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Autumn Budget 2017

All aboard for Brexit...

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

Heading into his first Autumn Budget, pressure had been mounting on the Chancellor to deliver a positive Budget.

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The Conservatives loss of a parliamentary majority in June's general election added pressure for a politically positive message to be delivered, and to particularly appease the younger voters.

Meanwhile, slow moving Brexit negotiations have been casting doubt over the economy, with business groups calling for business-friendly measures to boost productivity and investment. So there was a sense of tension preceding this year's Budget announcement.

Overall, it was pretty unspectacular, but it could turn out to be quite expensive. The headline maker will no doubt be the stamp duty cut for first-time buyers, but there were several other tax and investment pledges to address the economy's slowing GDP growth covered in this summary guide.

For businesses, there was welcome news that the VAT threshold for small businesses will not be reduced from £85,000 (yet!). The Chancellor also announced that the uprating of business rates will be brought forward by two years and will be based on the CPI inflation index not RPI, saving businesses £2.3bn.

Another positive aspect was Research and Development Tax Credits. For several years these have been one of the most attractive tax reliefs to UK businesses and an area in which we have been assisting clients. The Budget confirmed additional resources for promoting the scheme, which many eligible businesses do not claim. Also, the R&D Expenditure Credit rate will rise by 1% to 12%.

However, it is bad news that the indexation allowance for companies' capital gains will be abolished, bringing corporate tax in line with personal capital gains tax. The indexation allowance takes inflation into account when calculating the chargeable gains of companies and will be frozen from January 2018.

For individuals, as well as the cut to stamp duty for first-time buyers, we saw investments pledged in the NHS, education and homebuilding. On the tax side, the expected increase in the personal allowance and higher rate threshold will have broad appeal, though limited impact.

The Budget had been moved to the Autumn to allow time for debate before the new tax year when many of the changes will come into force. So we will wait to see if there are any changes or U-turns!

As always, if you have any questions on how the changes will impact your tax position, please contact our team.

Inside...

For individuals

Personal Allowance raised

The government has continued in its pursuit of reaching a personal allowance of £12,500 and Higher Rate threshold of £50,000 by 2020. The Autumn Budget announced that in 2018-19 the Personal Allowance and Higher Rate threshold will increase to £11,850 and £46,350 respectively. This will mean that in 2018-19 a typical taxpayer will pay at least £1,075 less tax than in 2010-11.

Taxation of trusts

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

National Insurance Contribution reforms delayed

As previously announced, the government will delay implementing a series of NICs policies by one year. These are the abolition of Class 2 NICs, reforms to the NICs treatment of termination payments, and changes to the NICs treatment of sporting testimonials.

No increase to Class 4 NICs

Also as previously announced, the government will no longer proceed with an increase to the main rate of Class 4 NICs from 9% to 10% in April 2018, and to 11% in April 2019.

Stamp duty cut for first-time buyers

Stamp duty has been abolished for first-time buyers purchasing properties costing up to £300,000, while those buying more expensive homes worth up to £500,000 will not pay any duty on the first £300,000.

HM Treasury estimates this will mean 80% of first-time buyers will avoid paying stamp duty altogether.

With immediate affect, first-time buyers will benefit from the following stamp duty rates:

- Up to £300,000 purchase price: 0% stamp duty
- £300,000.01 to £500,000: 5% (on that portion of the purchase price)

It applies for anyone who hasn't owned a property before, whether bought or inherited. However, you will not benefit from this change if...

- you buy a first home which costs more than £500,000. You will not benefit from any change, and will be buying under the standard system, which applies to non-first time buyers too.
- you're a first-time buyer jointly purchasing a home with a non-first time buyer. You both need to be first-time buyers.

If you have already exchanged you should still be able to benefit, since stamp duty is a tax payable within 30 days of completion.

Sucheta Thomas
Senior Tax Manager

The increase of Personal Allowance and higher rate threshold will be a welcome measure for many. However, with millions of workers being asked to put more money in their pensions from April next year, through pensions auto enrolment, any boost to take-home pay may be short-lived.

The cut in Stamp Duty could be a significant help for those getting on the property ladder, saving first-time buyers up to £5,000 which could be spent on renovations or furnishings to help them get settled in their new home. However, the main issue for first time buyers remains the difficulty in saving up for a deposit in the first place.

Property

Rent-a-room relief put under review

The government will publish a call for evidence to establish how rent-a-room relief is used and ensure it is better targeted at longer-term lettings.

Claiming mileage rates for landlords

The government will extend the option to use mileage rates to individuals operating property businesses, on a voluntary basis, to reduce the administrative burden for these businesses.

