MARCH 2017 BUDGET

THE MAIN TAX CHANGES

ROBINSON RUSHEN

CHARTERED TAX ADVISERS
CHARTERED ACCOUNTANTS

MARCH 2017 BUDGET

THE MAIN TAX CHANGES

1. Introduction

1.1 In his 2016 Autumn Statement, Philip Hammond announced a change to the tax timetable. After March 2017, there will be just one annual Autumn Budget covering tax and spending.

1.2 He started his March Budget speech by recalling that one of his predecessors had made a similar decision 24 years ago, and joked that Norman Lamont had been sacked shortly afterwards. He did not dwell on the fact that Mr Lamont was overtaken by the financial turmoil caused by Britain leaving the European Exchange Rate Mechanism, which might have suggested uncomfortable possible parallels. Rather, he declared that the economy is in a robust condition, a strong and stable platform for Brexit negotiations.

1.3 The Chancellor was keen to show that he listens. In response to a clamour for action on social care for the elderly, he allocated £2 billion over three years. In response to protests that the new system requiring small businesses to make quarterly online tax reports was being brought in too quickly, he delayed it by a year for those with turnover below £85,000. In addition and in response to complaints from many small businesses that the April 2017 rates revaluation would put up their costs sharply, he provided some transitional reliefs.

1.4 In keeping with Mr Hammond's low-key image, there were few announcements worthy of a headline but one in particular is likely to be debated keenly. In the 2015 Conservative manifesto, they said: 'we can commit to no increases in VAT, Income Tax or National Insurance'.

1.5 In his Budget speech, Mr Hammond explained that self employed people now enjoy the same state pension entitlements as employees, so the much lower National Insurance Contributions (NIC) they pay are an unfair advantage. The 1% increases to self employed Class 4 NIC to come in April 2018 and April 2019 do appear to go against the manifesto commitment.

1.6 Mr Hammond will no doubt respond that 85% of NIC payers are employees, the self employed have enjoyed a very significant advantage for a long time, the other category of self employed NIC (Class 2) is being abolished, and the self employed will still pay much less than employees. Even so, the measure sits unhappily in the same speech as an announcement that the Government will take steps to protect consumers from unfair small print in contracts.

1.7 The more significant tax announcements include:

1.7.1 Most tax rates and allowances confirmed as expected.

1.7.2 Important measures already announced taking effect from April 2017 include income tax allowances for trading and property income, restrictions on interest relief for buy-to-let, changes to foreign domiciled status, cut in corporation tax rate to 19%

1.7.3 Increase in ISA investment limit and introduction of the new 'Lifetime ISA' from April 2017

1.7.4 Some transitional help for small businesses suffering from increases under business rates revaluation

1.7.5 Delay on requirement for smaller businesses to make quarterly online reports to HMRC from April 2018 to April 2019, but 'Making Tax Digital' not otherwise delayed

1.7.6 Threshold for simplified 'cash basis' for income tax accounts raised to £150,000 for 2017/18 and extended to landlords as well as traders

1.7.7 Advantages of VAT Flat Rate Scheme likely to be removed for many traders covered by 'limited cost trader' rules from 1 April 2017

1.7.8 Increases in Class 4 National Insurance Contributions for self employed to come in April 2018 and April 2019

1.7.9 Decrease in nil rate band for dividend income from £5,000 to £2,000 in April 2018.

1.8 The following pages summarise the main announcements from the Chancellor's speech and the documents released on the internet afterwards.

2. Income Tax

2.1 Income Tax Rates And Allowances

2.1.1 As announced last year, the main tax-free personal allowance is increased to £11,500 (up from £11,000), and the basic rate applies to the next £33,500 of income (up from £32,000). This means that the threshold for 40% tax will be £45,000 for 2017/18 (except in Scotland).

2.1.2 The Chancellor also confirmed the Government's intention to raise the personal allowance to £12,500, and the 40% threshold to £50,000, by the end of this Parliament.

2.1.3 There were no other significant changes to rates and allowances, which are now extremely complicated (see section 2.11).

2.1.4 An individual's total tax liability on any given amount of income will vary considerably depending on the components of that income, for example, salary, profits, rent, interest, dividends. On a simple salary of £45,000, the income tax payable will be £500 less in 2017/18 than in 2016/17.

2.1.5 For the first time, the tax thresholds for Scottish taxpayers will be different from those who live in the rest of the UK. The personal allowance is £11,500 but the basic rate band is cut to £31,500, with the result that the higher rate threshold has been frozen at the 2016/17 level of £43,000. This potentially increases the tax liability of higher earners in Scotland by £400 (20% of £2,000) compared to residents elsewhere in the UK with the same income.

