MSR GROUP

Spring Budget Summary 2017

Covering the key tax measures of the Chancellor's Spring Budget.

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Personal and Business Tax

Making Tax Digital

As part of the roadmap that will lead eventually to the abolition of the personal tax return, legislation to be included in Finance Bill 2017 (though much of the detail will be in regulations) will require unincorporated businesses (including property businesses) to:

- report income and expenses digitally to HMRC on a quarterly basis;
- categorise their expenses according to prompts and guidance in software; and
- provide a finalised end of year position digitally to HMRC, normally within 10 months after the end of the period of account.

Businesses can continue to use spreadsheets for record-keeping, but will need to combine the spreadsheet with software in order to produce the quarterly reports.

These requirements will take effect from 6 April 2018, though they are expected to apply only to periods of account beginning on or after that date. Businesses and landlords with turnover of less than £10,000 will be exempt. For those with turnover not exceeding the VAT registration threshold (increased by this Budget to £85,000) the requirements will be deferred until 6 April 2019.

It is worth noting that a Treasury Select Committee Report of 11 January 2017 considered the £10,000 threshold to be unacceptably low. Other than deferring the start date for those above this threshold but below the VAT registration limit, the Government seems unmoved on this.

The personal tax return is still with us for the time being but is residing on Death Row with little or no chance of a reprieve.

Trading and property income allowances

Two separate £1,000 allowances are to be introduced for 2017/18 onwards for trading income and property income. Where an individual's gross receipts (i.e. before deducting expenses) do not exceed the £1,000 limit, there will be no charge to tax. The individual can, however, elect that this should not apply. Where gross receipts exceed that limit, the individual can elect to use an alternative method of calculating the taxable income. Under this method the charge to tax is on gross receipts less £1,000. These allowances will operate in a similar fashion to rent-a-room relief, albeit with a much lower threshold, and the intention would seem to be to ease the load on the tax administration machine by taking the very smallest businesses and lettings out of tax altogether.

Simplified cash basis

The threshold below which an unincorporated business can use the cash basis of accounting in computing their taxable profit is increased to

£150,000 for 2017/18 onwards. It was previously equal to the VAT registration threshold. The threshold will continue to be doubled for Universal Credit claimants, so that it will now be £300,000. The exit threshold is increased to £300,000 for all cash basis users. In addition, the legislation will now provide a simple list of disallowable expenditure to simplify the rules for allowable deductions within cash basis accounting.

The cash basis will also be extended to property businesses for 2017/18 onwards. Those with both a UK and an overseas property business will be able to use the cash basis, if they so choose, for either or for both. Similar exclusions will apply as for trades, including the operation of the £150,000 threshold.

Tax-advantaged investments

The annual subscription limit for Individual Savings Accounts (ISAs) will be increased to £20,000 for 2017/18. The new Lifetime ISA should be available from April 2017. The interest rate for the new NS&I Investment Bond has been confirmed at 2.2%; it will be available for 12 months from April 2017. It is thought that interest will be taxable, but the investor will be able to set his personal savings allowance against it.

Several changes are to be made to the Social Investment Tax Relief scheme with effect for investments made on or after 6 April 2017. In particular, the amount of qualifying investment a qualifying social enterprise can raise will increase in most cases, from the current three-year rolling limit of approximately €344,000 to a maximum of £1.5 million over its lifetime. This increased limit will be available to qualifying social enterprises that receive their initial risk finance investment no later than seven years after their first commercial sale.

Certain technical amendments are also to be made to the Enterprise Investment Scheme, the Seed Enterprise Investment Scheme and Venture Capital Trusts (VCTs).

Dividend allowance

Only one year after this allowance was introduced in the sum of £5,000 it has been announced that it will be reduced to £2,000, though this will not happen until April 2018. The allowance takes the form of a band of income in which dividends are charged at 0% instead of at the dividend ordinary, upper or additional rate. The £5,000 allowance was introduced alongside increases in the rates at which dividend income is effectively taxed, e.g. from 0% to 7.5% in the case of basic rate taxpayers, but there is no suggestion that the current rates will now be reduced.

Class 4 National Insurance Contributions (NIC)

The main rate of Class 4 NICs will increase from 9% to 10% from 6 April 2018 and from 10% to 11% from 6 April 2019.

Tax treatment of appropriations to trading stock

The appropriation of a capital asset to trading stock is treated as taking place at market value, and can give rise to a chargeable gain or an allowable loss for capital gains purposes. However, an election can be made to reduce the gain or loss to zero. The value transferred is then reduced by the gain or increased by the loss that would otherwise arise. In future this election will be permitted only where the appropriation to stock at market value would give rise to a chargeable gain and not where it would give rise to an allowable loss. This measure will have immediate effect by preventing the election being made for appropriations into trading stock made on or after 8 March 2017, and it will apply to both non-corporate and corporate traders.

