

# Spring Budget 2017





# Spring Budget 2017 – how does it affect you?

Philip Hammond's focus in the 2017 Budget was firmly on government spending and investment and what he described as improving fairness in the tax system. This was the last spring budget – the annual budget will move to the Autumn this year, giving businesses and individuals more time to plan for announced changes going forward.

There was some good news on the economy. Amongst the major advanced economies, Britain's growth in 2016 was second only to Germany. Employment is at a record high and unemployment is at an 11-year low. Also, reflecting the recent strength in the economy, the OBR has upgraded its forecast for growth this year from 1.4% to 2%.

The Budget attempted to address differentials in the tax system between employed

and self-employed individuals through announcing changes to NICs and the Dividend Allowance and there is still more to come. The Chancellor announced that a report will be delivered in the summer on the wider implications of different employment practices. Additionally, due to the controversy the planned increase in self-employed NICs has caused, it has already been announced by the Prime Minister that this legislation will not be put before the Commons until the Autumn. Watch this space!

The fact that relatively few tax changes were announced otherwise for businesses should be well received. Smaller businesses will benefit from changes to the business rate regime and a delay in the introduction of digital filing for some businesses and landlords.

In December and January, the government issued a number of the clauses, in draft, of Finance Bill 2017 together with updates on consultations. The Budget updates some of those announcements and also proposes further measures. Some changes apply from April 2017 and some take effect at a later date.

Our summary focuses on the issues likely to affect you, your family and your business. To help you decipher what was said we have included our own comments. If you have any questions, please do not hesitate to contact me or your usual WMT partner for advice.



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# Personal tax

## The personal allowance

The personal allowance is currently £11,000. Legislation has already been enacted to increase the allowance to £11,500 for 2017/18.

### Comment:

A reminder that not everyone has the benefit of the full personal allowance. There is a reduction in the personal allowance for those with 'adjusted net income' over £100,000, which is £1 for every £2 of income above £100,000. So for 2016/17 there is no personal allowance where adjusted net income exceeds £122,000. For 2017/18 there will be no personal allowance available where adjusted net income exceeds £123,000.

## Tax bands and rates

The basic rate of tax is currently 20%. The band of income taxable at this rate is £32,000 so that the threshold at which the 40% band applies is £43,000 for those who are entitled to the full personal allowance.

In 2017/18 the band of income taxable at the basic rate will be different for taxpayers who are resident in Scotland to residents elsewhere in the UK. The Scottish government has decided to reduce the band of income taxable at the basic rate to £31,500 so that the threshold at which the 40% band applies remains at £43,000.

In the rest of the UK, legislation has already been enacted to increase the basic rate band to £33,500 for 2017/18. The higher rate threshold will therefore rise to £45,000 in 2017/18.

The additional rate of tax of 45% remains payable on taxable income above £150,000 for all UK residents.

	2015/2016	2016/2017	2017/2018
<b>Personal Allowances</b>			
Personal Allowances – born before 15 April 1938	£10,600	£11,000	£11,500
Personal Allowances – born after 15 April 1939	£10,600	£11,000	£11,500
<b>Tax bands and rates</b>			
Basic rate band (20%)	£0 – £31,785	£0 – £32,000	£0 – £33,500
Higher rate band (40%)	£31,786 – £150,000	£32,001 – £150,000	£33,501 – £150,000
Additional rate band (45%)	Over £150,000	Over £150,000	Over £150,000



# Dividends and savings

## Reduction in the Dividend Allowance

The Dividend Allowance will be reduced from £5,000 to £2,000 from April 2018.

### Comment:

The government expects that even with the reduction in the Dividend Allowance to £2,000, 80% of 'general investors' will pay no tax on their dividend income. However, the reduction in the allowance will affect family company shareholders who take dividends in excess of the £2,000 limit. The cost of the restriction in the allowance for basic rate taxpayers will be £225 increasing to £975 for higher rate taxpayers and £1,143 for additional rate taxpayers.

## Tax bands and rates - dividends

Dividends received by an individual are subject to special tax rates. From 2016/17 tax year there is a Dividend Allowance at which dividends are charged to tax at 0%.

Dividend income tax band	Rates
First £5,000 of dividends for 2016/17 & 2017/18 reducing to first £2,000 of dividends for 2018/19	0%
Basic rate band	7.5%
Higher rate band	32.5%
Additional rate band	38.1%

Dividends within the allowance still count towards an individual's basic or higher rate band and so may affect the rate of tax paid on dividends above the dividend allowance.

To determine which tax band dividends fall into, dividends are treated as the last type of income to be taxed.

## Tax on savings income

Savings income is income such as bank and building society interest.

The Savings Allowance (SA) was first introduced for the 2016/17 tax year and applies to savings income.