2.1.6 As previously announced, from 6 April 2017, new allowances of £1,000 each will apply to trading and property income. The allowances can be deducted instead of actual expenses, so if the total income is less than the allowance, it will not be taxed. It will simplify the system for both taxpayer and HMRC if small amounts of income can legally be ignored, rather than requiring a tax return for a trivial liability.

2.1.7 In 2017/18, a basic rate taxpayer will have separate tax-free allowances of £1,000 for rental income and self employed income, and nil rate bands of £1,000 for savings income (interest) and £5,000 for dividends, as well as the main personal allowance of £11,500, giving a potential total of £19,500 of tax free income.

2.1.8 The separate 'rent a room' allowance for renting part of the taxpayer's main residence can cover a further £7,500.

2.1.9 The dividend nil rate band, introduced for the first time for 2016/17 at £5,000, will be reduced to £2,000 from April 2018. The rates of tax that apply to dividends above this figure are 7.5%, 32.5% and 38.1%, so this represents a tax increase in 2018/19 of up to £225, £975 or £1,143, depending on the level of other income.

2.2 Non Domiciled Individuals

2.2.1 As previously announced, there are significant reforms of the tax treatment of foreign domiciled people from April 2017.

2.2.2 Those who have been resident in the UK for 15 of the previous 20 years will lose their foreign domiciled status and will be taxed in the same way as UK domiciled individuals and be subject to income tax and capital gains tax on their world wide income and gains whether remitted to the UK or not.

2.2.3 People born in the UK with a UK domicile, who have acquired a foreign domicile of choice, will be treated as UK domiciled again if they subsequently become UK resident.

2.2.4 In addition, UK residential property held by a foreign domiciled individual through offshore structures becomes chargeable to inheritance tax. However, a foreign domiciled person who sets up a foreign resident trust before becoming deemed UK domiciled can use that structure to shelter gains and income from UK tax.

2.3 Salary Sacrifice

2.3.1 Employees and employers have been able to gain a tax advantage from the different tax treatments of cash salary and benefits in kind. A ‘salary sacrifice’ scheme involves replacing cash salary with a benefit that is more advantageously taxed, resulting in a saving where such a benefit would otherwise have been purchased from after-tax cash pay. These tax and NIC advantages are to be withdrawn from 6 April 2017.

2.3.2 Arrangements involving pensions, childcare, Cycle to Work and ultra-low emission cars will retain their advantages.

2.3.3 Existing arrangements will be protected for a transitional period until the earlier of revision or renewal of the contract or 6 April 2018, and existing arrangements for cars, accommodation and school fees will be protected until April 2021.

2.4 Making Good

2.4.1 An employee who repays to their employer, or ‘makes good’, the cost of a benefit, avoids a tax charge. As previously announced, for benefits provided in tax year 2017/18, such making good will have to take place by 6 July in the following tax year (i.e. 6 July 2018) to cancel the tax charge.

2.5 ‘Off Payroll’ And Disguised Remuneration

2.5.1 HMRC has been concerned about individuals working through Personal Service Companies (PSCs) and similar arrangements for two decades and regard this as a way of avoiding PAYE and Class 1 NIC where ‘in reality’ (in HMRC’s view) the individual is acting as an employee.

2.5.2 Several different attempts have been made over the years to counter this, generally imposing a liability on the PSC to account for tax on its income as if it were received by an employee, with a 5% deduction to allow for expenses.

2.5.3 From 6 April 2017, where the individual behind the PSC works in the public sector, the responsibility for paying this tax will be transferred to the person making the payment to the PSC. The 5% deduction will not apply in these circumstances, but genuine employment expenses can be taken into account.

2.5.4 Further measures are also being introduced to counter disguised remuneration schemes used by self employed people, and employers will be discouraged from contributing to such schemes by being denied a deduction for the expense unless tax and NIC are paid within a specified period.

2.5.5 Some of these changes apply from April 2017, some from Royal Assent to the Finance Act 2017, while some are subject to consultation for later implementation.

2.6 Termination Payments

2.6.1 As announced last year, from April 2018 termination payments over £30,000, which are subject to income tax, will also be subject to employer’s NIC.

2.6.2 Payments in lieu of notice will also become subject to tax in all circumstances, rather than potentially qualifying for the £30,000 exemption.

