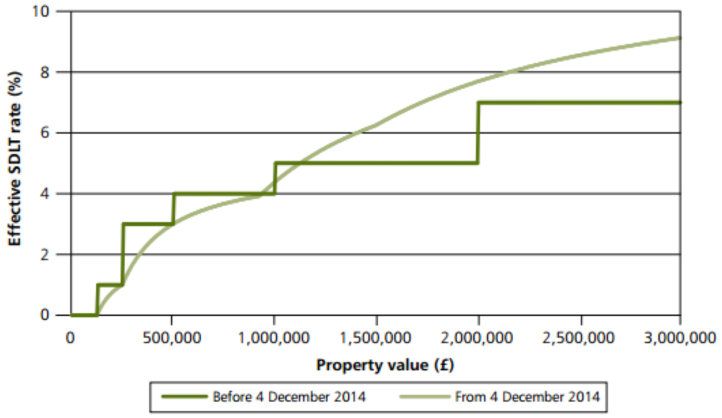
[5] *Autumn Statement*, Cm 8961, December 2014 p53. The report provides further details of the effective rates of tax, and amounts of tax to be paid, across a range of property values (see p54).

Table 1.8: SDLT rates from 4 December 2014

Property value (£)	Tax rate charged on part of property price within each tax band (%)
0–125,000	0
125,001–250,000	2
250,001–925,000	5
925,001–1,500,000	10
1,500,001+	12

Source: HM Treasury.

Chart 1.14: Effective SDLT rates before 4 December 2014 and from 4 December 2014



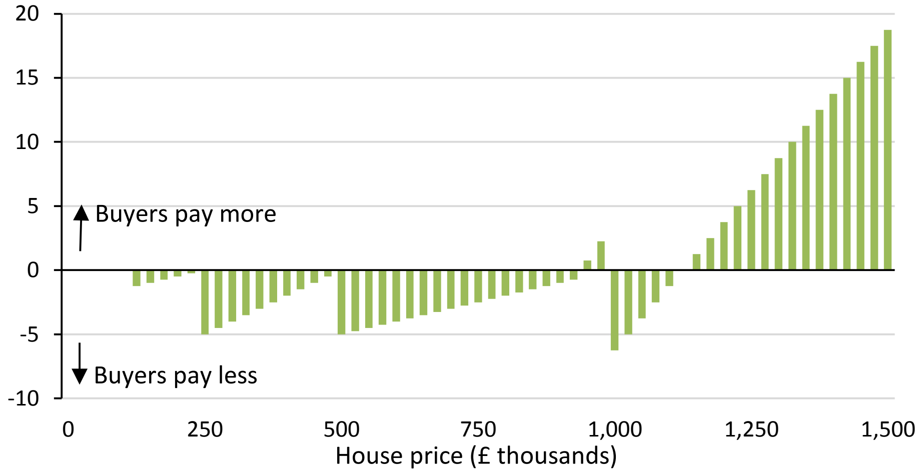
Source: HM Treasury calculations.

It is estimated that this reform will cost £395m in 2014/15, rising to £760m in 2015/16.[6]

The Treasury estimate that stamp duty will be cut for 98% of people who pay it. No one buying a home for less than £937,500 will pay more, with the majority paying less.[7]

Difference in Stamp Duty paid under new system compared with old

£ thousands



[6] *Autumn Statement*, Cm 8961, December 2014 p64 (Table 2.1 – item 4). Further details on this costing are given in, HM Treasury, *Autumn Statement policy costings*, December 2014 pp10-11

[7] HM Treasury. Stamp duty reforms on residential property, 3 December 2014

Further details on how these changes are to be effected are given in a tax information note published by HMRC:

> This measure will have effect on and after 4 December 2014. Where contracts have been exchanged but transactions have not completed on or before 3 December 2014, purchasers will have a choice of whether the old or new structure and rates apply. This measure will apply in Scotland until 1 April 2015, when SDLT is devolved.
>
> **Current law**
>
> The main SDLT legislation is in Part 4 *Finance Act 2003*. Section 55 provides for the amount of tax chargeable and sets out separate tables of rates for purchases of residential and non-residential (or mixed residential and non-residential) property. Section 56 and Schedule 5 *Finance Act 2003* provide for a separate SDLT charge on the net present value of the rent payable under a new lease.
>
> **Proposed revisions**
>
> A Bill will be introduced in December 2014 to amend section 55, to provide for a new method of calculating the amount of tax due in respect of transactions to which Table A (residential property) applies and to amend the tax rates and thresholds set out in Table A. The changes will have effect on and after 4 December 2014 by virtue of a resolution under the *Provisional Collection of Taxes Act 1968*. There will be no changes in respect of transactions to which Table B (non-residential and "mixed" property) applies, or to the Schedule 5 charge on the net present value of rent.[8]

The department has given some details as to why these changes are to be brought in with a separate Bill, rather than the forthcoming Finance Bill

> Why is the Government not consulting on this change?
>
> Fast implementation of these reforms was essential. The Government decided to introduce these reforms with immediate effect in order to prevent any distortion in the housing market that would have resulted from a consultation period. The legislation and Bill will receive full scrutiny in Parliament.
>
> Why a stand-alone Bill instead of the Finance Bill?
>
> A stand-alone Parliamentary Bill is necessary in order to bring in the change from the 4 December and avoid any distortion of the housing market that that would have resulted from an extended consultation period.[9]

HM Treasury has published a two page guide to these reforms, which explains how individuals who have already exchanged contracts but not completed their sale will be affected:

> The new rules start on 4 December 2014 – but if you've already exchanged on a property you'll have a choice about whether to use the old or new rules.
>
> **Completing your sale on and after 4 December 2014**
>
> If you exchange and complete (or in Scotland, settle) your home purchase on or after 4 December you will pay stamp duty under the new rules.

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8 HMRC, *Stamp duty land tax: reform of structure, rates and threshold*, December 2014

9 *Email correspondence with HM Treasury*, 2 December 2014

Completed your sale before the 4 December 2014

If you completed on the purchase of your property on or before 3 December 2014, but have not yet filed your stamp duty return, you still have to pay stamp duty under the old rules.

Exchanged on your contract before 4 December 2014

If you exchanged contracts (or in Scotland, concluded missives) before 4 December but complete on or after that date you'll be able to choose whether the old or new rules apply. In the majority of cases you'll pay less tax under the new rules.[10]

[10] HMT, *Stamp duty reforms on residential property*, 3 December 2014. HMRC provides an online calculator for those who wish to determine how much duty they are liable to pay, on transactions for both residential and non-residential property: http://www.hmrc.gov.uk/tools/sdlt/land-and-property.htm