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Welcome...

Welcome to the Spring Budget 2017 edition of Tax Tips & News.

In this analysis we have mainly concentrated on the tax measures that will directly affect individuals, employers and small businesses.

We are committed to ensuring all our clients don't pay a penny more in tax than is necessary.

Please contact us for advice in your own specific circumstances.

We're here to help!

Spring Budget 2017

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Summary

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Chancellor Philip Hammond has delivered his first, and seemingly last, Spring Budget Statement. At the 2016 Autumn Statement, the Chancellor announced that, following the spring 2017 Budget, the government would be moving to a single major fiscal event each year. Future Budgets will be delivered in the autumn, which means there will now be a second Budget before the end of 2017 to switch to the new timetable. The aim of the new system is for the Finance Bill, which is normally published after the annual Budget, to reach Royal Assent stage in the spring of each year, before the start of the following tax year. The change in timetable is designed to help Parliament to scrutinise tax changes before the tax year where most take effect.

In line with pre-Budget speculation, the Chancellor said that, as the government starts its negotiations to exit the European Union, this Budget would take forward its plan to prepare Britain for a brighter future, providing a strong and stable platform for those negotiations.

The Office for Budget Responsibility (OBR) has reported that last year, the British economy grew faster than the United States, Japan, and France. Unemployment in the UK is at an 11 year low with over 2.7 million more people in work than in 2010. The Chancellor was also pleased to report on International Women's Day, that there is now a higher proportion of women in work than ever before. But, Mr Hammond said, there is 'no room for complacency' and 'we must focus relentlessly on keeping Britain at the cutting edge of the global economy'. Whilst the deficit is down, debt is still reportedly too high. This Budget therefore focused on taking 'the next steps in preparing Britain for a global future'.

There was much focus on measures designed to promote fairness within the tax system, ensuring that 'those with the broadest shoulders bear the heaviest burden'. The Chancellor said that as a result of the changes made since 2010, the top 1% of income tax payers now pay 27% of all income tax. However, he went on to say that 'a fair system will also ensure fairness between individuals, so that people doing similar work for similar wages and enjoying similar state benefits pay similar levels of tax'. This led on to proposed changes concerning the dividend allowance (to be reduced from its current level of £5,000 a year to £2,000 a year from April 2018); and increases in the rate of Class 4 National Insurance Contributions (a proposed increase of 1% to 10% from April 2018 and a further increase of 1% in April 2019).

The Chancellor said that whilst the government believes that people should have choices about how they work, those choices should not be driven primarily by differences in tax treatment. That said, he confirmed that Matthew Taylor, Chief Executive of the RSA, has been asked to consider the wider implications of different employment practices, with a final report expected this Summer. This may indicate that there will be further announcements in this area later this year.

Regarding tax, highlights from this Spring Budget Statement, most of which were originally announced in the 2016 Autumn Statement or earlier, include:

- confirmation that the main rate of corporation tax will be 19% for the 2017 financial year, reducing to 17% in 2020;
- confirmation that the tax-free personal allowance will be £11,500 in 2017/18 and that it will rise to £12,500 before the end of the current Parliament;
- from September 2017, free childcare for three and four year olds will increase from 15 to 30 hours, worth up to £5,000 for each child;
- the rollout of tax-free childcare will be completed by the end of the year;
- as promised, the R&D tax credit regime has been reviewed and the government has concluded that it is globally competitive;
- for businesses with turnover below the VAT registration threshold, the introduction of quarterly reporting will be delayed by one year; and
- from 1 April 2017 the VAT registration threshold will rise to £85,000 and the deregistration threshold will be £83,000.

This newsletter provides a summary of the key tax points from the 2017 Spring Budget based on the documents released on 8 March 2017. It also provides a reminder of some of the main points announced at the 2016 Autumn Statement, which will be legislated for in Finance Bill 2017. We will keep you informed of any significant developments.

Individuals

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Personal allowance and income tax threshold

The personal allowance for 2017/18 is set at £11,500 (£11,000 in 2016-17), and the basic rate limit will be increased to £33,500 (£32,000 in 2016-17). The additional rate threshold will remain at £150,000 in 2017/18. The government intends to increase the allowance to £12,500 by the end of Parliament.

The marriage allowance will rise from £1,100 in 2016/17 to £1,150 in 2017/18.

Blind person's allowance will rise from £2,290 in 2016/17 to £2,320 in 2017/18.

Dividend allowance reduction

The tax-free allowance for dividend income is to be reduced from £5,000 to £2,000 from April 2018. The government states that this change is designed to reduce the tax differential between the employed and self-employed on one hand and those working through a company on the other, and raise revenue to invest in public services.

Dates for 'making good' on benefits-in-kind

Finance Bill 2017 will include provisions, effective from April 2017, to ensure an employee who wants to 'make good', on a non-payrolled benefit in kind will have to make the payment to their employer by 6 July in the following tax year. 'Making good' is where the employee makes a payment in return for the benefit-in-kind they receive. This reduces its taxable value.