2.6.3 The first £30,000 of a genuine termination payment will remain exempt from tax and NIC.

2.7 ISA Limits

2.7.1 From 6 April 2017, the ISA investment limit rises from £15,240 to £20,000 per year. The limit for Junior ISAs and Child Trust Funds increases from £4,080 to £4,128.

2.7.2 Also from April 2017, the new Lifetime ISA (LISA) is introduced. Taxpayers aged between 18 and 40 may open an account and invest up to £4,000 each year in an ISA, qualifying for a 25% Government bonus on amounts invested up to the age of 50.

2.7.3 This benefit is retained as long as the money is either put towards a first home costing up to £450,000, or kept in the account until reaching age 60 or being diagnosed with a terminal illness.

2.7.4 If the money is withdrawn in other circumstances, the bonus will be clawed back with an additional 5% charge. The £4,000 is part of the general ISA limit of £20,000, not additional to it.

2.7.5 An existing 'Help to Buy' ISA account can be transferred into a LISA during 2017/18 without affecting the limits.

2.8 Pension Contributions

2.8.1 The limit on contributions to tax-advantaged pension schemes remains £40,000 per year for those with income up to £150,000 (£110,000 if the pension contribution is paid in addition to salary by an employer). The limit is tapered away as income increases above £150,000 to £10,000 when income reaches £210,000.

2.8.2 The pension reforms introduced from April 2015 allow people over 55 to access their pension pots. Those who have done so and taken 'flexible income drawdown' – more than the tax-free 25% of the pot – are subject to a lower annual limit if they decide to make further pension contributions. This has been £10,000 for the first two years of the new system, but falls to £4,000 from 6 April 2017.

2.9 Venture Capital Schemes

2.9.1 The Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCTs) offer a range of tax advantages for investment in companies, but are subject to a bewildering range of conditions and rules. As announced in November 2016, the requirements are to be amended as follows:

- clarify the EIS and SEIS rules for share conversion rights, which convert shares from one class to another, will be excluded from being an arrangement for the disposal of those shares within the no pre-arranged exits requirements for the EIS and SEIS for shares issued on or after 5 December 2016
- provide additional flexibility for follow-on investments made by VCTs in companies with certain group structures, to align with EIS provisions, for investments made on or after 6 April 2017
- introduce a power to enable VCT regulations to be made in relation to certain share for share exchanges to provide greater certainty to VCTs, which will take effect on the date from which Finance Bill 2017 receives Royal Assent

2.9.2 A summary of responses to a consultation on options to streamline and prioritise the advance assurance service will be published after the Budget.

2.9.3 HMRC has also consulted on ways to streamline and prioritise the advance assurance service to help genuine investors know that they will qualify for the relief.

2.10 Life Insurance Policies

2.10.1 Single premium life insurance policies are generally charged to income tax when they are encashed at a profit, rather than capital gains tax.

2.10.2 A recent tax case highlighted an anomaly in the rules for partial surrenders, which could create a tax charge out of all proportion to the real underlying gain in the value of the whole policy.

2.10.3 From Royal Assent to the Finance Act 2017, it will be possible for people affected by these anomalies to apply for the gain to be recalculated on a just and reasonable basis.

2.11 Income Tax Allowances, Rates And Reliefs

2.11.1 **Income Tax Rates and Allowances (Table A)**

Main allowances	2017/18	2016/17
Personal Allowance (PA)*†	£11,500	£11,000
Blind Person's Allowance	2,320	2,290
Rent a room relief §	7,500	7,500
Trading income §	1,000	N/A
Property income §	1,000	N/A

*PA will be withdrawn at £1 for every £2 by which 'adjusted income' exceeds £100,000. There will therefore be no allowance given if adjusted income is £123,000 or more (2016/17: £122,000).

†10% of the PA (2017/18: £1,150; 2016/17: £1,100) can be transferred to a spouse or civil partner who is no more than a basic rate taxpayer, where both spouses were born after 5 April 1935.

§ If gross income exceeds it, the limit may be deducted instead of actual expenses.

Rate Bands	2017/18	2016/17
Basic rate band (BRB)	£33,500	£32,000
Higher rate band (HRB)	33,501-150,000	32,001-150,000
Additional rate	over 150,000	over 150,000
Scottish taxpayers		
– BRB	31,500	32,000
– HRB	31,501-150,000	32,001-150,000
Personal Savings Allowance (PSA)*		
– Basic rate taxpayer	1,000	1,000
– Higher rate taxpayer	500	500
Dividend Nil Rate Band (DNRB)†	5,000	5,000

BRB and additional rate threshold are increased by personal pension contributions (up to permitted limit) and Gift Aid donations.

