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Autumn Budget 2017

Autumn Budget 2017 – how does it affect you?

'a forward looking budget to embrace change, meet our challenges head on and seize the opportunities for Britain'

Commentators and politicians alike were looking to Philip Hammond for a game-changing budget. Given the twin challenges of lower than expected growth and a commitment to reduce debt and borrowing, The Chancellor was unlikely to throw caution to the wind and go on a spending spree.

He did, however, announce investments designed to support growth in key sectors, encourage investment in knowledge-based industries and upskill workers to help improve the UK's productivity.

Change

The Government is committed to a low tax economy, with longer consultation in advance of change and with taxes changing less frequently. Hence there has been minimal adjustment to the main rates and allowances.

Continuing the trend of recent years, property remains high on the agenda. Investment will be made in housebuilding and SDLT concessions for first-time home buyers. Non-resident property owners, who already pay taxes on disposal of UK residential property, will now also incur UK tax on future growth on other assets from 2019, such as disposals of UK commercial property.

The budget also profiled potential future changes with consultations on off-payroll working in the private sector, the taxation of trusts and of the digital economy, amongst others, announced.

Challenges

Improvement in UK employees' skills in maths and technology, seen as key to better productivity, were given a boost with promised investment. This will benefit both those at school and already in work, with the expectation that better skilled workers will help to drive growth in the economy.

Companies struggling to pay their business rates were also recognised by The Chancellor. Changes announced include reducing future percentage increases by pegging rises to the Consumer Price Index rather than the Retail Price Index.

Opportunities

Arguably, the greatest opportunities coming from the budget are for those who operate or invest in scientific and technological industries. Measures include doubling both the amount that an individual can invest in knowledge-led businesses under the Enterprise Investment Scheme (EIS) and the amount such companies can raise under EIS or a Venture Capital Trust. There is also a raft of incentives to encourage the development and use of electric vehicles.

What comes next?

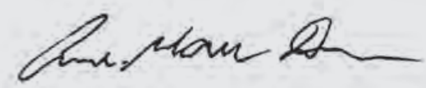
This was the first Budget in the new annual tax policy-making cycle. The government will publish a document before the end of 2017 providing further detail on the new timetable for tax policy development.

In the Spring Statement, the Chancellor will respond to updated forecasts to be published by the Office for Budget Responsibility. The government will also publish various tax consultations and calls for evidence. For tax changes announced in this Budget, draft legislation and responses to consultations will be published in July 2018.

How we can help

Our summary focuses on the issues likely to affect you, your family and your business. To help you understand how the budget affects you, we have included comments throughout the document.

If, after reading this summary, you have any questions, please do not hesitate to contact me, one of our tax specialists (page 23-24), or your usual WMT partner for advice.



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Contents

Personal tax

The personal allowance
The personal allowance is currently £11,500. The personal allowance for 2018/19 will be £11,850.

Tax bands and rates
The basic rate of tax is currently 20%. The band of income taxable at this rate is £33,500 so that the threshold at which the 40% band applies is £45,000 for those who are entitled to the full personal allowance.

In 2017/18 the band of income taxable at the basic rate for income (other than savings and dividend income) is different for taxpayers who are resident in Scotland to taxpayers resident elsewhere in the UK. The Scottish Government set the band of income taxable at the basic rate at £31,500 so that the threshold at which the 40% band applies is £43,000.

The additional rate of tax of 45% is payable on taxable income above £150,000 (other than dividend income) for all UK residents.

2018/19
The government has announced that, for 2018/19, the basic rate band will be increased to £34,500 so that the threshold at which the 40% band applies is £46,350 for those who are entitled to the full personal allowance.

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

The Scottish Government will announce the Scottish income tax rates and bands for 2018/19 in the Draft Budget on 14 December.

	2017/2018	2018/2019
Personal allowance		
Personal allowance	£11,500	£11,850
Tax bands and rates		
Basic rate band (20%)	£0 - £33,500	£0 - £34,500
Higher rate band (40%)	£32,501 - £150,000	£34,501 - £150,000
Additional rate band (45%)	Over £150,000	Over £150,000

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 2017/18 there is no personal allowance where adjusted net income exceeds £123,000. For 2018/19 there will be no personal allowance available where adjusted net income exceeds £123,700.

The Marriage Allowance
The Marriage Allowance allows certain couples, where neither pay tax at more than the basic rate, to transfer 10% of their unused personal allowance to their spouse or civil partner, reducing their tax bill by up to £230 a year in 2017/18. The government will legislate to allow Marriage Allowance claims on behalf of deceased spouses and civil partners, and for the claim to be backdated for up to four years where the entitlement conditions are met.

