Autumn Budget 2017

Our expert analysis breaks down the Autumn Budget and explains what it all means for you.

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OVERVIEW

The Budget Tightrope

The Chancellor delivered his first Autumn Budget and walked the tightrope between the Brexit issues that the country faces and the problems of making big policy announcements when you have a minority government. He confirmed, what many had thought, that Gross Domestic Product (GDP) would be revised downwards providing further evidence of the productivity gap that has existed since the start of the recession. On the flip side though, the Office of Budget Responsibility are also predicting that borrowing will reduce to its lowest level in 20 years and by 2022/23 to 1.1% of GDP. So, against this backdrop and with some extra money in his pocket the Chancellor set about laying the foundations for a dynamic and innovative economy.

He started by extending by one year the National Productivity Investment Fund, which is being used to improve infrastructure across the country, by giving it further funding and taking the total allocated to £31bn. He then gave further relief for Research & Development Tax Credits, backed up by a commitment to spend more on teaching Maths & Science to create the innovators of tomorrow.

The continued freeze on fuel duty is always welcome in areas as geographically diverse as Cumbria, Yorkshire and Scotland where this can be a major cost for businesses and individuals alike. The Northern Powerhouse was mentioned again with increased funding for cities although without an elected mayor, Leeds will need to bid for any extra funds.

From a business perspective the change from RPI to CPI when setting business rates will be a much welcomed change, as well as addressing the so called "staircase tax" whereby businesses which operated on more than one floor could be taxed on a valuation that looked at the value for each floor, which was generally greater than the whole. The Government is looking to legislate soon to remove this unfairness and bring business rates back to their previous levels.

For Corporates, the Chancellor chose to remain on the low tax path delivering a rate of 17% Corporate Tax by 2020 but he will address the Capital Gains Tax allowance that companies can claim in line with inflation. He mentioned the recent suggestion that the VAT threshold should be reduced, as this is a block on growth for smaller businesses, but he has chosen to hold the threshold steady for now although will consult on this suggestion which could lead to changes in the future.

There was further progress towards the manifesto pledge of a £12,500 personal allowance and a £50,000 higher rate band threshold with increases to £11,850 and £46,350 respectively from April next year. I was slightly surprised that there was no further restriction on pension tax reliefs which had been widely trailed.

The centre piece of this budget was the exemption for the first £300,000 of a property's value from Stamp Duty Land Tax, for first time buyers, which would have pleased many of his backbenchers who had felt that the Government were out of touch with the younger generation.

The Chancellor was always going to have a difficult job to balance the budget and make an impact on the economy and it looks like he has got it right but, as we have to settle our bill with the EU and then get a trade agreement in place it won't take much to knock him off balance.

Graham Poles
Tax Partner

EMPLOYMENT TAX

National Living Wage

The budget saw another rise in the standard rates for the National Living Wage (NLW) which has become an annual occurrence since its introduction in April 2016 when it replaced, what used to be known as, the National Minimum Wage (NMW). The rates for the current tax year, 2017/18, and the rates announced for the next tax year, 2018/19, are shown below:

	25 & Over	21-24	18-20	Under 18	Apprentice
2017/18	£7.50	£7.05	£5.60	£4.05	£3.50
2018/19	£7.83	£7.38	£5.90	£4.30	£3.70

Company Car Tax

As expected, the Chancellor wants to promote greener alternatives for employers who provide their employees with a company vehicle. The emissions scandals, over recent years, involving the testing of diesel vehicles has inadvertently placed them as a primary target on the Chancellor's agenda.

The standard supplement in relation to Benefit in Kind rates for diesel vehicles will increase by 1% from 3% to 4%, with effect from April 2018. The main rates, already announced, based upon CO_2 emissions remain the same although, consistent with previous years, the percentages increase for lower emission cars.

From April 2018, there will be no Benefit in Kind charge on electricity provided by employers to charge employees' electric vehicles, regardless of if they are company cars or personally owned by the employees.

The provision of company vehicles has become an increasingly expensive option in recent years and the costs will undoubtedly continue to escalate as the government moves towards a greener future for our country.

IR35

Ever since the government reformed the off-payroll working rules (known as IR35) for engagements in the public sector in April 2017 there has been concern that the next step would be to extend the reforms to the private sector.