Tax Rates		2017/18 and 2016/17	
Rates differ for General, Savings and Dividend income within each band:			
	G	**S**	**D**
Basic	20%	20%	7.5%
Higher	40%	40%	32.5%
Additional	45%	45%	38.1%

General income (salary, pensions, business profits, rent) usually uses personal allowance, basic rate and higher rate bands before savings income (interest). To the extent that savings income falls in the first £5,000 of the basic rate band, it is taxed at nil rather than 20%.

*The PSA will tax interest at nil, where it would otherwise be taxable at 20% or 40%.

†Dividends are normally taxed as the 'top slice' of income. The DNRB taxes the first £5,000 of dividend income at nil, rather than the rate that would otherwise apply.

2.11.2 High Income Child Benefit Charge (HICBC)

1% of child benefit for each £100 of adjusted net income between £50,000 and £60,000.

2.11.3 Remittance Basis Charge

Remittance basis charge	2017/18	2016/17
For non-UK domiciled individuals who have been UK resident in at least		
7 of the preceding 9 tax years	£30,000	£30,000
12 of the preceding 14 tax years	60,000	60,000
17 of the preceding 20 tax years	N/A	90,000

2.11.4 Registered Pensions (Table B)

	2017/18	2016/17
Lifetime allowance (LA)	£1m	£1m
Annual allowance (AA)*	40,000	40,000

Annual relievable pension inputs are the higher of earnings (capped at AA) or £3,600.

*The AA is usually reduced by £1 for every £2 by which relevant income exceeds £150,000, down to a minimum AA of £10,000. The AA can be reduced to £4,000, where certain pension drawings have been made.

2.11.5 **Car and Fuel Benefits (Table C)**

2.11.5.1 Cars

Taxable benefit: Chargeable value multiplied by chargeable percentage.

Chargeable value: Initial list price of car (including most accessories), reduced by any capital contribution (maximum £5,000) by employee when the car is first made available.

2.11.5.2 Chargeable percentage:

CO2 emissions (g/km)	Petrol	Diesel
0-50	9%	12%
51-75	13%	16%
76-94	17%	20%
Above 94	Add 1% for every 5g/km	
Above 189 (petrol)/ 174 (diesel)	37% maximum	

2.11.5.3 Car Fuel

Where employer provides fuel for private motoring in an employer-owned car, CO2-based percentage from above table multiplied by £22,600 (2016/17 £22,200).

Employee contributions for fuel do not reduce taxable figure unless all private fuel is paid for by the employee (in which case there is no benefit charge).

3. Capital Taxes

3.1 Capital Gains Tax (CGT)

3.1.1 The annual exempt amount rises for 2017/18 from £11,100 to £11,300.

3.1.2 The rates of tax are unchanged at 10% (total income and gains within the taxpayer's basic rate limit) or 20% (gains above the basic rate limit) on assets in general, but 18% or 28% on residential property that is not eligible for the main residence exemption.

3.1.3 Most trusts enjoy half the annual exempt amount (£5,650) and pay tax at 20% or 28% on chargeable gains.

3.1.4 No other changes were announced to CGT.

3.2 Inheritance Tax (IHT)

3.2.1 Rates of tax remain unchanged at 40% on death transfers and 20% on lifetime chargeable transfers.

3.2.2 As previously announced, the nil rate band remains frozen at £325,000 until the end of 2020/21.

3.2.3 The 'residential enhancement', announced in the Summer 2015 Budget, begins to take effect for death transfers from 6 April 2017. This will apply an additional nil rate band, initially £100,000 and rising to £175,000 by 2020/21, where a taxpayer's main residence is left to direct descendants.

3.2.4 A married couple will potentially then be able to leave £1 million free of IHT to their descendants (£325,000 plus £175,000 from each parent), but the rules are complicated and their operation is untested.

4. Business Tax

4.1 Corporation Tax Rates

4.1.1 The Chancellor confirmed the corporation tax rates previously announced: 19% for three years from 1 April 2017, then 17% from 1 April 2020.

4.1.2 Companies with profits over £1.5 million pay corporation tax in quarterly instalments. Those with profits over £20 million will see the timing of those instalments accelerated by four months for periods beginning on/after 1 April 2019 and not 2017 as previously proposed.

4.2 Business Rates

4.2.1 The Chancellor responded to widespread protests that the business rates revaluation exercise coming into effect in April 2017 will lead to very significant increases for many small businesses and indicated that the overall effect of the revaluation is revenue neutral, and there are 'more winners than losers'.