Capital Gains Tax (CGT) payment window

The introduction of the 30-day payment window between a capital gain arising on a residential property and payment will be deferred until April 2020.

Stamp duty on additional properties

The government will amend SDLT higher rates for additional properties with immediate effect. The changes will affect specific cases where it is deemed unfair to incur an additional properties surcharge. This being:

- people who sell only part of their former main residence
- people who own residential property then buy another following a divorce
- people who own residential property then buy an additional interest in their main residence, or extend their lease
- spouses transferring property between each other
- trustees who buy residential property for children whose affairs are subject to the Court of Protection, and the children

The government will also remove potential opportunity for avoidance.

Pensions, savings and investments

Starting rate for savings

The band of savings income that is subject to the 0% starting rate will be kept at its current level of £5,000 for 2018-19.

Individual Savings Account (ISA) annual subscription limits

The ISA annual subscription limit for 2018-19 will remain unchanged at £20,000. The annual subscription limit for Junior ISAs and Child Trust Funds for 2018-19 will be uprated in line with CPI to £4,260.

Lifetime allowance for pensions

The lifetime allowance for pension savings will increase in line with CPI, rising to £1,030,000 for 2018-19.

Save As You Earn scheme

Employees on maternity and parental leave will be able to take up to a 12 month pause from saving into their Save As You Earn employee share scheme, increased from 6 months currently. The change will take effect from 6 April 2018.

Life assurance and overseas pension schemes

From April 2019, tax relief for employer premiums paid into life assurance products or certain overseas pension schemes will be modernised to cover policies when an employee nominates an individual or registered charity to be their beneficiary.

Oscar Wingham
Tax Partner

The announcements not made in the Autumn Budget, were almost as significant as those that were made. In past Budget's, pensions have particularly suffered from changes and complex rules being introduced.

This time, sweeping changes to the UK's pension and saving regime were largely avoided, which is surely good news and allows current policies to continue to bed in.

Meanwhile, I am sure buy to let investors will be disappointed to see no let up in tax rules surrounding second properties. Therefore, this will continue to weigh on the industry.

Duties

Fuel Duty to remain frozen

In 2018, fuel duty will remain frozen for the eighth year in a row, saving drivers £160 a year on average.

New railcards to be launched

The government will work with the rail industry on a new railcard for those aged 26 to 30, which will be introduced from spring 2018.

Duties on alcohol and tobacco

Duty on beer, wine, cider and spirits will be frozen, with cheap, high-strength cider subject to a new band of duty. Duty on tobacco will rise by 2% above inflation and 3% for hand rolling tobacco.