Assets made available without transfer of ownership

Existing legislation is to be clarified, with effect from 6 April 2017, to ensure that employees will only be taxed on business assets for the period that the asset is made available for their private use. This will take effect from 6 April 2017.

Currently if an asset is made available for private use, the cash equivalent is set at 20% of the market value when the asset was first provided plus the amount of any additional expenses. This rule will remain. However, new supplementary rules will allow the cash equivalent to be reduced for days when the asset is not available for private use. There will also be provisions to allow a reduction in the level of the taxable benefit when the asset is made available to more than one employee for their private use in the same tax year.

This measure will also allow for the reduction in the level of the taxable benefit if the asset is first made available part way through the year or permanently ceases to be available part way through the year.

These rules will apply only to assets which do not currently have specific charging provisions elsewhere in the legislation.

Treatment of termination payments

The rules for tax and secondary NICs are to be aligned by making an employer liable to pay NICs on termination payments they make to their employees. The following changes will take effect from 6 April 2018:

An employer will be required to pay NICs on any part of a termination payment that exceeds the £30,000 threshold. It is anticipated that this will be collected in 'real-time', as part of the employer's standard weekly or monthly payroll returns and remittances to HMRC.

In addition, the scope of the exemption for termination payments is to be clarified. Broadly, all payments in lieu of notice (PILONs) will be both taxable and subject to Class 1 NICs. The legislation requires the employer to identify the amount of basic pay that the employee would have received if they had worked their notice period, even if the employee leaves the employment part way through their notice period. The amount will be treated as earnings and will not be subject to the £30,000 income tax exemption. All other termination payments will be included within the scope of the £30,000 termination payments exemption.

Following consultation on the draft legislation, the government has now confirmed that Foreign Service Relief will be abolished from April 2018.

Changes to bands for ultra-low emission vehicles in company car tax

To provide stronger incentives for the purchase of ultra-low emissions vehicles (ULEVs), new, lower bands will be introduced for the lowest emitting cars. The appropriate percentage for cars emitting greater than 90g CO2/km will rise by 1 percentage point. The changes, which will take effect from 6 April 2020 are as follows:

- The graduated table of company car tax bands will include a differential for cars with emissions of 1 to 50 gCO2 per km based on the electric range of the car;
- For cars with an electric range of 130 miles or more, the appropriate percentage will be 2%; for cars with an electric range of between 70 to 129 miles, the appropriate percentage will be 5%; for 40 to 69

miles, the appropriate percentage will be 8%; for 30 to 39 miles, the appropriate percentage will be 12%, and for less than 30 miles, the appropriate percentage will be 14%;
- For cars that can only be driven in zero-emission mode, the appropriate percentage will be 2%.
- For all other bands with CO2 emissions of 51 gCO2 per km and above, the appropriate percentage will be based on the CO2 emissions only. For cars with emissions of 51 to 54 gCO2 per km the appropriate percentage will be 15%. For cars with emissions above 54 gCO2 per km, the bands will be graduated by 5g CO2 per km and the appropriate percentage will increase by 1% for each 5 gCO2 per km band, up to a maximum of 37%. For cars with emissions above 90 gCO2/km, the appropriate percentage will increase by 1% in comparison to 2019/20 levels.

Van benefit charge and the car and van fuel benefit charges

The following changes to company car and van benefits take affect from 6 April 2017:

- the car fuel benefit charge increases from £22,200 in 2016/17 to £22,600;
- the van benefit charge increases to £3,230 (from £3,170 in 2016/17); and
- the van fuel benefit charge increases from £598 in 2016/17 to £610.

For vans that do not emit CO2 when driven, the cash equivalent is calculated based on the tapered appropriate percentage rate, which is 20% for 2017/2018.

Deduction of income tax from savings income

The obligation on banks and building societies to deduct tax at source from payments of interest on accounts was generally removed from 6 April 2016. The provisions have now been extended so that, from 6 April 2017, the deduction of tax at source will also end for interest distributions from open-ended investment companies (OEICs), authorised unit trusts (AUTs) and investment trust companies (ITCs), and for interest on peer-to-peer lending.

NS&I Investment Bond

National Savings and Investments (NS&I), the government-backed investment organisation, will offer a new three-year Investment Bond with an indicative rate of 2.2% from April 2017. The bond will offer the flexibility for investors to save between £100 and £3,000 and will be available to those aged 16 or over.

Limitation of salary sacrifice

The tax and employer National Insurance advantages of salary sacrifice schemes will be removed from April 2017, except for arrangements relating to pensions (including advice), childcare, cycle to work and ultra-low emission cars. This will mean that employees swapping salary for benefits will pay the same tax as the vast majority of individuals who buy them out of their post-tax income. The measure will fix the taxable value of those benefits-in-kind (BiK) provided through salary sacrifice at the higher of the amount of cash forgone or the amount calculated under the existing BiK rules.