The available SA in a tax year depends on the individual's marginal rate of income tax. Broadly, individuals taxed at up to the basic rate of tax have an SA of £1,000. For higher rate taxpayers, the SA is £500 whilst no SA is due to additional rate taxpayers.

## Individual Savings Accounts (ISAs)

The overall ISA savings limit is £15,240 for 2016/17 but will jump to £20,000 in 2017/18.

### Lifetime ISA (LISA)

A new Lifetime ISA will be available from April 2017 for adults under the age of 40. Individuals will be able to contribute up to £4,000 per year, between ages 18 and 50, and receive a 25% bonus from the government. Funds, including the government bonus, can be used to buy a first home at any time from 12 months after opening the account, and can be withdrawn from age 60 completely tax free.

### Comment:

The increase in the overall ISA limit to £20,000 for 2017/18 is partly due to the introduction of the Lifetime ISA. There will therefore be four types of ISAs for many adults from April 2017 - cash ISAs, stocks and shares ISAs, Innovative Finance ISAs (allowing investment into peer to peer loans) and the Lifetime ISA. Money can be placed into one of each kind of ISA each tax year.

There is a fifth type of ISA - a Help to Buy ISA. Help to Buy ISAs are a type of cash ISA and potentially provide a bonus to savers if the funds are used to help to buy a first home.

# Pensions

## Money Purchase Annual Allowance

The Money Purchase Annual Allowance (MPAA) will be reduced from £10,000 to £4,000 from 6 April 2017.

The MPAA counters an individual using the flexibilities around accessing a money purchase pension arrangement as a means to avoid tax on their current earnings, by diverting their salary into their pension scheme, gaining tax relief, and then effectively withdrawing 25% tax free. It also restricts the extent to which individuals can gain a second round of tax relief by withdrawing savings and reinvesting them into their pension. The MPAA is currently £10,000 and applies to individuals who have flexibly accessed their money purchase pension savings.

### Comment:

The 'annual allowance' sets the maximum amount of tax efficient pension contributions. The normal annual allowance is £40,000. The Money Purchase Annual Allowance was introduced in 2015 to restrict the annual allowance to £10,000 when an individual has taken income from a pension scheme.

## Qualifying Recognised Overseas Pension Schemes (QROPS)

The government will introduce a 25% charge on transfers to QROPS. This charge is targeted at those seeking to reduce the tax payable by moving their pension wealth to another jurisdiction. Exceptions will apply to the charge allowing transfers to be made tax free where people have a genuine need to transfer their pension, including when the individual and the pension are both located within the European Economic Area.

# Self-employed and property rental businesses

## Class 4 National Insurance Contributions (NICs)

It had already been announced in the 2016 Budget that Class 2 NICs will be abolished from April 2018. The government will now also legislate to increase the main rate of Class 4 NICs from 9% to 10% with effect from 6 April 2018 and from 10% to 11% with effect from 6 April 2019. Self-employed profits will be subject to Class 4 NIC at the following rates:

	Current	From April 2018	From April 2019
1 April 2016 – 31 March 2017	9%	10%	11%
1 April 2017 – 31 March 2018	2%	2%	2%

\*Class 4 NIC bands subject to change

### Comment:

Both employed and self-employed earners who reached state pension age from 6 April 2016 have access to the same flat rate state pension. This means that the self-employed have gained £1,800 a year more than under the previous system. The government therefore think it is fair that the NIC differential between them is reduced as employees are paying 12%. However, this significant increase in tax for the self-employed has already proved to be controversial. Since the budget announcement took place, the Prime Minister has already announced that the legislation on this will not be put before the Commons before the Autumn 2017. This is to allow time for publication of a review of employment practices and better benefit rights for self-employed in relation to parental and pension rights.

## Property and trading income allowances

From April 2017, the government will introduce new £1,000 allowances for property and trading income.

Individuals with property or trading income below £1,000 will no longer need to declare or pay tax on that income. Those with income above the allowance will be able to calculate their taxable profit either by deducting their expenses in the normal way or by simply deducting the relevant allowance. The trading allowance will also apply to certain miscellaneous income from providing assets or services. Any income which attracts rent-a-room relief will not be eligible for either of the allowances.

# Self-employed and property rental businesses

## Making Tax Digital for Business (MTDfB)

Extensive changes to how taxpayers record and report income to HMRC are being introduced under a project entitled Making Tax Digital for Business.

### Digital record keeping will involve:

- maintaining records digitally, through software or apps
- reporting summary information to HMRC quarterly through their digital tax accounts' (DTAs)
- making an 'End of Year' declaration through their DTAs

DTAs operate in a similar way to online bank accounts - secure areas where a business can see all of its tax details in one place and interact with HMRC digitally.