4.2.2 The Chancellor announced that money will be made available to relieve the pain for many of those who would suffer sharp increases. Three measures were announced:

- For small businesses losing Small Business Rate Relief, limiting increases in their bills to the greater of £600 per year or a set 'real terms transitional relief cap'.
- Providing English local authorities with funding to support £300 million of discretionary relief, to allow them to provide support to individual hardship cases in their local area.
- Introducing a £1,000 business rate discount for pubs with a rateable value of up to £100,000, subject to State aid limits for businesses with multiple properties, for one year from 1 April 2017.

4.2.3 The system of revaluations will be considered in more detail before the next exercise that is due to take place in 2022.

4.3 Cash Basis

4.3.1 Smaller income tax traders are permitted to use a simplified 'cash basis' to compute their taxable profits, rather than 'accruals accounting'. This has been based on the VAT registration threshold (£83,000 during 2016/17), but for 2017/18 entry to the scheme will be allowed for income tax businesses with turnover up to £150,000 (£300,000 for Universal Credit claimants). The exit threshold will be increased to £300,000.

4.3.2 Finance Act 2017 will also legislate for a simple list of disallowed expenditure for traders using the cash basis and to clarify the rules for moving between the cash basis and accruals accounting. For 2017/18, traders will be able to compute their profits using either the old or the new rules.

4.4 Reform Of Loss Reliefs

4.4.1 From April 2017, there will be significant changes to the corporate tax reliefs for interest payments and for losses brought forward.

4.4.2 As announced in the 2016 Budget, and following consultation, the government will introduce legislation with effect from 1 April 2017 to limit the tax deductions that companies can claim for their interest expenses.

4.4.3 The new rules will restrict each group's net deductions for interest to 30% of the earnings before interest, tax, depreciation and amortisation (EBITDA) that is taxable in the UK. An optional group ratio rule, based on the net-interest to EBITDA ratio for the worldwide group, may permit a greater amount to be deducted in some cases.

4.4.4 The legislation also provides for repeal of the existing debt cap legislation and its replacement by a modified debt cap which will ensure that the net UK interest deduction does not exceed the total net interest expense of the worldwide group.

4.4.5 All groups will be able to deduct up to £2 million of net interest expense per annum, so groups below this threshold will not need to apply the rules.

4.4.6 Draft legislation was published on 5 December 2016 and 26 January 2017 and, in the light of comments received, changes to the proposed rules will be reflected in the 2017 Finance Bill to ensure the rules do not give rise to unintended consequences or impose unnecessary compliance burdens. In particular:

(a) certain unintended restrictions arising from the modified debt cap that could prevent deductions for carried forward interest expense will be removed,

(b) the optional alternative rules for public infrastructure will be easier to apply in practice and there will be no need to compare the level of indebtedness of companies qualifying for these rules with that of non-qualifying group companies, such as those outside the UK, and transitional rules will apply in the first year so that business have time to restructure if necessary to qualify for the alternative rules,

(c) the rules treat interest on debt guaranteed by related parties as related party interest, which can be subject to restriction but this rule will not apply to certain performance guarantees and all guarantees granted before 31 March 2017, nor will it apply to intra-group guarantees in the context of the group ratio rule,

(d) the definition of interest will include income and expenses from dealing in financial instruments as part of a banking trade, and

(e) rules will be introduced for insurers regarding the calculation of interest on an amortised cost basis to provide a practical alternative to fair value accounting.

4.4.7 From April 2017, companies and groups with profits over £5 million will suffer a restriction on the amount of profits that can be offset by brought forward losses. Only 50% of current profits will be eligible for relief. On the other hand, all companies and groups will enjoy greater flexibility in offsetting losses brought forward arising from 1 April 2017. These will be useable against profits from different types of income and profits of other group companies.

4.5 Substantial Shareholding Exemption

4.5.1 From 1 April 2017, the exemption from corporation tax for certain disposals of at least 10% shareholdings in other companies will be simplified, removing the requirement that the investing company carries on a trade and providing a more comprehensive exemption for companies owned by qualifying institutional investors.

4.6 Appropriations To Trading Stock

4.6.1 Companies with capital assets standing at a loss have been able to convert that unrealised capital loss into a trading loss , eligible for more flexible tax relief, by transferring the asset to trading stock and making a tax election.

4.6.2 From 8 March 2017, this election will only be available where the result is a trading profit. An asset standing at a loss must be appropriated at market value, creating a capital loss for tax purposes.