The changes will have effect for all contracts for BiKs involving salary sacrifice arrangements entered into on or after 6 April 2017.

A transitional rule will protect employees who are in contractual arrangements before 6 April 2017 until the earlier of a variation or renewal of the contract or 6 April 2018, except for cars with emissions above 75g CO2 per kilometre, accommodation and school fees for which the final date is 6 April 2021. Employer-provided pensions and pension advice, childcare vouchers, employer-provided childcare and workplace nurseries, cycle to work schemes and ultra-low emissions cars, with emissions not exceeding 75g CO2 per kilometre will be excluded from this measure.

Individual Savings Accounts

As previously announced, the annual subscription limit for Individual Savings Accounts (ISAs) will rise to £20,000 for 2017/18 (from £15,240 in 2016/17). The limit for Junior ISAs and Child Trust Funds will also rise to £4,128 from 6 April 2017 (from £4,080 in 2016/17).

Other minor amendments will also be made to the regulations governing the way in which ISAs operate, for example to take account of changes to other legislation referred to in the ISA regulations concerning the regulation of certain financial institutions, child protection and terminal illness.

Lifetime ISAs

As announced at Budget 2016, the new Lifetime ISA will be launched from 6 April 2017 and will be available to most UK-resident adults under the age of 40. Account holders will be able to save up to £4,000 each tax year in their Lifetime ISA until they reach 50, and amounts they pay into their account will be eligible for a 25% government bonus. Account holders may withdraw their savings at any time, but from 6 April 2018, any withdrawals made other than in specified circumstances (such as when the account holder reaches 60, is withdrawing their savings for a first-time residential purchase, or is terminally ill) will be subject to a 25% charge.

Any amount held by a saver in a Help-to-Buy ISA on 5 April 2017 can be transferred to a Lifetime ISA during 2017/18, without this counting towards the £4,000 Lifetime ISA limit. Any type of investments which would currently qualify to be held in a cash ISA or a stocks and shares ISA can be held in a Lifetime ISA.

Child Trust Funds: 'lifestyling' of accounts, annual subscription limits and other updates

A number of changes are being made to the rules governing child trust funds (CTFs), which will take effect from 6 April 2017. The changes are:

- an increase in the annual investment limit to CTFs from £4,080 to £4,128;
- the requirement on account holders to apply a lifestyling investment strategy for stakeholder STFs will be removed; and
- other minor changes and updates to the CTF rules, such as in relation to the information that account providers are required to supply on the transfer of an account.

Employer-provided accommodation

A consultation will be launched shortly covering proposals to bring the tax treatment of employer-provided living accommodation and board and lodgings up to date. This will include proposals for when accommodation should be exempt from tax and support taxpayers during any transition.

Streamlining the tax-advantaged venture capital schemes

As announced at Autumn Statement 2016, the government will amend the requirements of the Enterprise Investment Scheme (EIS), the Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCTs). These amendments:

- clarify the EIS and SEIS rules for share conversion rights - the rights to 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; and

- 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 from the date of Royal Assent to Finance Bill 2017.

Employer-arranged pensions advice exemption

A new income tax exemption is to be introduced with effect from 6 April 2017, to cover the first £500 worth of pensions advice provided to an employee in a tax year. It will allow advice not only on pensions, but also on the general financial and tax issues relating to pensions. The changes replace existing provisions which limited the exemption solely to pensions advice and were capped at £150 per employee per tax year.

Deemed domicile rule

From April 2017, non-domiciled individuals will be deemed UK-domiciled for income tax, capital gains tax, and inheritance tax purposes if they have been UK resident for 15 of the past 20 years, or if they were born in the UK with a UK domicile of origin and return to the UK having obtained a domicile of choice elsewhere. This means that anyone deemed UK domiciled by virtue of either condition will not be able to access the remittance basis.

Non-doms who set up a non-UK resident trust before becoming deemed domiciled in the UK will not be taxed on any income and gains retained in that trust.

As previously announced at Summer Budget 2015 and following further consultation on draft legislation published in December 2016 on charging inheritance tax on UK residential property, the limit below which minor interests in UK property are disregarded has been increased from 1% to 5% of an individual's total property interests.

From April 2017 inheritance tax will be charged on all UK residential property even when indirectly held by a non-dom through an offshore structure.

Non-doms will be able to segregate amounts of income, gains and capital within their overseas mixed funds to provide certainty on how amounts remitted to the UK will be taxed. Following consultation on the draft legislation this will be extended by government amendment to income, gains and capital held in mixed funds from years before 2007/2008, as well as those from subsequent years.

Those who become deemed domicile in April 2017, excepting those who were born in the UK with a UK domicile of origin, will be able to treat the cost base of their non-UK based assets as the market value of that asset on 5 April 2017.