### Who will be affected?

Businesses, self-employed people and landlords will be required to start using the new digital service from:

- April 2018 if profits are chargeable to Income Tax and Class 4 National Insurance contributions (NICs) and turnover is **in excess of the VAT threshold**
- April 2019 if profits are chargeable to Income Tax and Class 4 NICs and turnover **is below the VAT threshold**
- April 2019 if you are registered to pay VAT
- April 2020 if profits are subject to Corporation Tax (CT)

### Comment:

The End of Year declaration will be similar to the online submission of a self-assessment tax return but may be required to be submitted earlier than a tax return. Businesses will have 10 months from the end of their period of account (or 31 January following the tax year – the due date for a self-assessment tax return – if sooner).

Those with March year ends will not be affected until the accounting period commencing 1st April 2019. Those with other year ends may wish to consider whether a change of year end is appropriate as this may buy a little more time to get ready for this significant change. Please be aware a change of year end has other direct tax implications that need to be carefully considered before doing this.

## Restrictions on residential property interest

Legislation has already been enacted to restrict interest relief for landlords.

From 6 April 2017, landlords will no longer be able to deduct all of their finance costs from their property income. They will instead receive a basic rate reduction from their income tax liability for these finance costs. Finance costs include mortgage interest, interest on loans to buy furnishings and fees incurred when taking out or repaying loans or mortgages.

The restriction will be phased in with 75% of finance costs being allowed in 2017/18, 50% in 2018/19, 25% in 2019/20 and be fully in place for 2020/21. The remaining finance costs for each year will be given as a basic rate tax reduction but cannot create a tax refund.

These restrictions apply to:

- UK resident individuals that let residential properties in the UK or overseas
- non-UK resident individuals that let residential properties in the UK
- individuals who let such properties in partnership
- trustees or beneficiaries of trusts liable for income tax on the property profits.

UK and non-UK resident companies are not affected nor landlords of 'Furnished Holiday Lettings'.



# Self-employed and property rental businesses

## Cash basis for unincorporated landlords

As part of the wider proposals for Making Tax Digital, the government has decided that, from April 2017, many unincorporated property businesses will compute taxable profits for the purposes of income tax on a cash basis rather than the usual accruals basis.

The cash basis means a business will account for income and expenses when the income is received and expenses are paid. The accruals basis means accounting for income over the period to which it relates and accounting for expenses in the period for which the liability is incurred.

For affected property businesses, the cash basis will first apply for the 2017/18 tax year which means that a tax return for 2017/18, which has to be submitted by 31 January 2019, will be the first one submitted on the new basis. Not all property businesses will move to the cash basis:

- property businesses will remain on the accruals basis if their cash basis receipts are more than £150,000
- there is an option to elect out of cash basis accounting and to use accruals basis instead
- the cash basis does not apply to property businesses carried out by a company, an LLP, a corporate firm (ie a partner in the firm is not an individual), the trustees of a trust or the personal representatives of a person.

## Cash basis for unincorporated businesses

The government is also extending the cash basis option for the self-employed and trading partnerships. The cash receipts threshold for being able to move to the cash basis will increase from the current £83,000 to £150,000 and the threshold for having to move back to the accruals basis will increase to £300,000 from April 2017.

Currently, the rules for the calculation of profits under cash basis accounting do not allow a deduction for expenditure of a capital nature, unless that expenditure qualifies for plant and machinery capital allowances under ordinary tax rules. This results in taxpayers needing to consider whether items are capital in nature, and whether they qualify for capital allowances. New rules will be introduced that list types of expenditure which will or will not be allowed as a tax deduction.

It is proposed these changes will come into effect from the 2017/18 tax year.

### Comment:

There is no requirement for traders to switch to the cash basis. There are potential problems in adopting the cash basis including restrictions on interest relief on business finance and special calculations which need to be performed on moving to the cash basis. We can, of course, advise you of the issues involved.

# Corporation tax and other business taxes

## Corporation tax rates

Corporation tax rates have already been enacted for periods up to 31 March 2021.

The main rate of corporation tax is currently 20%. The rate will then be reduced as follows:

Period	Corporate tax rate
1 April 2016 – 31 March 2017	20%
1 April 2017 – 31 March 2018	19%
1 April 2018 – 31 March 2019	19%
1 April 2019 – 31 March 2020	19%
1 April 2020 – 31 March 2021	17%

## Corporate tax loss relief

Currently, a company is restricted in the type of profit which can be relieved by a loss if the loss is brought forward from an earlier accounting period. For example, a trading loss carried forward can only relieve future profits from the same trade.

As announced in the 2016 budget and following consultation, the government has proposed changes which will mean that losses arising on or after 1 April 2017, when carried forward, can be used against profits from other income streams or other companies within a group. This will apply to most types of losses but not to capital losses.