This measure will come into force on 29 November 2017.

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Dividends and savings

Tax bands and rates - dividends

Dividends received by an individual are subject to special tax rates. Currently the first £5,000 of dividends are charged to tax at 0% (the Dividend Allowance). Dividends received above the allowance are taxed at the following rates:

Dividend income tax band	Rates
First £5,000 of dividend for 2016/17 & 2017/18 Reducing to first £2,000 of dividend 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 £5,000 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 was first introduced for the 2016/17 tax year and applies to savings income. The available allowance in a tax year depends on the individual's marginal rate of income tax.

Tax rate	Savings allowances
20%	£1,000
40%	£500
45%	Nil

Some individuals qualify for a 0% starting rate of tax on savings income up to £5,000. However, the rate is not available if taxable non-savings income (broadly earnings, pensions, trading profits and property income less allocated allowances and reliefs) exceeds £5,000.

Comment:

The government expect 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.

Dividends and savings

Individual Savings Accounts (ISAs)

The overall ISA savings limit for 2017/18 and 2018/19 is £20,000. From 6 April 2018 the junior ISA subscription limit will increase from £4,128 to £4,260.

Help to Buy ISAs

Help to Buy ISAs are a type of cash ISA that can provide a bonus to savers if the funds are used to help to buy a first home.

Lifetime ISA

The Lifetime ISA has been available since April 2017 for adults under the age of 40. Individuals between ages 18 and 50 are able to contribute up to £4,000 per year 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 overall ISA limit was significantly increased from £15,240 to £20,000 for 2017/18. The increase in the investment limit was partly due to the introduction of the Lifetime ISA. There are therefore 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 crowdfunding debentures) and the Lifetime ISA. Money can be placed into one of each kind of ISA each tax year.

As stated above, Help to Buy ISAs are a type of cash ISA and therefore care is needed not to breach the 'one of each kind of ISA each tax year' rule.

Help to Save accounts

In 2016 the government announced the introduction of a new type of savings account aimed at low income working households. Individuals in low income working households will be able to save up to £50 a month into a Help to Save account and receive a 50% government bonus after two years.

Overall the account can be used to save up to £2,400 and can benefit from government bonuses worth up to £1,200. Account holders can then choose to continue saving under the scheme for a further two years.

The scheme will be open to all adults in receipt of Universal Credit with minimum weekly household earnings equivalent to 16 hours at the National Living Wage or those in receipt of Working Tax Credits. Accounts will be available no later than April 2018.

Corporate Tax

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 19%. The rate for future years is:

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

Capital gains indexation allowance

Companies subject to corporation tax are currently entitled to indexation allowance to account for inflation and reduce the capital gain arising when disposing of a capital asset (other than property held as trading stock). This measure changes the calculation of indexation allowance by companies so that for disposals of assets on or after 1 January 2018, indexation allowance will be calculated using the Retail Price Index factor for December 2017 irrespective of the date of disposal of the asset.

Comment:
The measure aligns the treatment of capital gains by companies with that for individuals and non-incorporated businesses for whom indexation allowance was abolished in 2008. It will also align the treatment of capital disposals with disposals of similar assets as part of a company's trading activities.

Improving Research and Development (R&D)

A number of measures have been announced to support business investment in R&D including:

- an increase in the rate of the R&D expenditure credit which applies to the large company scheme from 11% to 12% where expenditure is incurred on or after 1 January 2018
- a pilot for a new Advanced Clearance service for R&D expenditure credit claims to provide a pre-filing agreement for three years
- a campaign to increase awareness of eligibility for R&D tax credits among SMEs
- working with businesses that develop and use key emerging technologies to ensure that there are no barriers to them claiming R&D tax credits.

Intangible Fixed Asset regime

The government will consult in 2018 on the tax treatment of intellectual property also known as the Intangible Fixed Asset regime. This will consider whether there is an economic case for targeted changes to this regime so that it better supports UK companies investing in intellectual property.

Disincorporation Relief

A disincorporation relief was introduced in April 2013 for five years. Broadly, the relief is aimed at certain small companies where the shareholders want to transfer the business into sole tradership or a partnership business. The relief removes the tax charge arising from the company's assets of land and goodwill (the total value of the assets cannot exceed £100,000), if qualifying conditions are met. The government has decided not to extend this relief beyond the current 31 March 2018 expiry date.

