



Spring Budget What was in it for you?



How will it affect you, your family and your business?
Commentary and analysis from our team.

Just three months have past since the Autumn Statement, which suggested government finances had taken a post-referendum turn for the worse.

However, the latest short-term economic numbers turned out much better than the Office for Budgetary Responsibility's (OBR's) November projections.

This good news gave the Chancellor a little 'wriggle room', but instead he chose to offset some modest increases in spending – mostly focused on social care – with tax and NIC rises mainly aimed at the self-employed.

For once, the volume of Budget documents issued by the Treasury shrank significantly, but there were still some surprises to be found in the detail.



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One example was the move to levy a 25% tax charge from 9 March 2017 on most transfers to qualifying recognised overseas pension schemes (QROPS), even though the Autumn Statement had announced a tightening of the QROPS rules.

The cut in the dividend allowance from 2018/19 was also unexpected and catches not just the target one-person companies. Personal investors with equity-based portfolios worth more than about £60,000 (based on current UK dividend yields) will pay more tax. Ironically one effect will be to increase the appeal of ISAs, which benefit from a large contribution limit rise next month.

The Chancellor resisted making announcements on future increases to the personal allowance or higher rate threshold, presumably saving some good news for his autumn set piece.

There was also welcome support for businesses facing increases in business rates, which we take a look at in more detail on page 7.

The 2017 Spring Budget will be the last of its type, with a second Budget in autumn 2017 followed by a Spring Statement in 2018.

As always, if you have any questions on how the changes will impact your tax position, please do get in touch with our team.

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Individuals

- ▶ **Income tax:** The personal allowance will increase to £11,500 and the higher rate threshold will rise by £2,000 to £45,000 for 2017/18. In Scotland, the 2017/18 higher rate tax threshold will remain unchanged at £43,000 for non-savings, non-dividend income only.
- ▶ **National insurance contributions:** The national insurance contribution (NIC) upper earnings limit and upper profits limit will increase to £45,000 for 2017/18, in line with the higher rate income tax threshold. Class 4 NICs will increase from 9% to 10% in April 2018, coinciding with the abolition of Class 2 NICs. A further increase to 11% is set for April 2019.
- ▶ **Dividend allowance:** The tax-free dividend allowance, which was introduced at a level of £5,000 in 2016/17, will be reduced to £2,000 from 2018/19.
- ▶ **Different forms of remuneration**
 - ▶ 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 (BiKs). Legislation in Finance Bill 2017 will set the date of 6 July for an employee to make good on BiKs which are not accounted for in real time through PAYE (BiKs that are not payrolled). This legislation will take effect for tax liabilities arising from 2017/18.
 - ▶ Accommodation benefits: The government will publish a consultation with proposals to update the tax treatment of employer-provided accommodation and board and lodging. This will include proposals for when accommodation should be exempt from tax.
 - ▶ Employee expenses: The government will publish a call for evidence on the use of the income tax relief for employees' expenses, including those that are not reimbursed by their employer.
- ▶ **Tax-advantaged venture capital schemes:** The requirements of the Enterprise Investment Scheme (EIS), the Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCTs) will be amended, as previously announced, to:
 - ▶ Clarify the EIS and SEIS rules for share conversion rights;
 - ▶ Provide additional flexibility for follow-on investments made by VCTs in companies with certain group structures, for investments made on or after 6 April 2017; and
 - ▶ Introduce a power to make VCT regulations in relation to certain share for share exchanges to provide greater certainty to VCTs, which will be effective from the date of Royal Assent.
- ▶ **Disguised remuneration:** Legislation in Finance Bill 2017 will tackle the existing use of disguised remuneration avoidance schemes and prevent their future use, as previously announced.
- ▶ **Reform of tax treatment of termination payments:** Legislation will tighten and clarify the tax and NIC treatment of termination payments. The changes will take effect from 6 April 2018.
- ▶ **Off-payroll working in the public sector:** Legislation will reform the off-payroll rules and improve tax and NIC compliance in the public sector. Responsibility for operating the off-payroll working rules and deducting any tax and NIC due will move to the public sector body, agency or other third party paying an individual's personal service company. The change will come into effect from 6 April 2017. It will be optional for the public body to take account of the worker's expenses when calculating tax due.