However, from 1 April 2017, large companies can only use losses carried forward against up to 50% of their profits above £5 million. For groups, the £5 million allowance will apply to the group.

## Business rates

Business rates have been devolved to Scotland, Northern Ireland and Wales. The business rates revaluation takes effect in England from April 2017 and will result in significant changes to the amount of rates that businesses will pay. The government announced £3.6 billion of transitional relief in November 2016. The Chancellor has now announced £435 million of further support for businesses. This includes:

- support for small businesses losing Small Business Rate Relief to limit increases in their bills to the greater of £600 or the real terms transitional relief cap for small businesses each year
- providing English local authorities with funding to support £300 million of discretionary relief, to allow them to provide support to individual cases in their local area.

The government will also introduce a £1,000 business rate discount for public houses with a rateable value of up to £100,000, for one year from 1 April 2017. This is subject to state aid limits for businesses with multiple properties.

A further concession has also been announced following the Budget of a revision to the wording when an appeal against wrong valuations will be allowed. This has followed lobbying by the sector and many believe the revised wording of the circumstances where appeals will be allowed is a significant relaxation.

# Corporation tax and other business taxes

## Research and Development (R&D)

There are two types of tax reliefs for eligible R&D expenditure. Under one of these, qualifying companies can claim a taxable credit of 11% in relation to eligible R&D expenditure. This is known as the Research and Development Expenditure Credit (RDEC). To further support investment, the government will make administrative changes to the RDEC to increase the certainty and simplicity around claims and will take action to improve awareness of R&D tax credits among small and medium-sized enterprises.

The government will continue to keep the competitiveness of the UK environment for R&D under review to ensure that the UK is profoundly pro-innovation.

## Appropriations to trading stock

Currently, the appropriation of a capital asset (either a fixed asset of a trade or an asset that is held as an investment) to trading stock is treated as taking place at market value, and can give rise to a chargeable gain or an allowable loss. However, an election can be made that has the effect of reducing the chargeable gain or allowable loss to zero, and rebasing the transfer value for the purpose of computing trading profits.

The changes to be introduced in Finance Bill 2017 will mean that the legislation will only permit this election to be made where the appropriation into trading stock at market value would give rise to a chargeable gain and not where it gives rise to an allowable loss. This means that an allowable loss will be crystallised when the appropriation takes place, and the loss will therefore remain within the chargeable gains rules with respect to how it may be set off in the future, rather than being converted into a more flexible trading loss.

A similar change will apply to the election which can be made where the disposal of the asset gives rise to an 'ATED-related gain'. That is, the asset was within the charge to ATED ('Annual Tax on Enveloped Dwellings'). Any chargeable gain or allowable loss on such an asset is separated into an 'ATED-related' gain or loss and a 'non-ATED related' gain or loss. Only a 'non-ATED related' gain or loss can be the subject of an election and therefore the same change will be made so that the election can only be made where there is a 'non-ATED-related' gain and not where there is a 'non-ATED related' loss.

The change will be effective from 8 March 2017 and this measure will eliminate an unfairness in the tax code which is being exploited by certain businesses.

## Disposals of land in the UK

The government will amend legislation to ensure that all profits realised by offshore property developers developing land in the UK, including those on pre-existing contracts, are subject to tax, with effect from 8 March 2017. This extends legislation introduced in Finance Act 2016. The effect of this change is to put all developers of UK land on an equal footing for tax purposes

# Corporation tax and other business taxes

## ATED annual charges

ATED (Annual Tax on Enveloped Dwellings) is an annual tax payable mainly by companies that own UK residential property valued at more than £500,000. The annual charge is calculated using a banding system based on the value of the property.

The chargeable period begins on 1 April and ends on 31 March. Payment for properties already within the regime is due on the 30 April that falls within the chargeable period. Therefore, for the year to 31 March 2018 the filing and payment deadline is 30 April 2017 – more than 11 months before the end of the relevant tax year.

The table below shows the 2017 to 2018 charges within each property band and what the 2016 to 2017 charges were, as well as how much the charge has increased by from the previous year.

Taxable value of the property	Annual chargeable amounts for the period		Changes
	2017 to 2018	2016 to 2017	
£500,001 to £1,000,000	£3,500	£3,500	No change
£1,000,001 to £2,000,000	£7,050	£7,000	£50
£2,000,001 to £5,000,000	£23,550	£23,350	£200
£5,000,001 to £10,000,000	£54,950	£54,450	£500
£10,000,001 to £20,000,000	£110,100	£109,050	£1,050
£20,000,001 and over	£220,350	£218,200	£2,150

## Substantial shareholding exemption (SSE) reform

Where qualifying conditions are met, the disposal of a substantial shareholding in a company by a UK company is exempt from tax. As previously announced, following consultation, changes are proposed to some of the qualifying conditions for the SSE. The good news is that the changes remove some of the obstacles for qualifying for SSE.