These changes will be introduced in Finance Bill 2017 and will take effect from 6 April 2017.

Foreign pensions

The tax treatment of foreign pensions is to be more closely aligned with the UK's domestic pension tax regime by bringing foreign pensions and lump sums fully into tax for UK residents, to the same extent as domestic ones.

Legislation will take effect from 6 April 2017, so that:

- where a foreign pension or lump sum is paid to a UK resident, 100% of the pension arising will be chargeable to UK tax (to the same extent as if they had been paid from a registered pension scheme);
- no new pension schemes can be established under ICTA 1988, s 615 (specialist pension schemes for those employed abroad), and no further contributions can be made to existing schemes. Funds accrued in a section 615 scheme before 6 April 2017 will continue to be paid out using the existing rules;
- the tax treatment of funds in registered pension schemes (RPSs) based outside the UK will be more

closely aligned with that of UK-based RPSs;
- UK tax charges can apply to a payment by a relevant non-UK schemes (RNUKS) to an individual who has been resident outside the UK for less than 10 tax years; and
- the 70% rule will be removed from the conditions that a pension scheme has to meet to be an 'overseas pension scheme' or a 'recognised overseas pension scheme' and the pension age test is revised so that additional payments may be made and the test still be met. As a result if a non-occupational pension scheme is not regulated and the provider of that scheme is not regulated, it will not be able to be a QOPS or QROPS.

Qualifying recognised overseas pension schemes (QROPS): introduction of a transfer charge

A 25% tax charge will be applied to pension transfers made to QROPS. Exceptions will be made to the charge, allowing transfers to be made tax-free where people have a genuine need to transfer their pension, where:

- both the individual and the pension scheme are in countries within the European Economic Area (EEA); or
- if outside the EEA, both the individual and the pension scheme are in the same country; or
- the QROPS is an occupational pension scheme provided by the individual's employer.

If the individual's circumstances change within 5 tax years of the transfer, the tax treatment of the transfer will be reconsidered. The changes will take effect for transfers requested on or after 9 March 2017.

The government will also legislate in Finance Bill 2017 to apply UK tax rules to payments from funds that have had UK tax relief and have been transferred, on or after 6 April 2017, to a qualifying recognised overseas pension scheme. UK tax rules will apply to any payments made in the first five full tax years following the transfer, regardless of whether the individual is or has been UK resident in that period.

Social Investment Tax Relief (SITR)

Certain changes are being made to enlarge the social investment tax relief (SITR) scheme, including an increase in the amount of money newer social enterprises may raise and provisions to better target the scheme on higher risk activities and deter abuse. The changes, which will apply retrospectively to qualifying investments made on or after 6 April 2017 will:

- increase the amount of investment a social investment may receive over its lifetime to £1.5 million for social enterprises that receive their initial risk finance investment no later than 7 years after their first commercial sale, the current limit will continue to apply to older social enterprises;
- reduce the limit on full-time equivalent employees to below 250 employees;
- exclude certain activities, including asset leasing and on-lending, to ensure the scheme is well targeted - investment in nursing homes and residential care homes will be excluded initially, however the government intends to introduce an accreditation system to allow such investment to qualify for SITR in the future;
- exclude the use of money raised under the SITR to pay off existing loans;
- clarify that individuals will be eligible to claim relief under the SITR only if they are independent from the social enterprise; and
- introduce a provision to exclude investments where arrangements are put in place with the main purpose of delivering a benefit to an individual or party connected to the social enterprise.

Life insurance policies

The rules governing the disproportionate tax charges that arise in certain circumstances from life insurance policy part-surrenders and part-assignments are to be amended. Broadly, this will allow applications to be made to HMRC to have the charge recalculated on a 'just and reasonable' basis.

The changes take effect from 6 April 2017 and are designed to lead to fairer outcomes for policyholders.

Reducing the money purchase annual allowance

The pension flexibilities introduced in April 2015 gave savers the ability to access their pension savings flexibly, as best suits their needs. Once a person has accessed pension savings flexibly, if they wish to make any further contributions to a defined contribution pension, tax-relieved contributions are restricted to a special money purchase annual allowance (MPAA). It has now been confirmed that the money purchase annual allowance will be reduced to £4,000 from April 2017.

Personal Portfolio Bonds: reviewing the property categories

The government will legislate in Finance Bill 2017 to take a power to amend by regulations the list of assets that life insurance policyholders can invest in without triggering tax anti-avoidance rules. The changes will take effect on Royal Assent of Finance Bill 2017.

Rent-a-Room relief

HMRC are to undertake a consultation on rent-a-room relief to ensure it is better targeted to support longer-term lettings. This will align the relief more closely with its intended purpose, to increase supply of affordable long-term lodgings.