Sucheta Thomas
Tax Manager

"If you are a saver, don't lose your personal allowance. It will be reduced by 50p for every pound your income exceeds £100,000. Consider making a pension contribution or a charitable gift to bring your income below £100,000."



Jason Cuthbert
Tax Manager

"Remember that EIS investments offer a Capital Gains Tax (CGT) deferral. With the drop in most CGT rates, relating back the relief for an EIS investment could cut your tax bill on gains you made before 2016/17."



Ammad Khan
Tax Manager

"The dividend allowance will be cut to £2,000 from 2018/19. Take advantage of the increased ISA allowance of £20,000 in the new tax year."

Pensions, savings and investments

- ▶ **Money purchase annual allowance:** The money purchase pension annual allowance will be reduced to £4,000 from £10,000 for 2017/18, following a consultation issued with the Autumn Statement.
- ▶ **Qualifying recognised overseas pension schemes:** There will be a 25% tax charge on pension transfers on or after 9 March 2017 to qualifying recognised overseas pension schemes (QROPS). Exceptions will be made to the charge, allowing transfers to be made tax free where people have 'a genuine need to transfer their pension' and:
 - ▶ Both the individual and the pension scheme are in countries within the European Economic Area (EEA); or
 - ▶ If they are outside the EEA, both the individual and the pension scheme are in the same country; or
 - ▶ The QROPS is an occupational pension scheme provided by the individual's employer.

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

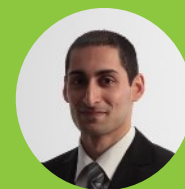
- ▶ **Changes to tax treatment of foreign pensions:** From 6 April 2017, the treatment of foreign pensions will be more closely aligned with the UK's domestic pension regime, as previously announced. Legislation will clarify that all lump sums paid out of funds built up before 6 April 2017 will be subject to the existing tax treatment.
- ▶ **Master trust tax registration:** The tax registration process for master trust pension schemes will be amended to align it with The Pensions Regulator's new authorisation and supervision regime.
- ▶ **Life insurance policies:** As previously announced, the tax rules for part surrenders and part assignments of life insurance policies will be amended to allow policyholders who have generated 'a wholly disproportionate gain' to apply to HMRC to have the gain recalculated on 'a just and reasonable basis'. The changes will have effect from Royal Assent.
- ▶ **NS&I Investment Bond:** The rate on the new NS&I Investment Bond announced at Autumn Statement 2016 will be 2.2%. The bond will have a three year term and will be available for 12 months from April 2017. It will be open to anyone aged 16 and over, subject to a minimum investment of £100 and a maximum of £3,000.

Social care

- ▶ **Funding social care:** In his speech the Chancellor ruled out the introduction of a 'death tax' to fund social care. There had been pre-Budget rumours that such a tax would take the form of an addition of 10% to the standard inheritance tax (IHT) rate of 40%.
- ▶ **Green paper:** The government will set out its thinking on the options for the future financing of social care in a green paper later this year. A £72,000 cap on care costs was introduced under the Care Act 2014, but its original start date of April 2016 was postponed for four years. It is unclear whether the cap will now be abandoned.

Capital taxes

- ▶ **Capital gains tax:** The annual exempt amount (AEA) for individuals and personal representatives will rise to £11,300 for 2017/18, while the AEA for most trustees will increase to £5,650 (minimum £1,130).
- ▶ **Inheritance tax:** The nil rate band remains at £325,000. New deemed domiciled rules apply from 6 April 2017 for inheritance tax (as well as income tax and capital gains tax).



Ammad Khan
Tax Manager

"The money purchase annual allowance will be cut to £4,000 for 2017/18. If you plan to draw from your pensions and continue to work, we can provide advice on how to structure your future income now. The key is to plan ahead."



Jason Cuthbert
Tax Manager

"Check that you and your partner have optimised your ownership of investment and savings. The personal savings allowance and dividend allowance mean you could each receive an income of £22,500 in 2017/18 free of personal tax."