- The condition that the investing company is required to be a trading company or part of a trading group is being removed.
- The condition that the investment must have been held for a continuous period, at a minimum of 12 months in the two years preceding the sale is being extended to a continuous period of 12 months in the six years preceding the sale.
- The condition that the company in which the shares are sold continues to be a qualifying company immediately after the sale, is withdrawn, unless the sale is to a connected party.
- For a class of investors defined as Qualifying Institutional Investors, the condition that the company in which the shares were sold is a trading company has also been removed. The draft legislation contains a list of Qualifying Institutional Investors.

The changes have effect for disposals on or after 1 April 2017.

# Employment taxes

## Off-payroll working in the public sector

As previously announced, from 6 April 2017, new tax rules potentially affect individuals who provide their personal services via their own companies (PSCs) to an organisation which has been classified as a 'public authority'.

Public sector organisations include government departments and their executive agencies, many companies owned or controlled by the public sector, universities, local authorities, parish councils and the National Health Service.

The effect of these rules, if they apply, will mean:

- the public authority (or an agency paying the PSC) will calculate a 'deemed payment' based on the fees the PSC has charged for the services of the individual
- the entity that pays the PSC for the services must first deduct PAYE and employee national insurance contributions (NICs) as if the deemed payment is a salary payment to an employee
- the paying entity will have to pay to HMRC not only the PAYE and NICs deducted from the deemed payment but also employer NICs on the deemed payment
- the net amount received by the PSC can be passed onto the individual without paying any further PAYE and NICs.

The new rules operate in respect of payments made on or after 6 April 2017. This means that they are relevant to contracts entered into before 6 April 2017 but where the payment for the work is made after 6 April 2017.

### Comment:

Where individuals are working through their PSC for private sector clients, the new rules will not apply to income from such work.

It is for the public authority to decide if the deemed payment rules apply. To help all parties determine whether these rules apply, HMRC have provided an online employment status tool. There is no formal right of appeal to HMRC or the Tax Tribunals by the individual or the PSC.

If a new contract is entered into after 6 April 2017, the expectation would be that the PSC would agree the treatment within the initial contract. If it is an existing contract a discussion will need to take place with the public authority as to the reasons for its decision.

## Different forms of remuneration

The government is consulting on the following:

### Taxation of benefits in kind

The government will publish a call for evidence on exemptions and valuation methodology for the income tax and employer NICs treatment of benefits in kind, in order to better understand whether their use in the tax system can be made fairer and more consistent.

### Accommodation benefits

The government will publish a consultation with proposals to bring the tax treatment of employer-provided accommodation and board and lodgings up to date. This will include proposals for when accommodation should be exempt from tax and to support taxpayers during any transition.

### Employee expenses

The government will publish a call for evidence to better understand the use of the income tax relief for employees' expenses, including those that are not reimbursed by their employer.

### Comment:

Employers can choose to remunerate their employees in a range of different ways but, in the view of the government, the tax system may treat these forms of remuneration inconsistently. The government is therefore considering how the tax system 'could be made fairer and more coherent'.



# Employment taxes

## Salary sacrifice

Legislation will limit the income tax and employer NICs advantages where:

- benefits in kind are offered through salary sacrifice or
- the employee can choose between cash allowances and benefits in kind.

The taxable value of benefits in kind where cash has been forgone will be fixed at the higher of the current taxable value or the value of the cash forgone.

The new rules will not affect employer-provided pension saving, employer-provided pensions advice, childcare vouchers, workplace nurseries, or Cycle to Work. Following consultation, the government has also decided to exempt Ultra-Low Emission Vehicles, with emissions under 75 grams of CO<sup>2</sup> per kilometre.

This change will take effect from 6 April 2017. Those already in salary sacrifice contracts at that date will become subject to the new rules in respect of those contracts at the earlier of:

- an end, change, modification or renewal of the contract
- 6 April 2018, except for cars, accommodation and school fees, when the last date is 6 April 2021.

## Comment:

Employers and employees may wish to review their flexible remuneration packages prior to 6 April 2017.

## Changes to termination payments

Changes from 6 April 2018 will align the rules for tax and employer NICs by making an employer liable 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'.

In addition, all payments in lieu of notice (PILONs) will be both taxable and subject to Class 1 NICs. This will be done by requiring 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. This amount will be treated as earnings and will not be subject to the £30,000 exemption.

Finally, the exemption known as foreign service relief will be removed and a clarification made to ensure that the exemption for injury does not apply in cases of injured feelings.