Comment:
Increasing the amount of R&D carried out by companies is a key part of the government's aim to increase productivity and promote growth.

There are two types of R&D relief. One is for SME's and the other is for large companies (more than 500 employees or turnover over Euro 100 million and gross assets over Euro 86 million). R&D tax credits support business investment by allowing companies to claim an enhanced Corporation tax deduction or payable credit on their R&D costs.

Business Tax

Royalties Withholding Tax

A consultation is to be published on the design of rules expanding the circumstances in which a royalty payment to persons not resident in the UK has a liability to income tax. The rules will apply to royalties generated by digital sales carried out in the UK, where payment is directed to a low or zero tax jurisdiction. The changes will have effect from April 2019.

Partnership taxation

Legislation will be introduced to provide additional clarity over aspects of the taxation of partnerships:

The proposed legislation will:

- make it clear that the allocation of partnership profits shown on the partnership return is the allocation that applies for tax purposes for the partners
- provides a relaxation in the information to be shown on the partnership return for investment partnerships that report under the Common Reporting Standard or Foreign Account Tax Compliance Act, and who have non-UK resident partners who are not chargeable to tax in the UK
- provides a new structured mechanism for the resolution of disputes between partners over the allocation of taxable partnership profits and losses shown on the partnership return.
- where a beneficiary of a bare trust is entitled absolutely to any income of that bare trust consisting of profits of a firm, but is not themselves a partner in the firm, then they are subject to the same rules for calculating profits etc and reporting as actual partners.
- how the current rules and reporting requirements operate in particular circumstances where a partnership has partners that are themselves partnerships.

Comment:
This will mean that a fixed profit share partner will also have to be taxed on the same percentage share of non-allowable expenditure in the accounts potentially increasing their overall tax liability substantially.

Business Tax

Extension of First Year Allowances (FYA)

A 100% FYA is currently available for businesses purchasing zero-emission goods vehicles or gas refuelling equipment. Both schemes were due to end on 31 March 2018 but have been extended for a further three years.

Extension of First Year Tax Credits (FYTC)

FYA enables profit-making businesses to deduct the full cost of investments in energy and water technology from their taxable profits. Loss-making businesses do not make profits, so they do not benefit from FYAs. However, when the loss-making business is a company it can claim FYTC when it invest in products that feature on the energy and water technology lists.

A FYTC claim allows the company to surrender a loss in exchange for a cash credit and is currently set at 19% but the facility was due to end on 31 March 2018. The credit system is to be extended for five years but the percentage rate of the claim is to reduce to two-thirds of the corporation tax rate. The changes to FYTC will have effect from 1 April 2018.

Business rates

Business rates have been devolved to Scotland, Northern Ireland and Wales. The business rates revaluation took effect in England from April 2017 and resulted in significant changes to the amount of rates that businesses will pay. In light of the recent rise in inflation, the government will provide further support to businesses including:

- bringing forward the planned switch in indexation from RPI to CPI to 1 April 2018
- legislating retrospectively to address the so-called 'staircase tax'. Affected businesses will be able to ask the Valuation Office Agency to recalculate valuations so that bills are based on previous practice backdated to April 2010
- moving to revaluations every three years (in place of five), following the next revaluation, currently due in 2022
- continuing the £1,000 business rate discount for public houses with a ratable value of up to £100,000.

Profit fragmentation

The government will consult on the best way to prevent UK traders or professionals from avoiding UK tax by arranging for UK trading income to be transferred to unrelated entities. This will include arrangements where profits accumulate offshore and are not returned to the UK.

Comment:

Relief for capital expenditure by businesses can significantly advance tax relief. The Annual Investment Allowance - the amount on which a business or company can deduct capital expenditure against their taxable profits at 100% - remains at £200,000 for the foreseeable future. On top of this there are further 100% First Year Allowances for energy saving plant and machinery and zero emission goods vehicles.

Where businesses are incurring significant capital expenditure it is important to ensure that the claims to tax relief are carefully reviewed to maximise the reliefs as early as possible, thereby making a significant difference to cash flow.

Capital gains tax

Capital Gains Tax (CGT) annual exemption
The CGT annual exemption is £11,300 for 2017/18 and will be increased to £11,700 for 2018/19.

CGT rates
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 with the exception of any element that qualifies for private residence relief.