4.7 Hybrids And Other Mismatches

4.7.1 As announced in the 2016 Autumn Statement, the government will legislate in the 2017 Finance Bill to make two minor changes to the hybrid mismatch regime. These changes follow discussions with stakeholders and were announced in a technical note in the Autumn Statement.

4.7.2 The first change removes the need to make formal claim in relation to the permitted time period rules in chapter 3 and 4 of Part 6A Taxation (International and Other Provisions) Act 2010 (TIOPA 2010).

4.7.3 The second change provides that deductions for amortisation are not treated as relevant deductions for the purposes of chapter 5 to 8 of Part 6A.

4.7.4 The hybrid rules are aimed at tackling aggressive tax planning, typically involving multinational groups, where either one party gets a tax deduction for a payment while the other party is exempt from tax on the receipt, or where there is more than one deduction for the same expense.

4.7.5 The changes became effective on 1 January 2017.

4.8 Patent Box Cost Sharing Arrangements

4.8.1 As announced in the 2016 Autumn Statement, the government will legislate in the 2017 Finance Bill to add specific provisions to the revised Patent Box rules, introduced by the 2016 Finance Act, covering the case where Research and Development (R&D) is undertaken collaboratively by two or more companies under a cost sharing arrangement.

4.8.2 The provisions will ensure that companies are neither penalised nor able to gain an advantage under these rules by organising their R&D in this way.

4.8.3 Following consultation, the legislation will be revised to narrow the definition of a cost-sharing arrangement and to better align the treatment of payments into, and payments received from, a cost-sharing arrangement by the company.

4.8.4 These changes will take effect on or after 1 April 2017.

4.9 Plant And Machinery Leasing

4.9.1 The government is to consult in the summer on the legislative changes required following the announcement of the International Accounting Board's new leasing standard IFRS16, which comes into effect on 1 January 2019.

4.9.2 The tax treatment of a lease, in some important respects, is determined by its treatment in the accounts. Following the discussion document published last summer, the government intends to maintain the current system of lease taxation by making legislative changes which enable the rules to continue to work as intended.

4.10 R & D Tax Review

4.10.1 The government is to make administrative changes to research and development (R&D) tax credits following a review of the tax environment for R&D. This will increase the certainty and simplicity around claims, and will take action to improve awareness of R&D tax credits among SMEs.

4.11 Withholding Tax Exemption For Debt Traded On A Multilateral Trading Facilit

4.11.1 The government is to introduce an exemption from withholding tax for interest on debt traded on a multilateral trading facility, removing a barrier to the development of UK debt markets, and will consult on implementation.

4.11.2 A consultation document will be published on 20 March 2017.

5. Property Taxation

5.1 Buy To Let

5.1.1 Changes to the income taxation of let property, announced in 2015, start to be phased in from April 2017. Tax relief for interest paid will be restricted to the basic rate rather than the taxpayer's marginal income tax rate, with potentially substantial disadvantages for landlords who have borrowed to buy their properties.

5.1.2 For 2017/18, 25% of the interest will be relieved at basic rate with the remaining 75% deductible from income as in the past and relieved at the marginal rate. By 2020/21, all the interest will be restricted to basic rate relief only.

5.2 Offshore Property Developers

5.2.1 Finance Act 2016 made changes to charge UK income tax or corporation tax on all profits from developments of land in the UK, regardless of the residence status of the developer. The change took effect from 5 July 2016, but with a transitional exemption for transactions where a contract for disposal was entered into before that date.

5.2.2 The Government has now realised that some development contracts are signed at a very early stage in the project, and has made an amendment to ensure that the transitional protection does not apply more widely than intended. All profits from dealing in or developing land in the UK which are recognised in the developer's accounts on or after 8 March 2017, will be subject to UK tax. This will be the case even if the contract for disposal was entered into prior to 5 July 2016.

5.3 Cash Basis

5.3.1 A simplified ‘cash basis’ has been available to income tax traders for several years. For 2017/18 a variant of this will be extended to landlords subject to corporation tax as well. Entry to the cash basis will be permitted with turnover up to £150,000, which will also be the exit threshold.

6. Stamp Duty Land Tax

6.1.1 The Government consulted during 2016 on a proposal to reduce the filing and payment deadline for Stamp Duty Land Tax (SDLT) from 30 days after a transaction to 14 days. It has been decided to delay this until after April 2018.

6.1.2 No other announcements were made about SDLT.

7. National Insurance Contributions (NICs)

7.1 Rates And Thresholds

7.1.1 From 6 April 2017, the National Insurance Contributions (NIC) thresholds for employers and employees are to be made consistent at £157 per week (from £155 for employees, £156 for employers). Failing to increase the employers’ threshold by the usual amount will increase the amount payable, but unifying the amounts should simplify administration.