It appears that these concerns may be well grounded following confirmation that the government will consult on how to tackle non-compliance in the private sector, drawing on the experience of the public sector reforms and due to be published in 2018.

EMPLOYMENT TAX

Employment/Self Employment

The government will issue a discussion paper as part of the response to the independent review of modern employment practices led by Matthew Taylor published earlier this year, exploring the case and options for longer-term reform to make the employment status tests for both employment rights and tax clearer. The government promises to will work with stakeholders to ensure that any potential changes are considered carefully.

BUSINESS TAX

Corporation Tax Rates

The Chancellor announced that there would be no change to the plan revealed in Budget 2016 that the Corporation Tax main rate will remain at 19% for the years beginning 1 April 2018 and 2019 having fallen from 20% at 1 April this year.

The Government had also announced in the previous budget that the Corporation Tax main rate will be further reduced to 17% from 1 April 2020.

The above changes clearly benefit corporations and family businesses of all sizes, with the cut in Corporation Tax forming part of the Government's stated aim of making the UK an attractive place to do business.

Indexation Allowance

The indexation allowance which aims to negate the effects of inflation on corporate capital gains is to be frozen from 1 January 2018. The effect of this is that no relief will be available for inflation accruing after this date for companies selling chargeable assets. Relief from the date of acquisition through to 1 January 2018 will continue to be available for disposals after this date.

The indexation allowance freeze brings the corporate gains rules in line with individuals and trusts, both of whom do not currently benefit from a relief linked to inflation.

ATED

The annual chargeable amounts for the Annual Tax on Enveloped Dwellings (ATED) will be increased by inflation for the 2018/19 chargeable period which begins on 1 April 2018.

For residential properties valued above the threshold of £500,000 up to £1,000,000, which are not eligible for relief, this will increase the annual charge to £3,600. The annual charges for higher value properties are similarly increased.

Business Rates

The Chancellor announced further measures to reduce the impact on businesses affected by increases in Business rates:

From April 2018 increases in Business Rates will be calculated using CPI rather than RPI.

Legislation will be introduced to reverse the impact of the so-called "staircase tax". This is where the Valuation Office Agency (VOA) argues that where a building can be split into several smaller units, its Rateable Value is higher.

The £1,000 business rates discount for Public houses with a Rateable value of up to £10,000 will be extended for a further year from 1 April 2018.

The VOA will in future revalue non-domestic properties every three years rather than five. Property owners and/or tenants will also be required to provide regular updates to the VOA on the use of the property and rent payable. The Government will consult on these changes in spring 2018.

PROPERTY TAX

Further support pledged for first time buyers

Philip Hammond spent some time during his announcement on UK housing issues to provide a firm commitment to assist ownership for the next generation and to ensure that more homes are built in the right places.

To assist first time buyers in getting on the housing ladder, the Chancellor announced the abolishment of Stamp Duty on first time buyer property purchases up to £300,000. In more expensive areas such as London, it will be available on the first £300,000 for properties valued up to £500,000. This means that 80% of first time buyers will pay no Stamp Duty at all.

This is positive news for those saving for their first home and a high proportion of first time buyers will pay no Stamp Duty at all.

Within the documents it was also confirmed that a further £10 billion is being committed to the Help to Buy Equity Loan scheme, which is expected to support a further 135,000 people to buy their first home.

Mileage rates for unincorporated property businesses

The introduction of fixed rate mileage expenses for landlords has been announced.

This will allow landlords the choice to use fixed rates per business mile to calculate their allowable deductions for motoring expenses, instead of deducting actual running costs and claiming capital allowances. It will not be available to landlords who are companies or in mixed partnerships.

This measure which will have effect from 6 April 2017 will simplify tax computations for unincorporated property businesses who choose to use mileage rates.

Capital gains tax payment window

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

Capital gains made by non-residents

To align the UK with other countries and remove an advantage which non-residents have over UK residents, all gains on non-resident disposals of UK property will be brought within the scope of UK tax. This will apply to gains accrued on or after April 2019.

Currently non-residents are generally only potentially liable to capital gains tax on the disposal of UK residential property or on assets used in a business in the UK. This measure extends the potential capital gains tax charge to all immovable property in the UK.