There are two specific types of disposal which potentially qualify for a 10% rate, both of which have a lifetime limit of £10 million for each individual:

- Entrepreneurs' Relief (ER). This 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.
- Investors' Relief. 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%

Entrepreneurs Relief (ER) - relief after dilution of holdings
The government will consult on how access to ER might be given to those whose holding in their company is reduced below the normal 5% qualifying level as a result of raising funds for commercial purposes by means of issues of new shares. Allowing ER in these circumstances would incentivise entrepreneurs to remain involved in their businesses after receiving external investment.

Comment:
This proposal is welcome and addresses a particular problem which can arise. ER broadly requires a holding of 5% of the ordinary share capital. It may be that significant external investment is made which would reduce the holding to below 5%.

For example, Bill owns 33% of the original share capital of 100 shares issued at par. John invests £30,000 in the company in return for 30,000 new shares. This reduces Bill's holding to 33 of 30,100 shares, below the 5% limit. It appears that the government intend to address this problem.

CGT payment window
The government had previously suggested that capital gains tax would have to be paid within 30 days of the sale of a residential property but this proposal has now been deferred until April 2020.

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Employment taxes

Different forms of remuneration

In the Spring Budget the government stated it wished to consider how the tax system 'could be made fairer and more coherent'. A call for evidence was subsequently published on employee expenses. The government's aim is to better understand the use of the income tax relief for employees' business expenses. It sought views on how employers currently deal with employee expenses, current tax rules on employee expenses and the future of employee expenses.

Following the call for evidence:

- the government announced that the existing concessionary travel and subsistence overseas scale rates will be placed on a statutory basis from 6 April 2019, to provide clarity and certainty. Employers will only be asked to ensure that employees are undertaking qualifying travel
- the government also announced that employers will no longer be required to check receipts when making payments to employees for subsistence using benchmark scale rates. This will apply to standard meal allowances paid in respect of qualifying travel and overseas scale rates. Employers will only be asked to ensure that employees are undertaking qualifying travel. This will have effect from April 2019 and will not apply to amounts agreed under bespoke scale rates or industry wide rates
- HMRC will work with external stakeholders to explore improvements to the guidance on employee expenses, particularly on travel and subsistence and the claims process for tax relief on employment expenses. This programme of work will also increase simplicity around the process for claiming tax relief and will take action to improve awareness of the process and the rules
- the government will consult in 2018 on extending the scope of tax relief currently available to employees and the self-employed for work-related training costs.

The government response to the call for evidence will be published on 1 December 2017.

Off-payroll working extension to the private sector

The government will consult in 2018 on how to tackle non-compliance with the intermediaries legislation (commonly known as IR35) in the private sector. The aim being to ensure that individuals who effectively work as employees are taxed as employees even if they choose to structure their work through a company.

A widely predicted next step would be to extend the recent public sector reforms to the private sector. These rules have obliged public sector bodies to operate payroll deductions on payments to intermediaries (such as personal service companies) where an employment relationship would have existed between the individual carrying out the work and the organisation engaging the services.

Employment taxes

Changes to termination payments

The government previously announced changes to align the rules for tax and employer NICs by making an employer liable to pay Class 1A NICs on any part of a termination payment that exceeds the £30,000 threshold that currently applies for income tax.

In addition, 'non-contractual' payments in lieu of notice (PILONs) will be treated as earnings rather than as termination payments and will therefore be subject to income tax and 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 full notice period.

All these measures were due to take effect from April 2018. In November 2017 the government decided to implement a one year delay for the Class 1A NICs measure relating to payments over £30,000, so the change will take effect from April 2019. Note that the changes to the treatment of PILONs for income tax and Class 1 NICs will still apply from April 2018.

The government will legislate to ensure that employees who are UK resident in the tax year in which their employment is terminated will not be eligible for foreign service relief on their termination payments. Reductions in the case of foreign service are retained for seafarers. The changes will have effect from 6 April 2018 and apply to all those who have their employment contract terminated on or after 6 April 2018.

Comment:
Currently 'non-contractual' PILONs may be treated as part of a termination payment and therefore exempt from income tax up to the £30,000 threshold and not subject to any NICs.

This is a significant change and means that the number of termination payments qualifying for the full £30,000 income tax exemption, will reduce dramatically. Crucially, a PILON will be deemed to have been made in all cases where the employee is not able to work their notice period in full, and will be subject to tax and NICs.

Employer provided cars

The scale of charges for working out the taxable benefit for an employee who has use of an employer provided car are now announced well in advance. Most cars are taxed by reference to bands of CO^2 emissions. Currently there is a 3% diesel supplement. The maximum charge is capped at 37% of the list price of the car.