Patient Capital review

A consultation is to be launched covering existing tax reliefs aimed at encouraging investment and entrepreneurship to make sure that they are effective, well targeted, and still provide value for money as part of the Patient Capital review.

Reduction in Universal Credit taper

Under the Universal Credit system, as a person's income increases, their benefit payments are gradually reduced. The taper rate calculates the reduction in benefits as a person's salary increases. Currently, for every £1 earned after tax above an income threshold, a person receiving Universal Credit has their benefit award reduced by 65p and keeps 35p. The 2017 Spring Budget confirmed that, from April 2017, the taper will be lowered to 63p in the pound, so the claimant will keep 37p for every £1 earned over the income threshold.

National Insurance contributions

As previously announced, from 6 April 2018 Class 2 contributions will be abolished and Class 4 contributions will be reformed to include a new threshold (to be called the Small Profits Limit).

Class 2 NICs currently give the self-employed access to certain contributory benefits. From April 2018, those with profits between the Small Profits Limit and Lower Profits Limit will not be liable to pay Class 4 contributions but will be treated as if they have paid Class 4 contributions for the purposes of gaining access to contributory benefits. Individuals with profits at or above the Class 4 Small Profits Limit will gain access to the new State Pension, contributory Employment and Support Allowance (ESA) and Bereavement Benefit. Those with profits above the Lower Profits Limit will continue to pay Class 4 contributions.

Class 2: For 2017/18, Class 2 NICs will be payable at the weekly rate of £2.85 (rising from £2.80) above the small profits threshold of £6,025 per year (rising from £5,965 in 2016/17).

Class 3: Class 3 voluntary contributions will rise from £14.10 to £14.25 per week for 2017/18.

Class 4: For 2017/18, the lower profits limit for Class 4 NICs will be £8,164 and the upper profits limit will be £45,000. Contributions remain at 9% between the two thresholds and at 2% above the upper profits limit.

Aligning the primary and secondary National Insurance Contributions thresholds

The primary (employee) threshold and the secondary (employer) thresholds for Class 1 National Insurance Contributions are to be aligned from April 2017. From that date, both the primary and secondary thresholds will be £157 per week, having been raised from £155 and £156 per week respectively for 2016/2017.

Increase the rate of Class 4 National Insurance contributions

The main rate of Class 4 NICs will be increased from 9% to 10% with effect from 6 April 2018 and from 10% to 11% with effect from 6 April 2019. Since April 2016, the self-employed also have access to the same State Pension as employees, worth £1,800 a year more to a self-employed individual than under the previous system.

Businesses top

Making Tax Digital for Business

The provisions for the government's Making Tax Digital project will be legislated for in Finance Bill 2017. However, the mandatory start date for unincorporated businesses and landlords with gross income (turnover) below the VAT registration threshold will be deferred until April 2019. This means that only those businesses, self-employed people and landlords with turnovers in excess of the VAT threshold with profits chargeable to income tax and that pay Class 4 NICs will be required to start using the new digital service from April 2018.

Increasing the cash basis entry threshold

As announced in January 2017, the trading cash basis threshold for unincorporated businesses is to be increased to £150,000 for 2017/18 onwards. For Universal Credit claimants, the entry threshold will be increased to £300,000. The exit threshold will be increased to £300,000 for all users of the trading cash basis.

Simplified cash basis for unincorporated businesses

As announced in January 2017, the government will legislate in Finance Bill 2017 to provide a simple list of disallowed expenditure in order to simplify the rules for allowable deductions within the cash basis. Following consultation, the legislation has been revised slightly to make certain that specific items are clearly excluded from the list, and to ensure the rules for moving between the cash basis and accruals accounting are robust. Minor amendments have also been made to improve clarity. These changes will have effect from April 2017, though for the 2017/18 tax year trading profits can be calculated using either the new rules or the existing rules.

Simplified cash basis for unincorporated property businesses

From 6 April 2017, most unincorporated property businesses (other than limited liability partnerships, trusts, partnerships with corporate partners or those with receipts of more than £150,000) will be allowed to calculate their taxable profits using a cash basis of accounting. Landlords will continue to be able to opt to use Generally Accepted Accounting Principles (GAAP) to prepare their profits for tax purposes.

Those with both a UK and an overseas property business will be able to choose separately whether to use the cash basis or GAAP for each. Those with a trade as well as a property business both eligible for the cash basis, will be able to decide separately for each of these, and persons other than spouses or civil partners who jointly own a rental property will be able to decide individually.

To align the treatment with those who opt to use GAAP, the initial cost of items used in a dwelling house will also not be an allowable expense under the cash basis. The existing 'replacement of domestic items relief' will continue to be available for the replacement of these items when the expenditure is paid. Interest expense will be treated consistently between those using the cash basis and those using GAAP.

New tax allowance for property and trading income

Two new income tax allowances of £1,000 each, are to be introduced for trading and property income. These new allowances will take effect for 2017/18 onwards. Individuals with trading income or property income below the level of the allowance will no longer need to declare or pay tax on that income. The trading income allowance will also apply to certain miscellaneous income from providing assets or services.