PERSONAL TAX

Income Taxes and National Insurance

The Chancellor announced that, in line with their commitment to increase the Personal Allowance to £12,500 and the higher rate threshold to £50,000, they will raise the income tax bands to the following:

- The Personal Allowance will increase to £11,850 from April 2018
- The higher rate threshold will increase to £46,350 from April 2018.

The increase in the Personal Allowance is an increase of 3%, which, while welcome, is a fairly standard increase based on CPI. This will result in an income tax reduction of up to £70 per annum for basic rate taxpayers and up to £340 per annum for higher rate taxpayers earning under £100,000 (not taking into account any other impacts)

The 0% starting rate band for savings will remain at its current value of £5,000 for 2018/19.

The National Insurance rate bands have also increased slightly – for example, the lower profits limit for Class 4 contributions for the self employed will rise from £8,164 to £8,424 from April 2018. Class 2 NICs will not be abolished until April 2019.

Double up on your EIS Investments

As part of his Budget speech today the Chancellor, Philip Hammond, announced plans to further encourage new tech businesses. Together with the promise of over £500million of investment in a range of initiatives such as 5G, full fibre broadband and Artificial Intelligence he published an 'Action Plan' to unlock over £20 billion of new investment in UK scale-up businesses.

Part of this 'Action Plan' is to double Enterprise Investment Scheme (EIS) limits for, what he termed as 'knowledge-intensive companies'. However, while the limit will be doubled for investment in this specific type of company, measures will be taken to ensure that EIS is not used as a shelter for low-risk asset backed investments.

Currently, the maximum investment limit in EIS for which Tax relief is available is £1million, attracting a 30% Income Tax relief and a Capital Gains Tax deferral, if applicable, on investment. Any capital gains made on the EIS shares are also free of Capital Gains Tax if the investment has been held for at least three years. This measure will increase the annual limit for individuals investing in EIS, including in knowledge-intensive companies, to £2million provided that anything above £1million is invested in the knowledge-intensive companies.

The annual EIS and VCT limit on the amount of tax-advantaged investments a knowledge-intensive company may receive will be increased to £10 million.

The changes for EIS will apply to shares issued on or after 6 April 2018. For VCTs, the changes will apply to new qualifying investments made on or after 6 April 2018.

Savings

The annual ISA allowance will remain at the current limit of £20,000 but the Junior ISA limit is rising in line with CPI to £4,260 from 6 April 2018.

Annual ISA allowances are use-it or lose-it, so there is no ability to carry forward unused allowances between the tax years.

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Pension news

It was all rather quiet in relation to pensions in the Budget, which will be a relief to many given the significant changes made over recent years.

Within the Budget documents it was confirmed that the Lifetime Allowance for pension savings will increase to £1,030,000 from 6 April 2018.

This may provide some solace to those with high values being accrued within their pension pots and anyone close to or exceeding the limit should refer to the transitional protections available.

For those in receipt of the basic state pension the triple lock rise from April 2018 will be 3% - equivalent to £3.65 per week for those eligible for the full basic state pension. The full new state pension will also benefit from a rise of £4.80 per week.

ANTI-AVOIDANCE

Tackling avoidance

The recent release of the "Panama Papers", leaking details of offshore arrangements undertaken by wealthy individuals and companies intended to shelter assets from the UK tax net and/or avoid tax on income, led to criticism from the opposition that the Government was soft on tax avoidance.

The Chancellor responded today, firstly by outlining in great detail the avoidance measures he and his predecessor had introduced since 2010, and secondly by announcing new anti avoidance legislation. These latter measures included, but were not limited to, the following:

Withholding tax on royalties

With effect from April 2019 withholding taxes will apply to royalty payments made to low tax jurisdictions in relation to sales to UK customers. In the past multi national corporates such as Apple, Amazon & Google have sought to reduce their tax exposure on UK profits by making royalty payments to group companies set up in low tax regimes.

Extending offshore time limits

Following a consultation period in Spring 2018 the Government intends to extend the time period during which they can recover taxes arising from non deliberate offshore non compliance from four years to twelve years.

Requirement to notify HMRC of offshore structures

Following consultation the Government will seek to introduce a requirement for designers of offshore structures which could be used to avoid UK taxes to notify HMRC of the structures and their clients who are using them.