Airfares

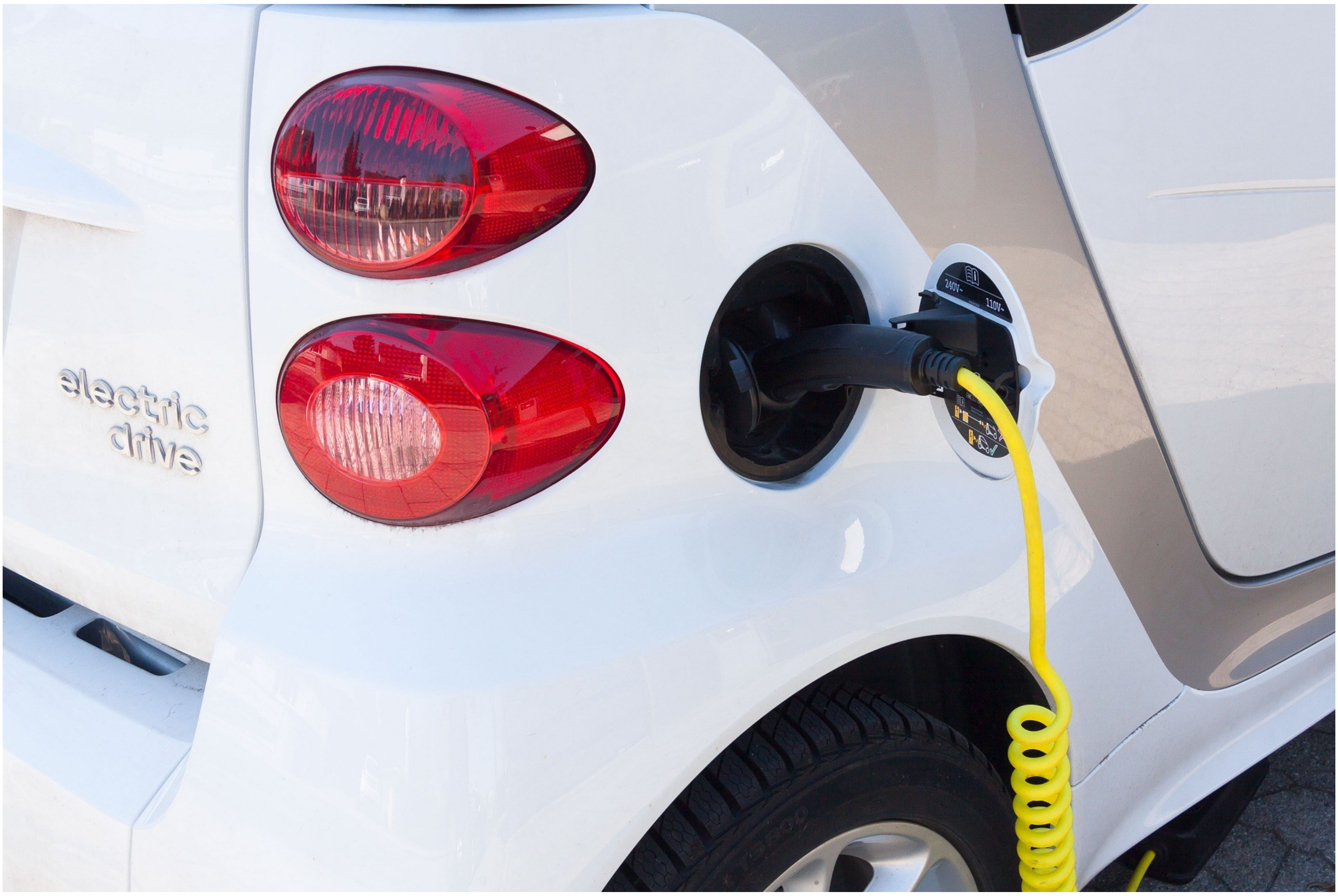
Air Passenger Duty will be frozen for all economy passengers and all short-haul flights. It will rise for premium fares on long-haul flights, and on private jets.

Electric and driverless cars

The UK will set out rules so that self-driving cars can be tested without a safety operator. An extra £100 million will go towards helping people buy battery electric cars. The government will also make sure all new homes are built with the right cables for electric car charge points.

Alternative fuels

The government will review whether the existing fuel duty rates for alternatives to petrol and diesel are appropriate, ahead of decisions at Budget 2018. In the meantime, the government will end the fuel duty escalator for Liquefed Petroleum Gas (LPG). The LPG rate will be frozen in 2018-19, alongside the main rate of fuel duty.



For businesses

Corporate indexation allowance

To bring the UK in line with other major economies and broaden the tax base through removing relief for inflation that is not available elsewhere in the tax system, the corporate indexation allowance will be frozen from 1 January 2018. Accordingly, no relief will be available for inflation accruing after this date in calculating chargeable gains made by companies.

EIS investments boosted

The Enterprise Investment Scheme (EIS) annual allowance for people investing in knowledge-intensive companies will be doubled, as will the annual investment those companies can receive through EIS and the Venture Capital Trust scheme. Also a new test will be introduced to reduce the scope for and redirect low-risk investment, expected to unlock over £7 billion of growth investment.

Business Rates

Business Rates will rise by CPI from April 2018. Business rates currently rise by the Retail Price Index (RPI), a different way of measuring inflation which tends to be higher than the CPI.

Moving forwards, business rates revaluations will take place every three years, rather than every five years, starting after the next revaluation, currently due in 2022. Pubs in England will continue to receive a £1,000 business rates discount next year. The discount applies to pubs with a rateable value of up to £100,000.

VAT registration threshold

In response to the Offce of Tax Simplifcation's report Value Added Tax: Routes to Simplifcation, the government will consult on the design of the threshold, and in the meantime will maintain it at the current level of £85,000 for two years from April 2018.

Shares in overseas companies

The government will amend the Substantial Shareholding Exemption legislation and the Share Reconstruction rules to avoid unintended chargeable gains being triggered where a UK company incorporates foreign branch assets in exchange for shares in an overseas company.

Withholding tax: royalties

With effect from April 2019, withholding tax obligations will be extended to royalty payments, and payments for certain other rights, made to low or no tax jurisdictions in connection with sales to UK customers. The rules will apply regardless of where the payer is located.