# Employment taxes

## National Minimum Wage and National Living Wage increases

The Chancellor confirmed that the National Living Wage (NLW) rate will be increased from 1 April 2017. Increases are also being made to the National Minimum Wage (NMW) rates. The NLW applies to workers aged 25 and over. The NMW applies to other workers provided they are at least school leaving age.

Rate from:	1 October 2016	1 April 2017
NLW for workers aged 25 and over	£7.20*	£7.50
NMW main rate for workers aged 21-24	£6.95	£7.05
NMW 18-20 rate	£5.55	£5.60
NMW 16-17 rate	£4.00	£4.05
NMW apprentice rate**	£3.40	£3.50

\* introduced and applies from 1 April 2016

\*\*the apprentice rate applies to apprentices under 19, or 19 and over and in the first year of their apprenticeship.

## Employment Allowance

HMRC are actively monitoring National Insurance Employment Allowance compliance following reports of some businesses using avoidance schemes to avoid paying the correct amount of NICs. The government will consider taking further action in the event that this avoidance continues.

## Apprenticeship levy and apprenticeship funding

Larger employers (or connected employers treated as large) will be liable to pay the apprenticeship levy from April 2017. This levy will only be paid on any pay bill in excess of £3 million in a year.

The levy is set at a rate of 0.5% of an employer's pay bill, which is broadly total employee earnings excluding benefits in kind, and will be paid along with other PAYE deductions. Each employer receives an annual allowance of £15,000 to offset against their levy payment.

Employers only need to report on the levy where they have a pay bill of £3 million in the current tax year or consider that the pay bill will be over £3 million during the 2017/18 tax year.

The levy will be used to provide funding for apprenticeships and there will be changes to the funding for apprenticeship training for all employers as a consequence. Each country in the UK has its own apprenticeship authority and each is making changes to its scheme.

# Capital gains tax

## Capital gains tax (CGT) rates

There has been no change to the current rate of CGT. The current rates of CGT are 10%, to the extent that any income tax basic rate band is available, and 20% thereafter. Higher rates of 18% and 28% apply for certain gains; mainly chargeable gains on residential properties that do not qualify for private residence relief.

The rate for disposals qualifying for Entrepreneurs' Relief is 10% with a lifetime limit of £10 million for each individual. Entrepreneurs' Relief is targeted at working directors and employees of companies who own at least 5% of the ordinary share capital in the company and the owners of unincorporated businesses.

In 2016/17 a new relief, Investors' Relief, was introduced which also provides a 10% rate with a lifetime limit of £10 million for each individual. The main beneficiaries of this relief are external investors in unquoted trading companies.

Types of gain	Tax rate to extent available Basic Rate Band	Tax rate over Basic Rate Band
Eligible for Entrepreneurs' Relief or Investors Relief	10%	10%
Residential property	18%	28%
Other gains (eg Shares)	10%	20%

Trusts pay capital gains at the highest rates as outlined above for each category

## CGT annual exemption

The CGT annual exemption is £11,100 for 2016/17 and will be increased to £11,300 for 2017/18.

# Inheritance tax

## **Inheritance tax (IHT) nil rate band**

The nil rate band has remained at £325,000 since April 2009 and is set to remain frozen at this amount until April 2021.

## **Inheritance tax residence nil rate band**

Legislation has already been enacted to introduce an additional nil rate band for deaths on or after 6 April 2017, where an interest in a main residence passes to direct descendants. The amount of relief is being phased in over four years; starting at £100,000 in the first year and rising to £175,000 for 2020/21. For many married couples and civil partners, the relief is effectively doubled as each individual has a main nil rate band and each will potentially benefit from the residence nil rate band.

The additional band can only be used in respect of one residential property, which does not have to be the main family home, but must at some point have been a residence of the deceased. Restrictions apply where estates are in excess of £2 million.

Where a person dies before 6 April 2017, their estate will not qualify for the relief. A surviving spouse may be entitled to an increase in the residence nil rate band if the spouse who died earlier has not used, or was not entitled to use, their full residence nil rate band. The calculations involved are potentially complex but the increase will often result in a doubling of the residence nil rate band for the surviving spouse.

## **Downsizing**

The residence nil rate band may also be available when a person downsizes or ceases to own a home on or after 8 July 2015 where assets of an equivalent value, up to the value of the residence nil rate band, are passed on death to direct descendants.

### **Comment:**

From April 2017 we have three nil rate bands to consider. The standard nil rate band has been a part of the legislation from the start of IHT in 1986. In 2007 the ability to utilise the unused nil rate band of a deceased spouse was introduced enabling many surviving spouses to have a nil rate band of up to £650,000. By 6 April 2020 some surviving spouses will be able to add £350,000 in respect of the residence nil rate band to arrive at a total nil rate band of £1 million.