In the current tax year there is a 9% rate for cars with CO^2 emissions up to 50gm/km or which have neither a CO^2 emissions figure nor an engine cylinder capacity (and which cannot produce CO^2 emissions in any circumstances by being driven). From 6 April 2018 this will be increased to 13%, and from 6 April 2019 to 16%.

For other bands of CO^2 emissions there will generally be a 2% increase in the percentage applied by each band from 6 April 2018. For 2019/20 the rates will increase by a further 3%.

The government announced that they will legislate to increase the diesel supplement from 3% to 4%. This will apply to all diesel cars registered from 1 January 1998 that do not meet the Real Driving Emissions Step 2 (RDE2) standards. The change will have effect from 6 April 2018.

There is no change to the current position that the diesel supplement does not apply to hybrid cars.

Employment taxes

Armed forces accommodation allowance exemption

The government will introduce an income tax exemption for certain allowances paid to Armed Forces personnel for renting or maintaining accommodation in the private market. A Class 1 NICs disregard will also be introduced.

The change will have effect from Royal Assent once regulations have been laid.

Future tax changes

A number of other proposed changes were announced. These include:

- exempting electricity provided by an employer in the workplace from being taxed as a benefit in kind from April 2018. This will apply to electricity provided via workplace charging points for electric or hybrid cars owned by employees

- the government will publish a consultation as part of its response to Matthew Taylor's review of modern working practices, considering options for reform to make the employment status tests clearer for both employment rights and tax.

National Insurance

Class 2 National Insurance contributions (NICs)

The 2016 Budget announced that Class 2 NICs will be abolished from April 2018. The legislation to effect this measure was intended to be introduced this year. In November 2017 the government decided to implement a one year delay so that Class 2 NICs will be abolished from April 2019.

Comment:
The government is still committed to abolishing Class 2 NICs. The deferral allows time to engage with interested parties with concerns relating to the impact of the abolition of Class 2 NICs on self-employed individuals with low profits.

Class 4 NICs

The Chancellor announced in the 2017 Budget proposals to increase the main rate of Class 4 NICs from April 2018 but was forced to make a subsequent announcement that the increase would not take place and there will be no increases to NICs rates in this Parliament.

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Property Tax and Stamp Duty Land Tax (SDLT)

SDLT Relief for first time buyers

The government has announced that first time buyers paying £300,000 or less for a residential property acquired on or after 22 November 2017 will pay no SDLT.

First time buyers paying between £300,000 and £500,000 will pay SDLT at 5% on the amount of the purchase price in excess of £300,000. These two measures provide savings of up to £5,000.

First time buyers purchasing property for more than £500,000 will not be entitled to any relief and will pay SDLT at the normal rates.

In order to qualify as a 'first time buyer' an individual must not have ever owned an interest in a residential property worldwide and they must intend to occupy the property as their main residence. In cases where there are joint purchasers, both must qualify as first time buyers.

Comment:
This measure does not apply in Scotland as this is a devolved tax. This measure will apply in Wales until 1 April 2018, when SDLT will be devolved to Wales.

SDLT higher rates: minor changes

New rules were introduced to impose an extra SDLT charge of 3% on additional residential properties purchased on or after 1 April 2016. Broadly, transactions under £40,000 do not require a tax return to be filed with HMRC and are not subject to the higher rates.

For transactions on or after 22 November 2017, relief from the extra 3% will be given in certain cases including where:

- a divorce related court order prevents someone from disposing of their interest in a main residence
- a spouse or civil partner buys property from another spouse or civil partner
- a deputy buys property for a child subject to the Court of Protection, and
- a purchaser adds to their interest in their current main residence. The changes also counteract abuse of the relief when someone who changes main residence retains an interest in their former main residence.

SDLT changes to the filing and payment process

The government has confirmed that it will reduce the SDLT filing and payment window from 30 days to 14 days for land transactions with an effective date on or after 1 March 2019. The government is planning improvements to the SDLT return that aim to make compliance with the new time limit easier.

Rent a room relief

The government will publish a call for evidence on 1 December 2017 to build the evidence base around the usage of rent a room relief and to help establish whether it is consistent with the original policy rationale to support longer-term lettings. The relief threshold recently increased to £7,500 having remained at £4,250 for a number of years.