7.1.2 The Upper Earnings Limit will also increase to £45,000 in line with the threshold for 40% income tax. This means that a further £2,000 of salary will be subject to 12% employee’s NIC rather than 2%, and a further £2,000 of self employed profits will be subject to 9% Class 4 NIC rather than 2%. These increases (£200 and £140) offset the reduction in income tax from raising the threshold.

7.1.3 Class 2 NIC is to be abolished from April 2018. A self employed person’s entitlement to State pension will in future depend on payment of Class 4 (profit based) or Class 3 (voluntary).

7.1.4 The Chancellor noted that the new pension rules provide the same benefits to self employed people and employees. In his view, this makes unfair the much higher NIC charges on employees (where employee and employer both pay, at main rates of 12% and 13.8%) compared to those paid by self employed people (where Class 4 is charged at a main rate of 9%).

7.1.5 For this reason, the main rate of Class 4, which applies between the lower threshold and the upper earnings limit, will increase from 9% to 10% in April 2018 and to 11% in April 2019. This will lead to an increase of about £370 in each year for someone earning above the upper earnings limit, but the NIC charge will still be much lower than for employees.

7.1.6 From April 2018, the Government will remove NIC from the effects of the Limitation Act 1980. This will align the time limits and recovery process for enforcing NIC debts with other taxes, and appears to be related to measures to collect tax on loans made in the past to beneficiaries of employee benefit trusts.

7.1.7 National Insurance Contributions (Table D)

Class 1 (Employees)	**Employee**	**Employer**
Main NIC rate	12.0%	13.8%
No NIC on first	£157pw	£157pw
Main rate* charged up to	£866pw	no limit
2% rate on earnings above	£866pw	N/A
Employment allowance per business	N/A	£3,000

*Nil rate of employer NIC for employees under the age of 21 and apprentices under 25, up to £866pw.

Employer contributions (at 13.8%) are also due on most taxable benefits (Class 1A) and on tax paid on an employee's behalf under a PAYE settlement agreement (Class 1B).

Class 2 (Self-employed)

Flat rate per week	£2.85
Small profits threshold	£6,025
Class 3 (Voluntary)	
Flat rate per week	£14.25

Class 3A

Contributions vary with age

Class 4 (Self-employed)

On profits £8,164 – £45,000	9.0%
On profits over £45,000	2.0%

8. Value Added Tax (VAT)

8.1 Registration And Deregistration Thresholds And Rates

8.1.1 A business has to consider the level of taxable supplies it has made in the last 12 months at the end of each month, and must register for VAT if it has exceeded the registration threshold. It must also register at any time if it has reason to believe that the threshold will be exceeded in the next 30 days on their own. The threshold rises from £83,000 to £85,000 on 1 April 2017.

8.1.2 A business may deregister if it can satisfy HMRC that taxable supplies in the next 12 months will not exceed a lower ‘deregistration threshold’. This also rises from £81,000 to £83,000 on 1 April 2017.

8.2 Flat Rate Scheme

8.2.1 Small businesses with turnover up to £150,000 can register for the VAT Flat Rate Scheme (FRS). This is a simplification as they claim no input tax on their expenses, but keep some of the output tax they charge to customers in order to compensate for this. The amount they keep depends on the type of business.

8.2.2 HMRC has identified ‘aggressive abuse’ of the scheme by employment intermediaries setting up multiple small companies, and has decided this has to be closed down. Unfortunately, this will also negate the benefit of the scheme for many genuine businesses.

8.2.3 From 1 April 2017, a new flat rate of 16.5% applies to ‘limited cost traders’. These are businesses that spend less than 2% of their turnover, or less than £1,000 per year, on goods (excluding capital goods, food for own or employees’ consumption, and vehicles and fuel unless a transport business).

8.2.4 As the output tax collected from customers cannot exceed 16.67% of gross taxable receipts, the benefit of the FRS for a limited cost trader – accounting for 16.5% rather than claiming input tax – will be very small at best, and most such traders will find the benefit has become a cost.

8.2.5 HMRC has promised to write to every FRS-registered trader to outline the changes. It is essential for all those businesses to understand the impact of these changes as those who fall within the definition of a limited cost trader will almost certainly be better off returning to the normal VAT system with effect from 1 April.