Sucheta Thomas
Tax Manager

"The inheritance tax residence nil rate band comes into existence on 6 April. Make sure your estate planning is reviewed to take account of this important change, which could save your beneficiaries up to £140,000 in tax."



Businesses

- ▶ **Corporation tax rates:** As previously announced, the rate of corporation tax will fall to 19% from April 2017 and to 17% in 2020.
- ▶ **Tax treatment of appropriations to trading stock:** Businesses with loss-making capital assets will not be able to obtain a tax advantage by converting them into more flexible trading losses. The changes take effect from 8 March 2017.
- ▶ **Tax simplification for cash basis:** The entry threshold for the cash basis of assessment will be increased to £150,000 and the exit threshold will rise to £300,000. The rules on capital and revenue expenditure within the cash basis will be simplified to make it easier for businesses to work out whether their expenditure is deductible for tax.
- ▶ **Research and development tax review:** There will be administrative changes to the research and development (R&D) expenditure credit to increase the certainty and simplicity around claims and improve awareness of R&D tax credits among SMEs. The competitiveness of the UK environment for R&D will be kept under review.
- ▶ **Withholding tax on interest:** The government will renew and extend the administrative simplifications of the Double Taxation Treaty Passport scheme to assist foreign lenders and UK borrowers, and to make it easier for businesses to raise finance. The scheme simplifies access to reduced withholding tax rates on interest available under the UK's tax treaties with other countries. After consultation in spring 2017, there will be a new exemption from withholding tax for interest on debt traded on a multilateral trading facility, removing a barrier to the development of UK debt markets.
- ▶ **Patient capital review:** The review aims to ensure that high growth businesses can access the long-term capital that they need to fund productivity-enhancing investment. As well as identifying barriers to institutional investment in long-term finance, the review will consider existing tax reliefs aimed at encouraging investment and entrepreneurship.
- ▶ **Reform of the Substantial Shareholding Exemption:** The Substantial Shareholding rules will be simplified, as announced at Autumn Statement 2016. The investing company requirement within the Substantial Shareholding Exemption will be removed and there will be a more comprehensive exemption for companies owned by qualifying institutional investors. The changes will take effect from 1 April 2017.
- ▶ **Loss relief reform:** The rules governing carried forward losses will be reformed with effect from 1 April 2017, as announced at Budget 2016. The change will give all companies more flexibility by relaxing the way in which they can use losses arising on or after 1 April 2017 when they are carried forward. These losses will be useable against profits from different types of income and the profits of other group companies. The measure will also restrict the use of losses carried forward by companies, so that they cannot reduce their profits arising on or after 1 April 2017 by more than 50%. This restriction will apply to a company's or group's profits above £5 million and carried forward losses arising at any time will be subject to the restriction.



Oscar Wingham
Tax Partner

"Your business might be entitled to a valuable R&D tax credit – even if it doesn't make a taxable profit."

"Review your position; you might be surprised what can qualify and how much it could be worth to you. We can provide advice on the allowable activities and calculate then substantiate your potential claim for tax credits."