Double Taxation Treaty Passport Scheme

The Government is to renew and extend the administrative simplifications of this scheme to assist foreign lenders and UK borrowers. It was previously restricted to corporate lenders and corporate UK borrowers, but from 6 April 2017 the scheme will apply to all types of overseas lenders and UK borrowers.

Employment Tax

Termination payments

For 2018/19 onwards, where employers make payments on termination of employment, including all payments in lieu of notice (PILONs) (and not just contractual PILONs), they will be required to identify, using a new statutory formula, the amount of basic pay that the employee would have received if he had worked his full notice period. That amount will be treated as earnings and Class 1 national insurance contributions (NICs) will therefore be payable in respect of them. Those earnings will not qualify for the exemption from income tax on the first £30,000 of termination payments.

Any payment over and above the amount identified as earnings will then be chargeable to income tax to the extent that it exceeds £30,000. Such excess will now be subject to employer Class 1A NICs as well. Under current legislation, depending on the length of any foreign service in relation to total service, termination payments may be wholly exempted or the amount otherwise chargeable may be proportionately reduced. This relief is to be abolished for 2018/19 onwards.

Salary sacrifice arrangements

With effect from 6 April 2017, salary sacrifice arrangements may be used to achieve tax and NIC savings only in the case of:

- employer pension contributions and pensions advice;
- childcare vouchers, employer-provided childcare and workplace nurseries;
- cycle to work schemes; and
- ultra-low emission company cars (emissions not exceeding 75g/km).

Other benefits which are currently exempt, will lose that exemption if provided via a salary sacrifice arrangement and will become subject to income tax and Class 1A NIC. Transitional protection applies for one year to salary sacrifice arrangements in place before 6 April 2017. The protection is extended until 5 April 2021 for cars with emissions above 75g/km, accommodation and school fees. It will in most cases be lost if the existing arrangement is varied or renewed.

Time limit for making good on benefits-in-kind

The existing legislation has a number of different deadlines for the employee to reimburse the employer (known as "making good") to avoid a charge to tax on non-payrolled benefits. To simplify administration for employers, legislation will be included in Finance Bill 2017 so that, with effect for benefits provided in 2017/18 onwards, the deadlines for making good will be aligned. The employee will need to make good the amount by 6 July following the end of the tax year in which the benefit is provided.

Workers' services provided to public sector through intermediaries

Legislation will be introduced in Finance Bill 2017 to change the way in which the tax rules on employment income apply to cases where workers provide their services to public sector bodies through personal service companies (PSCs). Where a PSC provides the services of a worker to a public body, such as a Government department, NHS trust or local authority, the responsibility for operating the current intermediaries rules (commonly known as the IR35 rules) and deducting any tax and NICs due will move from the individual worker's PSC to the public sector body, agency or third party paying that PSC. Under the current intermediaries rules, the PSC is treated as making a payment of deemed employment income to the worker at the end of the tax year. The usual 5% deduction for expenses will not be available in cases where it is the public sector body etc. (and not the PSC) who is treated as making the deemed employment income payment to the worker. The public sector body etc. will, however, be permitted to take account of the worker's actual expenses when calculating the tax due.

Employment income provided through third parties (disguised remuneration)

As announced at Autumn Statement 2016, the government will legislate in Finance Bill 2017 to tackle existing use, and prevent future use, of disguised remuneration avoidance schemes. This consists of a package of changes that will generally have effect on and after 6 April 2017. However, the close companies' gateway announced at Autumn Statement will now commence from 6 April 2018.

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

Finally, legislation will be introduced with effect from 6 April 2017 to tackle similar schemes used by the self-employed.

Image rights

HMRC is to publish guidelines later in spring 2017 for employers who make payments for image rights to their employees; these are intended to improve the clarity of the existing scheme.

Pensions Tax

Money purchase annual allowance

The money purchase annual allowance, a reduced annual allowance in respect of money purchase pension contributions which applies to individuals who have flexibly accessed their pension benefits, will be reduced from £10,000 to £4,000 from 6 April 2017.

Changes to tax treatment of foreign pension regimes

Legislation to be included in Finance Bill 2017 will align the treatment of foreign pensions more closely with the UK's domestic pension regime. This will have effect from 6 April 2017.

Qualifying Recognised Overseas Pension Schemes (QROPS)

A 25% tax charge is to be applied to pension transfers made to QROPS in cases where the transfer is requested on or after 9 March 2017. The tax charge will be deducted at source by the scheme administrator or scheme manager of the transferor pension scheme. Exceptions will be made to the charge, allowing transfers to be made tax-free in limited circumstances where individuals have a genuine need to transfer their pension.

Following a transfer to a QROPS on or after 6 April 2017, UK tax rules will apply to payments out of the transferred funds in the five tax years following the transfer, regardless of where the individual is resident.