Mileage rates for landlords

The government will legislate to give unincorporated property businesses the option to use a fixed rate deduction for every mile travelled by car, motorcycle or goods vehicle for business journeys. This will be as an alternative to claims for capital allowances and deductions for actual expenses incurred, such as fuel. The changes will have effect from 6 April 2017.

Property Tax and Stamp Duty Land Tax (SDLT)

Payment dates for CGT

Under self-assessment Capital Gains Tax (CGT) is payable on 31 January after the end of the tax year.

CGT payable on the disposal of a UK residential property was due to be changed so that it fell for payment within 30 days of completion. This measure is now being deferred by one year to April 2020 which is going to be welcome news from a cash flow perspective.

Annual Tax on Enveloped Dwellings (ATED) rates

Companies liable to the ATED charge on properties valued at more than £500,000 will see an increase to the rate charged from 1 April 2018 based on the rise in the Consumer Price Index (CPI). For 2018/19 the increase will be 3% in line with the September 2017 CPI.

ATED was introduced from 1 April 2013 and is an annual charge on companies, partnerships with any company members, and collective investment schemes (referred to as non-natural persons (NNPs)) which own an interest in UK residential property valued at more than £500,000 and which are not eligible for relief.

The ATED chargeable period runs from 1 April to 31 March and the amount of tax charged is by reference to a banding system based on the value of the property. The reliefs available are generally where a property is used for commercial purposes.

The table below shows the changes for the 2018 to 2019 and 2017 to 2018 chargeable period, as well as how much the charge has increased.

Taxable value of the property	Annual chargeable amounts for the period		Increase for 2018 to 2019 period
	2018 to 2019	2017 to 2018	
£500,001 to £1,000,000	£3,600	£3,500	£100
£1,000,001 to £2,000,000	£7,250	£7,050	£200
£2,000,001 to £5,000,000	£24,250	£23,550	£700
£5,000,001 to £10,000,000	£56,550	£54,950	£1,600
£10,000,001 to £20,000,000	£113,400	£110,100	£3,300
£20,000,001 and over	£226,950	£220,350	£6,600

Venture Capital and Enterprise Investment Schemes

Increased limits for knowledge-intensive companies

The government will legislate to encourage more investment in knowledge-intensive companies under the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs). The government will:

- double the limit on the amount an individual may invest under the EIS in a tax year to £2 million from the current limit of £1 million, provided any amount over £1 million is invested in one or more knowledge-intensive companies
- raise the annual investment limit for knowledge-intensive companies receiving investments under the EIS and from VCTs to £10 million from the current limit of £5 million. The lifetime limit will remain the same at £20 million, and
- allow knowledge-intensive companies to use the date when their annual turnover first exceeds £200,000 in determining the start of the initial investing period under the permitted maximum age rules, instead of the date of the first commercial sale.

The changes will have effect from 6 April 2018. This measure is subject to normal state aid rules.

Comment:
EIS continues to provide one of the most valuable tax reliefs available to investors in unquoted companies and also one of the more complex areas of tax legislation. Extending the reliefs available in relation to knowledge-intensive companies is welcome.

Venture Capital

The government will introduce measures to ensure venture capital schemes (the EIS, Seed Enterprise Investment Scheme and VCTs) are targeted at growth investments. The government has announced that relief under the schemes will be focussed on companies where there is a real risk to the capital being invested, and will exclude companies and arrangements intended to provide 'capital preservation'.

Detailed guidance will be issued shortly after the publication of the Finance Bill.

VCTs

The government will legislate to limit the application of an anti-abuse rule relating to mergers of VCTs. The rule restricts relief for investors who sell shares in a VCT and subscribe for new shares in another VCT within a six month period, where those VCTs merge. This rule will no longer apply if those VCTs merge more than two years after the subscription, or do so only for commercial reasons.

The change will have effect for VCT subscriptions made on or after 6 April 2014.

The government will also legislate to move VCTs towards higher risk investments by:

- removing certain 'grandfathering' provisions that enable VCTs to invest in companies under rules in place at the time funds were raised, with effect on and after 6 April 2018
- requiring 30% of funds raised in an accounting period to be invested in qualifying holdings within 12 months after the end of the accounting period, with effect on and after 6 April 2018
- increasing the proportion of VCT funds that must be held in qualifying holdings to 80%, with effect for accounting periods beginning on and after 6 April 2019
- increasing the time to reinvest the proceeds on disposal of qualifying holdings from six months to 12 months for disposals on or after 6 April 2019, and
- introducing a new anti-abuse rule to prevent loans being used to preserve and return equity capital to investors, with effect on and after Royal Assent.