The trading allowance will also apply for Class 4 National Insurance contribution purposes.

The allowances will not apply in addition to relief given under the rent-a-room relief legislation.

Following the publication of the draft legislation on this measure, it has been confirmed in the 2017 Spring Budget that revisions will be made to prevent the allowances from applying to income of a participator in a connected close company or to any income of a partner from their partnership. Minor revisions will also be made to improve clarity and correct errors.

Disposals of land in the UK

Existing legislation is to be amended to ensure that all profits from dealing in or developing land in the UK are brought into charge to UK tax. The original legislation took effect for disposals made on or after 5 July 2016, with an exception where the contract for disposal was entered into before 5 July 2016. The intention was to exclude the standard property disposal arrangement where the parties are committed on making the contract, but the transfer takes place a short time later. However, some contracts are entered into at an early stage in the development with transfers being made over an extended period of months or years. The result is that some profits from these long term contracts are not within the charge. This was not the intention when the legislation was enacted and the measure announced in the Spring 2017 Budget ensures that the rules set out in FA 2016 work as intended.

Simplifying the PAYE Settlement Agreement process

The process for applying for and agreeing Pay as You Earn Settlement Agreements (PSAs) is to be simplified. Broadly, a PSA allows an employer to make one annual payment to cover all the tax and National Insurance due on small or irregular taxable expenses or benefits for employees. Finance Bill 2017 contains provisions which will enable HMRC to accept a PSA without the need for prior agreement. In turn, this will allow HMRC to design and implement a new automated process for employers to apply for a PSA. Consequential changes will be made to the 'PAYE Regulations' covering the making, form and timing of a PSA. The changes will have effect in relation to agreements for the 2018/19 tax year and subsequent tax years.

Tackling disguised remuneration - restricting tax relief for contributions to avoidance schemes

As announced at Autumn Statement 2016, the government will continue with its pledge to tackle existing and prevent future use of disguised remuneration avoidance schemes. Legislation in Finance Bill 2017 is designed to ensure that scheme users pay their fair share of income tax and NICs and the future use of schemes will be prevented by strengthening the current rules. The existing use of schemes will be tackled by the introduction of a new charge on disguised remuneration loans that were made after 5 April 1999 and remain outstanding on 5 April 2019. Legislation will also be introduced to ensure there is no double taxation.

Following consultation, the legislation has been revised to ensure the loan charge and the exclusions operate as intended. Broadly, the close companies' gateway will now be introduced in Finance Bill 2017 to commence from 6 April 2018 and this will allow for further consultation to ensure it is appropriately targeted at disguised remuneration schemes. Proposals on how the tax and NICs arising from the changes will be collected will be set out in a technical consultation later in 2017.

Legislation will also be introduced in Finance Bill 2017 to tackle existing and prevent future use of similar schemes used by the self-employed.

Finally, legislation will be also introduced to prevent employers claiming a deduction when computing their taxable profits for contributions to a disguised remuneration scheme unless income tax and NICs are paid within a specified period. This will have effect for contributions made on or after 1 April 2017 for corporation tax purposes, or 6 April 2017 for income tax purposes.

Corporation tax: reform of loss relief

Initially announced at the time of the 2016 Budget and following a period of consultation, Finance Bill 2017 contains provisions to reform the tax treatment of certain types of carried-forward loss for corporation tax purposes with effect from 1 April 2017.

Losses arising from 1 April 2017, when carried forward, will have increased flexibility and can be set against the total taxable profits of a company and its group members (referred to as the 'loss relaxation').

For all carried-forward losses, whenever they arose, companies will be able only to use the losses against up to 50% of profits (known as the 'loss restriction'). Each standalone company or group will be entitled to a £5 million annual allowance. Profits within the allowance will not be restricted, ensuring 99% of companies are unaffected by the restriction.

Both the loss restriction and loss relaxation will apply to:

- trading losses;
- non-trading deficits on loan relationships;
- management expenses;
- UK property losses; and
- non-trading losses on intangible fixed assets.

Whilst pre-April 2017 trading losses will not be relaxed, companies will have the flexibility to choose whether or not to use pre-April 2017 trading losses before other available losses.

If a company's trade ceases and the company has unused carried-forward losses of that trade, those losses can be set without restriction against profits arising in the final 36 months of the trade. Post-April 2017 losses will be able to be set against total profits, whilst pre-2017 losses trading losses will only be able to be set against profits of the same trade. The profits on which losses can be carried-back against will be limited to those generated from 1 April 2017.

The legislation contains loss buying rules which will mean that where a company or group of companies is acquired, any post-April 2017 carried-forward losses that arose before the company or group's acquisition will not be available to the purchaser's group for five years.