Tax on non-resident companies' UK property income and certain gains

From April 2020, income that non-resident companies receive from UK property will be chargeable to corporation tax rather than income tax. Also from that date, gains that arise to non-resident companies on the disposal of UK property will be charged to corporation tax rather than CGT.

Corporate tax and the digital economy

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

Paul Woodward
Senior Tax Manager

There were a few small tweaks across the corporation tax landscape, though no significant measures to report.

Of particular note, the freezing of the corporate indexation allowance will impact some of the planning undertaken on the incorporation of property businesses.

The commitment to Research and Development Tax Credits is a welcome announcement. It is worth mentioning that the Research and Development Expenditure Credit which has increased to 12% is not only the preserve of large organisations. It is also used by companies who are doing subcontracted R&D, and those receiving grant income who can't claim under the SME scheme.

Employees

National Living Wage and Minimum Wage increases

The National Living Wage and the National Minimum Wage will increase from April 2018. The National Living Wage for those aged 25 and over will increase from £7.50 per hour to £7.83 per hour from April 2018.

Over 2 million people are expected to benefit. For a full-time worker, it represents a pay rise of over £600 a year.

The National Minimum Wage will also increase:

- 21 to 24 year olds £7.38 per hour
- 18 to 20 year olds £5.90 per hour
- 16 and 17 year olds £4.20 per hour
- Apprentices £3.70 per hour

NICs Employment Allowance

The government has found evidence of some employers abusing the Employment Allowance to avoid paying the correct amount of NICs, often by using offshore arrangements. To crack down on this, HMRC will require upfront security from employers with a history of avoiding paying NICs in this way. This will take effect from 2018 and raise up to £15 million a year.

Disguised remuneration

The government will tackle disguised remuneration avoidance schemes used by close companies – companies with five or fewer participators – by introducing the close companies' gateway, revised following consultation, and measures to ensure liabilities from the new loan charge are collected from the appropriate person.

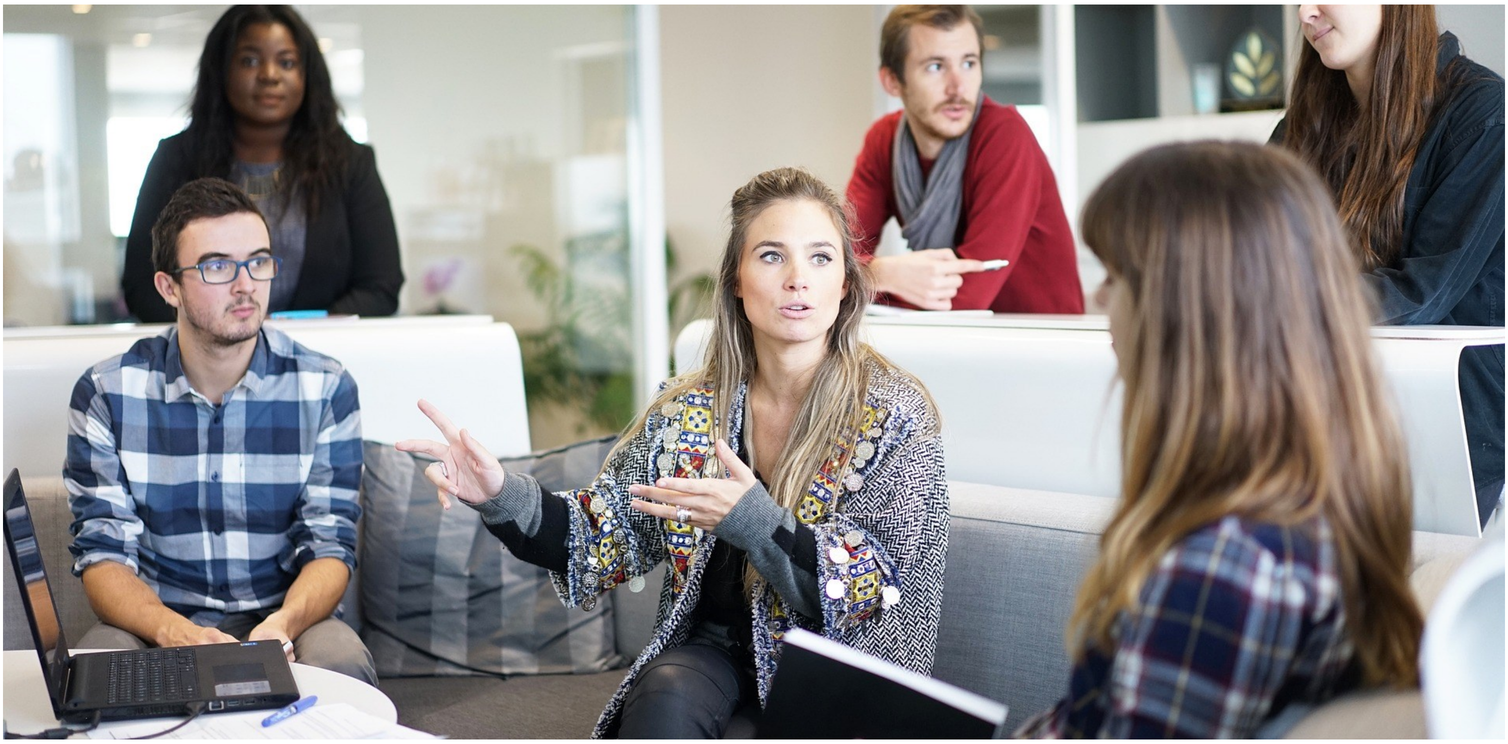
Off-payroll working in the private sector