Individuals will need to revisit their wills and inheritance tax planning to ensure the relief will be available and efficiently utilised.

# Non-residence and non-domicile

## Non-UK domiciles

A number of changes are to be made from 6 April 2017:

- for individuals who are non-UK domiciled but who have been resident for 15 of the previous 20 tax years or;
- where an individual was born in the UK with a UK domicile of origin and resumes UK residence having obtained a domicile of choice elsewhere.

Such individuals will be classed as 'deemed' UK domiciles for income tax, CGT and IHT purposes. For income tax and CGT, a deemed UK domicile will be assessable on worldwide arising income and gains. They will not be able to access the remittance basis. For IHT, a deemed UK domicile is chargeable on worldwide assets rather than only on UK assets.

Legislation will allow a non-UK domiciled individual who has been taxed on the remittance basis to transfer amounts between overseas mixed fund bank accounts without being subject to the offshore transfer rules. This will allow the different elements within the accounts to be separated, thereby allowing clean capital to be remitted to the UK in priority to income and gains.

The draft legislation also provides that the market value of an asset at 5 April 2017 can be used as the acquisition cost for CGT purposes when computing the gain or loss on its disposal where the asset was situated outside the UK between 16 March 2016 and 5 April 2017. This will apply to any individual who becomes a deemed UK domicile in April 2017, other than one who is born in the UK with a UK domicile of origin.

Non-UK domiciles who set up an overseas resident trust before becoming a deemed UK domicile will generally not be taxed on any income and gains retained in that trust and the trust remains non-chargeable property for IHT purposes. However, there are a number of changes which modify the tax treatment on the occurrence of certain events for settlor interested overseas asset trusts.

## UK residential property

Changes are also proposed for UK residential property. Currently all residential property in the UK is within the charge to IHT if owned by a UK or non-UK domiciled individual. It is proposed that all residential properties within the UK will also be within the charge to IHT where they are held within an overseas structure. This charge will apply whether the overseas structure is held by an individual or trust.

## Business Investment Relief for non-domiciles

The government will change the rules for the Business Investment Relief scheme from April 2017 to make it easier for non-UK domiciled individuals, who are taxed on the remittance basis, to bring offshore money into the UK for the purpose of investing in UK businesses. The government will continue to consider further improvements to the rules for the scheme to attract more capital investment in UK businesses by non-UK domiciled individuals.



# VAT and insurance premium tax

## VAT registration threshold

The VAT registration threshold will rise to £85,000 from 1 April 2017.

The current threshold is set at £83,000 and is the highest limit within the EU. Those whose turnover on a rolling 12 month basis (looking back over the last 12 months invoices, reviewed month on month) who exceed, or can be reasonably expected to exceed this limit, are required to register for VAT. Those trading below this threshold can register voluntarily.

## VAT Flat Rate Scheme

Under the Flat Rate Scheme (FRS) a new 16.5% rate will be introduced with effect from 1 April 2017 for 'limited cost traders', such as many labour-only businesses. Currently the lowest rate applicable for users of the FRS is 14.5%. This applies to businesses in sectors such as consultancy, legal and accounting services and labour only building services where there is little VAT incurred on costs. The change will impact on many of these businesses.

The Flat Rate Scheme (FRS) for VAT was introduced to address concerns about the complexity and compliance costs of VAT for small businesses. It aimed to reduce the cost of complying with VAT obligations by simplifying the way that VAT due to HMRC was calculated. However, HMRC believes that the scheme has been used by some businesses to avoid paying the correct amount of VAT.

HMRC have stated that a 'limited cost trader' is a business whose VAT inclusive expenditure on goods is either:

- (a) less than 2% of their VAT inclusive turnover in a prescribed accounting period
- (b) greater than 2% of their VAT inclusive turnover but less than £1,000 per annum if the prescribed accounting period is one year (if it is not one year, the figure is the relevant proportion of £1,000)

'Goods' excludes services, items of capital expenditure, food and drink that is consumed by the business, vehicles, vehicle parts and fuel for businesses not involved in the transport service sector.

### Comment:

It is important that all businesses with low (or no) input costs beyond their own labour that are currently on the FRS review their position. They will need to establish if the new rate will apply to them and to determine whether it would be beneficial to leave the FRS.

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

The government will consult on options to combat missing trader VAT fraud in the provision of labour in the construction sector, in particular, applying the reverse charge mechanism so the recipient accounts for VAT.

## Insurance Premium Tax

The standard rate of Insurance Premium Tax will rise from 10% to 12% from 1 June 2017.