Corporation tax

Deductibility of interest

In line with previous announcements, Finance Bill 2017 will restrict the tax deduction available to companies for interest and similar items. From 1 April 2017, a group will have its deduction restricted to a maximum of 30% of earnings before interest, tax, depreciation and amortisation that are taxable in the UK. There will also be a modified debt cap, replacing the pre-existing worldwide debt cap, to ensure that the UK net interest deduction cannot exceed the total net interest expense of the group. Groups with a net interest expense of £2 million or less will be unaffected by these rules. Alternative rules apply to infrastructure companies. A series of detailed amendments to the draft legislation were announced on Budget Day in order to eliminate “unintended consequences” and reduce “unnecessary compliance burdens”.

Substantial Shareholdings Exemption (SSE)

Changes are to be made to the SSE reforms announced at Autumn Statement 2016. Following consultation, amendments have been made to provide clarity and certainty. The changes will take effect from 1 April 2017. The draft legislation published on 26 January will be revised to include provisions for oil and gas companies and oil contractors.

Reform of loss relief

As announced at Budget 2016, the Government will legislate in Finance Bill 2017 to reform, with effect from 1 April 2017, the rules governing corporate losses carried forward from earlier accounting periods.

Patent box

The patent box rules are to be revised where two or more companies work in collaboration on Research and Development projects under a cost sharing arrangement. The changes will take effect from 1 April 2017.

Disposals of land in the UK

Legislation was introduced in 2016 to ensure that non-UK resident developers of UK land are subject to UK tax on the profits generated. That legislation excluded profits on disposals made on or after 5 July 2016 under a pre-5 July 2016 contract. This was intended as a transitional measure and was not meant to exempt profits for many months and years to come. The legislation will now be amended so as to bring into charge all profits from dealing in or developing land in the UK that are recognised in accounts on or after 8 March 2017, regardless of the contract date.

This measure applies equally for income tax.

Plant and machinery leasing

Generally accepted accounting practice (GAAP) treats leased assets as either finance leases or operating leases. IFRS 16, the new leasing standard issued by the International Accounting Standards Board, comes into effect on 1 January 2019 and will radically alter the GAAP treatment of asset leasing, particularly as regards lessees. Subject to consultation, the Government intends to maintain the current system of taxation of asset leases instead of changing the tax treatment to match the accounting treatment.

Museums and galleries

As originally announced at Budget 2016, the Government will legislate in Finance Bill 2017 to introduce a new tax relief for museums and galleries who develop new exhibitions including those that are toured. The measure will take effect from 1 April 2017 and will now be extended to allow for exhibitions which have a live performance as part of the exhibition (but not where a live performance is the main focus of the exhibition).

Hybrid mismatches

It was announced at Autumn Statement 2016 that two minor amendments would be made to the hybrid mismatch rules. Further details were provided on Budget Day. The changes take effect from 1 January 2017.

Grassroots sports

The Government will expand the circumstances in which companies can get deductions for contributions to grassroots sports. This measure will have effect from 1 April 2017.

Withholding tax exemption

UK tax at the basic rate of 20% has to be withheld from certain payments of annual interest. An exemption is to be introduced for interest on debt traded on a multilateral trading facility; the exemption is intended to further the development of UK debt markets.

Creative sector tax reliefs

It has been confirmed that the Government will seek EU State aid approval for the continued provision of high-end television, animation and video games tax reliefs beyond 2018.

Corporation tax in Northern Ireland

The Government has been working with the Northern Ireland Executive to pursue the introduction of a Northern Ireland corporation tax rate of 12.5% from April 2018. It has now been confirmed that all small and medium-sized enterprises trading in Northern Ireland will be given the potential to benefit.

Value Added Tax (VAT)

Registration and deregistration thresholds

With effect from 1 April 2017 the VAT registration threshold increases from £83,000 to £85,000, and the deregistration threshold increases from £81,000 to £83,000.

Business to consumer mobile phone services

The Government intends to remove the use and enjoyment provisions that alleviate the need for UK VAT to be charged on business to consumer mobile phone services provided to a UK resident person travelling outside the EU. Secondary legislation will be published before the summer Parliamentary recess.

Fraud in the provision of labour in the construction sector

The Government intends to consult on possible options to combat missing trader fraud in the provision of labour in the construction sector.

Split payment model

The Government will consider introducing a new VAT collection mechanism (the "split payment model") for online sales using technology that enables VAT to be collected and remitted direct to HMRC at the point of sale. A "call for evidence" will be published on 20 March 2017.

Penalty for participating in VAT fraud

The Government announced in Autumn Statement 2016 that Finance Bill 2017 will introduce a penalty for participating in VAT fraud. This will have effect from date of Royal Assent to Finance Act 2017. Following consultation on the draft legislation, some minor amendments will be made to improve clarity and to limit the naming of a company officer to cases in which the tax due exceeds £25,000.

Soft Drinks Levy

The previously announced levy for sugar added to drinks with a total sugar content of at least 5 grams per 100 millilitres will be set at 18 pence per litre. The levy for drinks with a sugar content of at least 8 grams per 100 millilitres will be set at 24 pence per litre. The levy will take effect from April 2018.

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