- ▶ **Northern Ireland corporation tax:** Northern Ireland corporation tax will be amended, as announced at Autumn Statement 2016, to give all SMEs trading in Northern Ireland the potential to benefit from any changes. Other amendments will minimise the risk of abuse.
- ▶ **Corporation tax – hybrids and other mismatches:** Two minor changes will be made to the hybrid mismatch regime as announced at Autumn Statement 2016.
- ▶ **Corporation tax relief for museums and galleries:** From 1 April 2017, there will be a new tax relief for museums and galleries that develop new exhibitions, including those that are toured. As announced at Autumn Statement 2016, the rates for the relief will be 25% (worth up to £100,000) for touring exhibitions and 20% (maximum £80,000) for non-touring exhibitions.
- ▶ **Corporation tax deduction for contributions to grassroots sport:** With effect from 1 April 2017, the circumstances in which companies can get deductions for contributions to grassroots sport will be expanded, as announced at Autumn Statement 2015. The treatment of a sport governing body is extended to its 100% subsidiaries.
- ▶ **Patent Box – cost sharing arrangements:** Specific provisions will be added to the revised Patent Box rules introduced in Finance Act 2016. These will cover cases where R&D is undertaken collaboratively by two or more companies under a cost sharing arrangement. The changes, previously announced in Autumn Statement 2016, will take effect from 1 April 2017.
- ▶ **Tax deductibility of corporate interest expense:** With effect from 1 April 2017, there will be a limit on the tax deductions that companies can claim for their interest expenses, as announced at Budget 2016. The new rules will restrict each group's net deductions for interest to 30% of earnings before interest, tax, depreciation and amortisation (EBITDA) that is taxable in the UK. An optional group ratio rule, based on the net-interest to EBITDA ratio for the worldwide group, may permit a greater deduction in some cases. The existing debt cap will be replaced by a modified debt cap, which will ensure that the net UK interest deduction does not exceed the total net interest expense of the worldwide group. All groups will be able to deduct up to £2 million of net interest expense per year, so groups below this threshold will not need to apply these rules. The draft legislation previously published is being amended so that the rules do not give rise to certain unintended consequences or impose unnecessary compliance burdens.
- ▶ **Partnership taxation:** As announced at Autumn Statement 2016, the government will publish a response document and draft legislation to clarify and improve aspects of partnership taxation.
- ▶ **Large business risk review:** HMRC will consult with businesses and interested parties for 12 weeks over the summer on its process for risk profiling large businesses and for promoting stronger compliance.
- ▶ **Plant and machinery leasing:** The government will consult in summer 2017 on the legislative changes required following the announcement of the International Accounting Board's new leasing standard, IFRS16, which comes into effect on 1 January 2019.
- ▶ **Enterprise Management Incentives:** The government will seek state aid approval to extend provision of this tax relief beyond 2018.
- ▶ **Insurance premium tax:** The standard rate of insurance premium tax (IPT) will rise to 12% from 1 June 2017 as announced at Autumn Statement 2016. Anti-forestalling provisions will be introduced.



Oscar Wingham
Tax Partner

"Check that you are still trading through the most appropriate vehicle for your circumstances. Incorporation makes sense for some people – but changes to dividend tax rules and NICs are altering the picture."

"For the self-employed another area to consider is National insurance contributions. These will change from April 2018. It is worth taking advice now for possible ways to counter the effects of this reform."

VAT

- ▶ **Registration and deregistration thresholds:** The VAT registration threshold will be increased from £83,000 to £85,000 from 1 April 2017. The deregistration threshold will go up from £81,000 to £83,000 from the same date. The registration and deregistration threshold for relevant acquisitions from other EU member states will also increase to £85,000.
- ▶ **New penalty in fraud cases:** A new penalty will be introduced for participating in VAT fraud, as announced at Autumn Statement 2016. The penalty will take effect once the Finance Bill receives Royal Assent. Following consultation on the draft legislation, the naming of a company officer will be limited to instances where the amount of tax due exceeds £25,000.
- ▶ **'Split payments' model:** The government is to call for evidence on the case for a new VAT collection mechanism for online sales. This would harness technology to allow VAT to be extracted directly from transactions at the point of purchase, a model often referred to as 'split payment'. The aim is to tackle the non-payment of VAT by some overseas traders selling goods online to UK consumers.
- ▶ **Mobile phone services:** The government will remove the VAT 'use and enjoyment' provision for mobile phone services provided to consumers. The measure will bring those services used outside the EU within the scope of the tax. It will also ensure mobile phone companies cannot use the inconsistency to avoid UK VAT.
- ▶ **Fraud in the provision of labour in the construction sector:** The government is to consult on a range of policy options to combat missing trader fraud in supplies of labour in the construction sector. Options include a VAT reverse charge mechanism so that the recipient accounts for VAT, and changes to the qualifying criteria for gross payment status in the Construction Industry Scheme.



Oscar Wingham
Tax Partner

"The flat rate VAT scheme will change for 'limited cost traders' from 1 April."

"It may be beneficial to take advice on what your options are to counter an effective tax increase."