# Childcare and universal credit

## Phased roll out of Tax-Free Childcare

The Chancellor has confirmed that Tax-Free Childcare will be rolled out from April 2017. Tax-Free Childcare will be gradually rolled out for children under 12.

Under the scheme the relief will be 20% of the costs of childcare up to a total of £10,000 per child per year. The scheme will therefore be worth a maximum of £2,000 per child (£4,000 for a disabled child). It is expected that all parents in the household will have to meet the following conditions:

- meet a minimum income level based on the equivalent of working 16 hours a week at National Minimum Wage or National Living Wage rates;
- each earn less than £100,000 a year and;
- not already be receiving support through tax credits or universal credit.

The existing scheme, Employer-Supported Childcare, will remain open to new entrants until April 2018 to support the transition between the schemes.

### Comment:

The government has also confirmed that from September 2017, the free childcare offer will double from 15 to 30 hours a week for working families with three and four year olds in England. In total this is worth up to £5,000 for each child.

## Universal credit

Universal credit is a state benefit designed to support those on low incomes or out of work.

An individual's entitlement to the benefit is made up of a number of elements to reflect their personal circumstances. Their entitlement is tapered at a rate of 65% where claimants earn above the work allowances. The current taper rate for those who claim universal credit means their credit will be withdrawn at a rate of 65 pence for every extra £1 earned.

From April 2017, the taper rate that applies to universal credit will be reduced from 65% to 63%.

# Charities

## **Enlarging Social Investment Tax Relief**

Significant amendments to the Social Investment Tax Relief (SITR) will be legislated for in Finance Bill 2017 to:

- increase the amount of investment a social enterprise may receive over its lifetime to £1.5 million, for social enterprises that receive their initial risk finance investment no later than seven 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. 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 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
- 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.

The changes will take effect for investments made on or after 6 April 2017.

# What should I do next?

Our summary focuses on the tax issues and measures likely to affect you, your family and your business that were announced in the Autumn statement and the budgets earlier this year.

We will issue updates and insights into the changes introduced by the budget via our website and our clients will be notified of these updates, so please do keep an eye out for emails from us.

If you would like to discuss how the budget affects your particular situation please contact your usual WMT partner, a member of the WMT tax team or call 0800 158 5829.

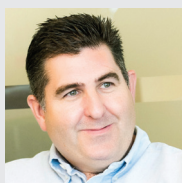


**Anne-Maree  
Dunn**  
Client Partner  
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Anne-Maree Dunn is the tax partner at WMT Chartered Accountants, having been part of the team here since 1988. She is a Chartered Accountant and Chartered Tax Adviser, and works with a wide variety of owner-managed businesses and private individuals on a range of tax and business advisory services.

Anne-Maree's particular areas of specialism are in family business issues, property businesses, exit strategies for owner managers, capital gains tax, group reorganisations as well as tax efficient share and reward schemes.

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**Peter Davies**  
Client Service  
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Peter Davies is a former Inland Revenue investigator with extensive experience in enquiries carried out by HM Revenue and Customs. Since joining the accountancy profession in 2004 Peter has advised businesses on employment tax issues including benefits in kind, PAYE and National Insurance, and more specialised areas such as employment status and termination payments. He also advises hospitality businesses (where he is a recognised national expert) and the construction industry on specific tax issues affecting these sectors. Peter's advice is always practical and straightforward and he manages to make technical tax issues accessible and understandable.

Peter also enjoys public speaking and has contributed to both trade and accountancy publications, as well as appearing on BBC TV and Radio 4.

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# What should I do next?



**Paula Jeffs**  
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A Chartered Tax Adviser (CTA) and member of the Society of Trust and Estates Practitioners (TEP), Paula leads WMT's private client services. She advises clients on all aspects of personal tax planning, maximising tax saving opportunities now and for the future.

Both UK and non-UK domiciled individuals, look to Paula to resolve their planning concerns. In particular, they look to her for planning guidance around income tax, capital gains tax, inheritance tax and property. She also advises on the tax implications that arise during separation and divorce.

Paula previously worked at WMT between 2007 to 2013.

After spending three years expanding on her 20+ years' experience within a top 20 firm, she returned to WMT in August 2016. Her expertise lies in passing on wealth through the use of trusts, inheritance tax planning, residency and the taxation of non UK domiciles.

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**Sarah Lockhart-White**  
Corporate Tax  
Director

Sarah has over 25 years' experience of advising owner-managed businesses and large corporates on their tax challenges and opportunities. Sarah works on both advisory and compliance matters, and clients seek out her technical knowledge to help grow their businesses.

Sarah's recent projects include advising on acquisitions, disposals and restructurings as well as overseas expansion. She has also helped clients to make the most of tax reliefs and allowances such as R&D tax credits, capital allowances and the patent box regime.

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