This measure is subject to normal state aid rules.

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.

IHT residence nil rate band

An additional nil rate band is now available for deaths on or after 6 April 2017, where an interest in a 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 registered 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 died before 6 April 2017 their estate did 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 had 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:

When planning to minimise IHT liabilities we now 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. From 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 need to revisit their wills to ensure that the relief will be available and efficiently utilised.

Non residence and non-domicile

Non-UK resident companies

The government is to legislate so that non-UK resident companies with UK property income and/or chargeable gains relating to UK residential property will be charged to corporation tax rather than income tax or capital gains tax respectively, as at present. The government plans to publish draft legislation for consultation in summer 2018. The change is set to have effect from 6 April 2020.

Extending the taxation of gains made by non-residents

The government announced that, from April 2019, tax will be charged on gains made by non-residents on the disposal of all types of UK immovable property. This extends existing rules that apply only to residential property.

This measure expands the scope of the UK's tax base with regard to disposals of immovable property by non-residents in two key ways:

- all non-resident persons' gains on disposals of interests in UK land will be chargeable, and
- indirect disposals of UK land will be chargeable.

Offshore trusts

New anti-avoidance rules will be introduced to ensure that a UK resident individual who benefits from an offshore trust will be subject to UK taxation on income and gains arising, even where they have not directly received the payment. The changes are as follows:

- If a capital payment is made to any non-UK resident on or after 6 April 2018, it will not reduce the pool of 'stockpiled' trust gains. Any offshore trust with non-UK Resident beneficiaries will need to consider making distributions as soon as possible.
- Non UK residents or non UK domiciles receiving capital payments or benefits that are not subject to tax on the distribution, but are then redirected to a UK resident, will in future be taxed on the UK resident.
- Capital payments or benefits provided to a close family member of a UK resident settlor, will be taxable as if they were received by the settlor. This will stop the use of personal allowances, exemptions and lower marginal tax rates for members of the settlor's family, so it will be important to make the most of any tax planning opportunities this year.

Offshore compliance

HMRC intends to further extend measures to prevent offshore tax evasion. A new consultation has been announced to consider whether HMRC will be given powers to assess tax for the preceding 12 years without needing to establish if there was deliberate non-compliance with regard to offshore matters.

At the moment, HMRC can only go back beyond 6 years if deliberate behaviour was involved, or if there was a failure to notify, so this could be a considerable extension to their powers.

VAT

VAT thresholds

There had been some speculation leading up to the Budget that the VAT registration limit would be significantly reduced. The current level for VAT registration of £85,000 will be maintained for a further two years from April 2018. Those whose turnover on a rolling 12 month basis (looking back over the last 12 months turnover, reviewed month on month) who exceed, or can be reasonably expected to exceed this limit, must register. Those trading below this threshold can register voluntarily.

In the meantime, the government intends to consult further on the threshold level.

Making Tax Digital for Business: VAT

In July 2017, the government announced significant changes to the timetable and scope of HMRC's digital tax programme for businesses. VAT will be the first tax where taxpayers will keep digital records and report digitally to HMRC. The new rules will apply from April 2019 to all VAT registered businesses with turnover above the VAT threshold.

As with electronic VAT filing at present, there will be some exemptions from Making Tax Digital for VAT. However, the exemption categories are tightly-drawn and unlikely to be applicable to the generality of VAT registered businesses.

Comment:

Keeping digital records will not mean businesses are mandated to use digital invoices and receipts but the actual recording of supplies made and received must be digital. It is likely that third party commercial software will be required. Software will not be available from HMRC. The use of spreadsheets will be allowed, but they will have to be combined with add-on software to meet HMRC's requirements.

In the long run, HMRC are still looking to a scenario where income tax updates are made quarterly and digitally, and this is really what the VAT provisions anticipate.

VAT fraud in labour provision in the construction sector

The government will pursue legislation to shift responsibility for paying the VAT along the supply chain to remove the opportunity for it to be stolen with effect on or after 1 October 2019. The long lead-in time reflects the government's commitment to give businesses adequate time to prepare for the changes. The government has decided not to bring in legislative measures to address the fraud in the Construction Industry Scheme but HMRC are increasing their compliance response to target the fraud there.

Vehicle Excise Duty (VED)

A supplement will apply to new diesel vehicles from 1 April 2018 so that these cars will go up by one VED band in their First-Year Rate. This will apply to any diesel car that is not certified to the Real Driving Emissions 2 (RDE2) standard.