9. Tax Administration

9.1 Making Tax Digital

9.1.1 ‘Making Tax Digital’ (MTD) is a planned reform of the administration of tax that will replace the annual tax return system with online quarterly reporting. This will have a huge impact on taxpayers and on HMRC. According to the original Government plan, it was to apply to nearly all individual landlords and self employed people from 6 April 2018.

9.1.2 The Chancellor has responded to a great many objections that it would not be possible to introduce such a major change in such a short time and with so little testing. Only those self employed businesses and landlords with turnover greater than the VAT registration threshold (£85,000 for 2017/18) will be required to make quarterly online reports for income tax purposes from April 2018.

9.1.3 The new plan is for all those with turnover above £10,000 to be brought within MTD for income tax for 2019/20, and also for MTD to apply to VAT reporting by VAT-registered traders at the same time. Corporation tax is to be brought into the system from April 2020.

9.2 Tax Avoidance And Evasion

9.2.1 As announced in the 2016 Autumn Statement, the government will introduce a new penalty on those individuals or entities who enable the use of tax avoidance arrangements which HMRC later defeats (‘enablers’). This new regime reflects an extensive consultation and input from stakeholders. The legislation will also provide clarification as to what constitutes ‘reasonable care’ in relation to the application of the penalties charged on taxpayers following the defeat of tax avoidance.

9.2.2 Following consultation, the enablers legislation has been revised to provide further detail of when and how the General Anti Abuse Rule (GAAR) Advisory Panel will consider enabler cases.

9.2.3 Further changes have been made to apply the enablers regime to arrangements that seek to avoid NICs, to make consequential changes to the Promoters of Tax Avoidance Scheme legislation and to provide further detail regarding when enablers will be named. Minor amendments have also been made to further improve the clarity and targeting of both the legislation for enablers and reasonable care.

9.2.4 The changes relating to reasonable care come into effect at Royal Assent and apply to inaccuracies in documents relating to tax periods which begin on or after 6 April 2017. The penalty for enablers will apply prospectively to enabling activity after Royal Assent.

9.2.5 As also announced in last year’s Budget, legislation will be introduced in the 2017 Finance Bill for a new legal requirement for those who have failed to declare UK tax on offshore interests to correct that situation, with tougher sanctions for those who fail to do so before 1 October 2018.

9.2.6 This new ‘requirement to correct’ is expected to come into force when the Finance Bill 2017 receives Royal Assent and will apply to all taxpayers with offshore interests who have not complied with their UK tax obligations as at 5 April 2017.

9.2.7 Following consultation a response document was published on 5 December 2016. The draft legislation will be revised to ensure the reasonable excuse provision does not apply where advice is received from an adviser who is not independent. This reflects the government’s response on this point in the document published on 5 December 2016.

9.2.8 The government is to legislate in the 2017 Finance Bill to ensure that promoters of tax avoidance schemes cannot circumvent the Promoters of Tax Avoidance Schemes (POTAS) regime by re-organising their business by either sharing control of a promoting business or putting a person or persons between themselves and the promoting business. This will ensure HMRC can apply the POTAS regime as intended and the rules will apply from 8 March 2017.

9.2.9 As announced in the 2016 Autumn Statement, legislation will be introduced in the 2017 Finance Bill to strengthen the regime for the Disclosure of Indirect Tax Avoidance.

9.2.10 Provision will be made to make scheme promoters primarily responsible for disclosing schemes to HMRC and the scope of the legislation will be extended to include all indirect taxes, including the Soft Drinks Industry Levy.

9.2.11 Details of the tests to apply to arrangements to determine if they should be disclosed to HMRC will be contained in regulations. These measures will come into effect on 1 September 2017.

9.3 Hidden Economy

9.3.1 Following consultation and an announcement in the 2016 Autumn Statement, the Government is to further develop proposals on ‘conditionality’ – making access to licences or services (such as water or power) for businesses conditional on those businesses being registered for tax, which it considers as a good way to tackle the hidden economy.

9.3.2 The Government recognises that conditionality must also minimise burdens for compliant businesses and providers of the relevant licences or services.

9.3.3 Further proposals include stronger ‘failure to notify liability’ penalties and increased monitoring of taxpayers found to be operating in the hidden economy to keep them compliant. An implementation date for these proposals has not been given.

Note

This summary has been prepared from the Chancellor’s speech and documents made available by HMRC. The proposals are subject to amendment before the Finance Act is passed. You are recommended to seek professional advice before taking or refraining from any action on the basis of the contents of this publication. If you would like further details on the Budget provisions, please contact Keith Rushen on 0044 (0)207 486 2378.

ROBINSON RUSHEN
9 March 2017