The government reformed the off-payroll working rules (known as IR35) for engagements in the public sector in April 2017. Early indications are that public sector compliance is increasing as a result, and therefore a possible next step would be to extend the reforms to the private sector, to ensure individuals who effectively work as employees are taxed as employees even if they choose to structure their work through a company.

The government will now consult on how to tackle non -compliance in the private sector, drawing on the experience of the public sector reforms, including through external research due to be published in 2018.

Employment status discussion paper

The government will also publish a discussion paper as part of the response to Matthew Taylor's review of employment practices in the modern economy, exploring the case and options for longer-term reform to make the employment status tests for both employment rights and tax clearer.



Construction Sector

Construction sector central to government plans

The government has set the construction sector a target of building 300,000 new homes a year. To help £15.3 billion new financial support has been pledged for house building over the next five years – taking the total to at least £44 billion.

This includes £1.2 billion for the government to buy land to build more homes, and £2.7 billion for infrastructure that will support housing. The government will also create 5 new 'garden' towns.

Changes to the planning system will encourage better use of land in cities and towns. This means more homes can be built while protecting the green belt.

Construction skills for the future

£34 million will go towards teaching construction skills like bricklaying and plastering. This funding is provided in advance of launching a National Retraining Scheme that will help people get new skills.

Specific projects being backed

- An extra £337 million will go towards a fleet of new trains on the Tyne & Wear Metro.
- An extra £6 million will go towards the Midlands Connect motorway and rail projects.
- Transport links along the Cambridge-Milton Keynes-Oxford corridor will be improved by:
    - completing the rail link between Oxford and Bedford, and Aylesbury and Milton Keynes
    - setting up a new East West Rail Company to speed up work on the rail link between Bedford and Cambridge
    - £5 million to help develop plans for Cambridge South Station
    - building the Expressway road between Oxford and Cambridge

Other matters

Continued targeting of tax avoidance

The Budget increases the time limits for HMRC assessments of offshore tax non-compliance, as much as tripling the current time limits to at least 12 years in all cases, further addresses online VAT fraud, and announces investment to provide HMRC with the resources it needs to continue to strengthen its ability to tackle tax avoidance in the future.

Changes to Gift Aid for charities

Following the review of the Gift Aid donor benefit rules, to simplify the rules for charities the current three monetary thresholds will be reduced to two, while all existing extra-statutory concessions will be legislated. Changes will come into effect from April 2019.

Non-UK residents - tax on profits from UK land

The Chancellor has announced that from April 2019:

- all types of non-UK resident (whether individuals or entities) will be subject to UK tax on gains realised on interests in UK commercial property - as well as on interests in UK residential property (which have been exposed to UK capital gains tax for non-residents in recent years); and
- all non-residents will be taxed in the UK if they realise a gain on the disposal of an interest in a "property rich" entity and their interest in that entity is 25 per cent or more (or has been so within the previous five years). For these purposes, a "property rich" entity will mean one which derives 75 per cent or more of its gross asset value from UK land. There will be rules to capture gains on disposals of entities up the chain.

The government and HMRC are now consulting on the details of the new rules but today's announcement confirms that they have already fixed who will be affected (all non-UK residents, subject to any available exemptions or reliefs), the commencement date (April 2019) and the core features (as summarised above).

Tax return to complete?

Sometimes it's best leaving matters to an experienced advisor so that you can spend your time with your family, your business or things that you find less painful and more rewarding.

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From removing the worry if you have simple tax affairs, to advising on complex tax matters including capital gains, inheritance tax, property portfolios and investments, our dedicated tax team have the experience to support you.

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