Property

- **Simplified cash basis for unincorporated property businesses:** Most unincorporated property businesses with receipts of up to £150,000 will be able to calculate their taxable profits using a cash basis of accounting from 6 April 2017. Limited liability partnerships, trusts and partnerships with corporate partners will be excluded. Those with both a UK and an overseas property business will be able to choose separately whether to use the cash basis for each. Likewise those with a trade as well as a property business will be able to elect separately for the cash basis for each. People who are not spouses or civil partners and jointly own a rental property will be able to decide individually.

To align the treatment with those who opt to use Generally Accepted Accounting Principles (GAAP), the initial cost of items used in a dwelling house will not be an allowable expense under the cash basis. But the existing 'replacement of domestic items relief' will continue to be available. Interest expense will be treated consistently between those using the cash basis and those using GAAP.

- **Rent-a-room relief:** The government will consult on changes to rent-a-room relief to ensure it is targeted to support longer-term lettings.
- **Stamp duty land tax:** The reduction in the filing and payment window will be delayed until 2018/19.
- **Business rates:** The government will provide £435 million of further support for businesses facing significant increases in business rates in England in addition to the transitional relief announced in November 2016. This will include 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. However, in the first year the maximum increase will be £600. In addition, English local authorities will receive funding to support £300 million of discretionary relief, to allow them to provide support to individual hard cases in their local area.

For one year from 1 April 2017, there will be a £1,000 business rate discount for pubs with a rateable value of up to £100,000, subject to state aid limits for businesses with multiple properties. The government will consult about its preferred approach for moving to three-yearly revaluations ahead of the next revaluation in 2022.

- **Offshore property developers:** 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.



Jason Cuthbert
Tax Manager

"The good news for landlords was that the Spring Budget didn't include any further measures that will hit buy-to-let investors. However, on the other hand, there wasn't much to make life easier, either."

"One piece of good news was that there will be a one year delay in the rollout of Making Tax Digital for the self-employed. This will give many landlords more time to prepare for this change in tax reporting."

"We are frequently asked whether putting a buy to let property into a company structure will be beneficial. There are pro's and con's you should consider and it is often not a straightforward decision. You can speak to our tax team about our advice service to help you make a decision."



Tax compliance

- ▶ **Making Tax Digital:** The mandatory application of Making Tax Digital for unincorporated businesses and landlords with turnover below the VAT threshold (£85,000 from April 2017) will be deferred for one year, to April 2019. The exemption threshold will remain at £10,000.
- ▶ **Promoters of tax avoidance schemes (POTAS):** Legislation will ensure that promoters of tax avoidance schemes cannot circumvent the POTAS regime by reorganising their business by sharing the control of a promoting business, or putting someone between themselves and the promoting business.
- ▶ **Strengthening tax avoidance sanctions and deterrents:** A new penalty will be introduced for someone who has enabled another person or business to use a tax avoidance arrangement that is later defeated by HMRC, as previously announced. The defence of having relied on non-independent advice as taking 'reasonable care' when considering penalties, will be removed.
- ▶ **Offshore evasion – requirement to correct:** As previously announced, a new legal 'requirement to correct' will be introduced for those who have failed to declare UK tax on offshore interests, with tougher sanctions for those who fail to do so before 1 October 2018. This is expected to come into force from the date of Royal Assent and will apply to all taxpayers with offshore interests who have not complied with their UK tax obligations as at 5 April 2017.
- ▶ **Image rights:** HMRC will publish guidelines for employers who make payments for image rights to their employees. The aim is to improve the clarity of the existing rules.
- ▶ **Employment allowance:** HMRC is actively monitoring compliance with the national insurance employment allowance following reports of some businesses using schemes to avoid paying the correct amount of NICs. The government will consider taking further action if this avoidance continues.
- ▶ **Tax credit debt:** The Department for Work and Pensions (DWP) will recover an amount of HMRC tax credit debt, using its existing powers including Direct Earnings Attachment, as previously announced.
- ▶ **Benefit fraud and error:** As previously announced, the DWP will work with an external data provider to identify more effectively fraud and error caused by undeclared partners.

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Please contact us if you have a question on these announcements or to arrange a free, no obligation initial consultation.



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