The legislation also contains a targeted anti-avoidance rule which will prevent any arrangements being entered into with a main purpose of obtaining a benefit from the loss reform rules.

Tax treatment of appropriations to trading stock

A new measure will remove the option for businesses to elect for capital losses, which would otherwise arise where an asset is appropriated to trading stock to be treated as trading deductions which can be offset against the total trading profits of the business. This measure will have immediate effect by preventing the election being made for appropriations into trading stock made on or after 8 March 2017.

Hybrid and other mismatches - permitted taxable periods of payees and deductions for amortisation

Two minor changes will be made to the hybrid and other mismatch regime introduced by Finance Act 2016. The first change removes the need to make a formal claim in relation to the permitted time period rules for mismatches involving financial instruments. The second change provides that deductions for amortisation are not treated as relevant deductions for the purposes of these provisions. The measure will have effect from the commencement of the hybrid and other mismatch regime, which came into effect on 1 January 2017.

Tax deductibility of corporate interest expense

From 1 April 2017, the government will introduce rules that limit the tax deductions that large groups can claim for their UK interest expenses. These rules will limit deductions where a group has net interest expenses of more than £2 million, net interest expenses exceed 30% of UK taxable earnings and the group's net interest to earnings ratio in the UK exceeds that of the worldwide group. The provisions proposed to protect investment in public benefit infrastructure are also to be widened. Banking and insurance groups will be subject to the rules in the same way as groups in other industry sectors.

Corporation tax deduction for contributions to grassroots sport

The circumstances in which contributions to grassroots sports can be deducted from the taxable profits of corporation tax payers will be extended in relation to qualifying expenditure incurred on or after 1 April 2017. Companies will be able to make deductions for all contributions to grassroots sports through recognised sport governing bodies, and deductions of up to £2,500 in total annually for direct contributions to grassroots sports. Sport governing bodies will be able to make deductions for all their contributions to grassroots sports. The Spring 2017 Budget confirmed that the treatment of a sport governing body will be extended to its 100% subsidiaries.

Patent Box rules

Specific provisions are being added to the Finance Act 2016 Patent Box rules, covering the case where Research and Development (R&D) is undertaken collaboratively by two or more companies under a 'cost sharing arrangement'. The provisions will ensure that such companies are neither penalised nor able to gain an advantage under these rules by organising their R&D in this way. The Spring 2017 Budget confirmed that the draft legislation for this change 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. These changes will have effect for accounting periods commencing on or after 1 April 2017.

Co-ownership authorised contractual schemes: reducing tax complexity

As announced at Budget 2016 and following a period of consultation, amendments are to be made to the legislation to reduce tax complexity in relation to co-ownership authorised contractual schemes (CoACS). Broadly, the measures will:

- clarify the process for calculating any capital allowances which may be claimed by investors in CoACS;
- introduce new requirements for information which the operator of a CoACS must provide to investors and to HMRC;
- introduce new rules to clarify what is to be treated as an investor's income when a CoACS has invested in an offshore fund; and
- clarify the rules for investors to calculate capital gains arising from the disposal of units in a CoACS.

The new rules on calculating capital allowances will apply for those electing to apply them on or after Royal Assent to Finance Bill 2017 for accounting periods beginning on or after 1 April 2017. The new rules on information to be provided to investors and to HMRC and on investments in offshore funds will come into force at Royal Assent to Finance Bill 2017. The streamlined rules for investors to calculate capital gains on disposal of units in a CoACS will apply to disposals on or after an operative date in summer 2017.

Reform of the substantial shareholdings exemption

As announced at Autumn Statement 2016 and confirmed at Spring Budget 2017, the government will legislate in Finance Bill 2017 to simplify the rules, remove the investing company requirement within the substantial shareholdings exemption, and provide a more comprehensive exemption for companies owned by qualifying institutional investors. Following consultation, certain amendments have been made to provide clarity and certainty. The changes take effect from 1 April 2017.

Gift Aid and intermediaries

Intermediaries are to be given a greater role in administering Gift Aid, with the aim of simplifying the Gift Aid process for donors making digital donations. Currently a donor has to complete a Gift Aid declaration (GAD) each time they give to a new charity when giving through an intermediary. A new process will allow a donor to give permission to an intermediary to create GADs on their behalf for all subsequent donations made in that tax year. The changes, which take effect from 6 April 2017, will require intermediaries to:

- keep a record of the donor's authorisation allowing them to complete declarations on the donor's behalf;
- keep a record of the date on which the Gift Aid regime was explained to the donor;
- keep a record of any cancellations of the donor's authorisation;
- issue an annual statement to donors who use the new process; and
- keep a record of an annual statement sent to donors who use the new process.

Penalties may be imposed on intermediaries for any breaches of these obligations.

Promoters of Tax Avoidance Schemes: associated and successor entities rules

Existing legislation is to be amended to ensure that promoters of tax avoidance schemes cannot circumvent the POTAS regime by re-organising their business so that they either share control of a promoting business or put a person or persons between themselves and the promoting business.