Comment:

The government state that someone purchasing a typical Ford Focus diesel will pay an additional £20 in the first year, a VW Golf will pay £40, a Vauxhall Mokka £300 and a Landrover Discovery £400.

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Gift Aid and charities

Simplification of Gift Aid donor benefit rules

The government will introduce legislation to simplify the donor benefit rules that apply to charities that claim Gift Aid. Currently there are a mix of monetary and percentage thresholds that charities have to consider when determining the value of benefit they can give to their donors in return for a donation on which Gift Aid can be claimed. These will be replaced by two percentage thresholds:

- the benefit threshold for the first £100 of the donation will remain at 25% of the amount of the donation, and

- for larger donations, charities will be able to offer an additional benefit to donors up to 5% of the amount of the donation that exceeds £100.

The total value of the benefit that a donor will be able to receive remains at £2,500.

The government have confirmed that four extra statutory concessions that currently operate in relation to the donor benefit rules will also be brought into law. The changes will have effect on and after 6 April 2019.

Sundry other matters

Taxation of trusts
The government will publish a consultation in 2018 on how to make the taxation of trusts simpler, fairer and more transparent.

Digital Economy Position Paper
The government has published a position paper setting out the challenges posed by the digital economy, setting out its proposed approach for addressing the challenges posed for the international corporate tax framework and its proposed approach for addressing those challenges.

Universal Credit
Universal Credit is a state benefit designed to support those on low income or out of work. It is intended to replace some benefits such as housing benefit, tax credits and income support. It is being introduced in selected areas. The intention is that the rollout will be completed by September 2018.

An individual's entitlement to the benefit is made up of a number of elements to reflect their personal circumstances. Claimants' entitlement to Universal Credit is withdrawn at a rate of 63 pence for every extra £1 earned (the 'taper rate') where claimants earn above the work allowances.

Following concerns about the roll out of Universal Credit, the Chancellor announced that households in need who qualify for Universal Credit will be able to access a month's worth of support within five days, via an interest-free advance, from January 2018. This advance can be repaid over 12 months.

Claimants will also be eligible for Universal Credit from the day they apply, rather than after seven days. Housing Benefit will continue to be paid for two weeks after a Universal Credit claim.

Certificates of tax deposit
As of 23rd November 2017, the Certificate of Tax Deposit (CTD) scheme will close.

Existing Certificates will continue to be honored for 6 years.

The Financial Services Compensation Scheme (FSCS) currently limit the protection available on cash deposits per person to £85,000 per institution. Therefore, with the withdrawal of the CTD scheme to protect capital sums held for tax, a saver would be required to open accounts with multiple institutions.

Student loans
The Student Loans Company and HMRC will update their processes by April 2019, to share data more frequently to stop the overpayment of loans after a borrower has made full repayment.

Compliance and HMRC targeted areas
The government is investing a further £155m in additional resources and new technology for HMRC. This investment is forecast to help bring in £2.3bn of additional tax revenues by allowing HMRC to:

- transform their approach to tackling the hidden economy through new technology
- further tackle those who are engaging in marketed tax avoidance schemes
- enhance efforts to tackle the enablers of tax fraud and hold intermediaries accountable for the services they provide using the Corporate Criminal Offence
- increase their ability to tackle non-compliance among mid-size businesses and wealthy individuals
- recover greater amounts of tax debt including through a new taskforce to specifically tackle tax debts more than nine months old.

Rail cards
The benefits of discounted rail travel will be extended from those aged 16 – 25 to include those up to 30 years of age. This will include the introduction of a new railcard for ages 26 to 30. Further details will be announced in agreement with the industry and will be implemented from Spring 2018.

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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 and Head of Tax

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 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, exit strategies for owner managers, property matters, capital gains tax, group reorganisations as well as tax efficient share and reward schemes.

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Peter Davies

Client Partner

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.

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What should I do next?

Paula Jeffs

Private Client Partner

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's 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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Rob Ennis

Employment Tax Director

Rob began his career as an Inland Revenue auditor, and retains a genuine enthusiasm for his area of specialism some twenty years later. He is experienced in advising organisations of every size and type on the full spectrum of employment taxes matters.

Rob covers everything from making sure employers are tax compliant through to the effect on employee taxation of major strategic changes – such as business restructuring, mergers and acquisitions. He also advises on share schemes and tax efficient rewards for employees, as well helping employers prepare for, and respond to enquiries and investigations from HMRC.

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