Broadly, the amendments introduce the term 'significant influence' to ensure promoters cannot reorganise their business so that they put a person or persons between themselves and the promoting business. The amendment also ensures that the control definitions apply where two or more persons together have control or significant influence over a business.

This change takes effect from 8 March 2017.

Plant and machinery leasing – response to lease accounting changes

The government will consult in summer 2017 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. The tax treatment of a lease, in some important respects, is determined by its treatment in the accounts. Following the discussion document published in summer 2016, 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.

Research and development (R&D) tax review

Administrative changes are to be made to research and development (R&D) tax credits to increase the certainty and simplicity surrounding claims.

Withholding tax exemption for debt traded on a multilateral trading facility

The government is to consult on proposals for 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.

Enterprise Management Incentives: continued provision of the relief

The government will seek State Aid approval to extend provision of this tax relief beyond 2018.

Extension of High-end TV, animation and video games tax reliefs

The government will seek State Aid approval for the continued provision of the reliefs beyond 2018.

VAT

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VAT registration threshold

The VAT registration and deregistration thresholds will be increased in line with inflation with effect from 1 April 2017 to £85,000 and £83,000 respectively.

VAT: 'split payments' model

As announced at Budget 2016, the government is considering alternative methods of collecting VAT. This is in addition to the measures it has already introduced to tackle the problem of overseas businesses selling goods to UK consumers via online marketplaces without paying VAT. At Spring Budget 2017, the government confirmed that it will consult on the case for a new VAT collection mechanism for online sales. This would harness technology to allow VAT to be extracted directly from transactions at the point of purchase. This type of model is often referred to as 'split payment'.

VAT: use and enjoyment provisions for business to consumer mobile phone services

The government has announced that the VAT use and enjoyment provision for mobile phone services provided to consumers is to be removed. The measure will bring those services used outside the EU within the scope of the tax. It will also ensure mobile phone companies can't use the inconsistency to avoid UK VAT. This will bring UK VAT rules in line with the internationally agreed approach.

VAT: fraud in the provision of labour in the construction sector

A consultation is to be launched on a range of policy options to combat supply chain fraud in supplies of labour within the construction sector. Options include a VAT reverse charge mechanism so the recipient accounts for VAT. It will also consider other changes including to the qualifying criteria for gross payment status within the Construction Industry Scheme.

Customs examination powers

Current customs and excise powers of inspection are to be extended enabling officers to examine goods away from approved premises such as airports and ports, to search goods liable for forfeiture and open or unpack any container. This will take effect from Royal Assent of the Finance Bill 2017.

Fulfilment House Due Diligence Scheme

The government will introduce a new Fulfilment House Due Diligence Scheme from 1 April 2018, which is designed to ensure that fulfilment houses play their part in tackling VAT abuse by some overseas businesses selling goods via online marketplaces. Broadly, fulfilment businesses in the UK will have to register with HMRC, keep certain records and carry out robust due diligence checks on their overseas customers. HMRC will publish the register to allow businesses to check whether they are dealing with compliant fulfilment businesses.

Existing fulfilment house businesses should apply to register with HMRC by 30 June 2018. New fulfilment house businesses, established after 30 June 2018, will need to apply to register 45 calendar days in advance of the date they intend to commence trading.

Indirect taxes top

Annual Tax on Enveloped Dwellings

The annual charges for the Annual Tax on Enveloped Dwellings (ATED) will rise in line with inflation for the 2017/18 chargeable period.

- Property value £500,001 to £1 million - £3,500 (£3,500)
- Property value £1,000,001 to £2 million - £7,050 (£7,000)
- Property value £2,000,001 to £5 million - £23,550 (£23,350)
- Property value £5,000,001 to £10 million - £54,950 (£54,450)
- Property value £10,000,001 to £20 million - £110,100 (£109,050)
- Property value £20,000,0001 and over - £220,350 (£218,200)

Insurance premium tax

As announced at Autumn Statement 2016 and confirmed at Spring Budget 2017, the government will legislate in Finance Bill 2017 to increase the standard rate of Insurance Premium Tax (IPT) by 2% from June 2017. It will also repeal existing anti-forestalling legislation as it is no longer required.

Soft Drinks Industry Levy

As announced at Budget 2016 and confirmed at Autumn Statement 2016, the government will legislate in Finance Bill 2017 for the Soft Drinks Industry Levy. The two thresholds, at 5g and 8g of sugar per 100ml, have been designed so that, by taking reasonable steps to reduce sugar content, UK producers and importers of soft drinks can pay less or escape the charge altogether. The rates were announced at Spring Budget 2017 and will be 18 pence per litre (ppl) for the main rate and 24ppl for the higher rate. The levy will take effect from April 2018 and evasion of it will be a criminal offence.

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