NIC and Employment Allowance

To combat some employers abusing the Employment Allowance, in order to avoid paying the correct amount of NICs often by using offshore arrangements, HMRC are to require upfront security from employers with a history of avoiding paying NICs in this way.

ANTI-AVOIDANCE

Disguised Remuneration

The Government intends to tackle disguised remuneration avoidance schemes used by close companies (generally those with five or fewer shareholders) by introducing a close companies' gateway to ensure liabilities from the new loan charge are collected from the appropriate person.

Double Taxation Relief

With immediate effect a restriction will be introduced to the relief for foreign tax incurred by an overseas branch of a company, to ensure the company does not get tax relief twice for the same loss.

To further bolster their attempts to target tax avoiders the Government is to invest a further £155 million in additional resources and new technology for HMRC, which they forecast will help bring in £2.3 billion of additional tax revenues.

This will assist and enable HMRC to:

- Tackle the hidden economy through new technology
- Further tackle those who are engaging in marketed tax avoidance schemes
- Tackle the enablers of tax fraud and hold intermediaries accountable for the services they provide using the Corporate Criminal Offence
- Tackle non-compliance among mid-size businesses and wealthy individuals
- Recover greater amounts of tax debt through a new taskforce to specifically tackle tax debts more than 9 months old

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VAT Registration Threshold

Following on from the recent Office for Tax Simplification report into the current VAT system there has been concern that HMRC would look to reduce the VAT registration threshold.

Philip Hammond did address this report during his speech but confirmed that the VAT registration threshold, rather than seeing the usual small increase, would be frozen for the next two years.

Following this two year period, the UK will be likely to have left the EU and at this point there would be more flexibility to introduce a smoothing mechanism to limit the impact of the current cliff edge system, which may in turn then see the threshold reduced.

At least for now though, the threshold has not been reduced keeping many small businesses outside of the VAT regime.

VAT & the Construction Sector

Following on from a consultation looking at options for tackling fraud in construction labour supply chains, a domestic reverse charge will be introduced to prevent VAT losses. Such a system already exists in other sectors, such as telecommunications, and shifts the responsibility for paying the VAT along the supply chain.

This is to be introduced from 1 October 2019, giving both businesses and the Government the opportunity to prepare for the change. It will be interesting to see whether there will be any de-minimis limit introduced for this new requirement.

Import VAT

Under current EU rules, businesses benefit from postponed accounting for VAT when importing goods from the EU, allowing a significant cash flow advantage. It is not yet clear whether this benefit will be retained following Brexit however the government has identified this as a potential issue and will be looking at options available to mitigate any adverse cash flow impacts for businesses, post Brexit.

VAT & INDIRECT TAXES

VAT & Vouchers

A Government consultation will take place on plans to legislate in the Finance Bill 2018-19 to ensure that when customers pay with vouchers, businesses account for the same amount of VAT as when other means of payment are used.

This is a new development and it will be interesting to see what proposals are introduced in relation to this.

Online VAT Fraud

The Chancellor announced plans to introduce legislation to extend HMRC's powers to hold online market places jointly and severally liable for any unpaid VAT of UK traders operating through their platform. This is an extension of the existing legislation which only impacts on overseas traders and would appear to be a positive step in reducing VAT fraud.

VAT Refunds

The Chancellor announced good news for UK Combined Authorities and certain fire services in England and Wales, with them becoming eligible for VAT refunds.

Grants will also be provided to help accident rescue charities meet the cost of VAT, which would normally be irrecoverable.

Fuel Duty

Fuel duty has been frozen for the eight year in a row, with it being estimated that this will save the average driver £160 a year.

Alcohol Duty

The duty rates on beer, cider, wine and spirts have also been frozen.

Making Tax Digital

There were no new announcements on Making Tax Digital (MTD), but the Government confirmed:

- No business or individuals will be forced to use MTD before April 2019.
- Only businesses with a turnover above the VAT threshold – which will stay at £85,000 for another two years – will be affected.
- It is only VAT return information that will be included in 2019.
- MTD will be extended to income tax, including businesses with turnover under the VAT threshold, only when the system "has been shown to work well", which will be April 2020 at the earliest.

Using technology to build an economy fit for the future

The chancellor wants to leave future generations an economy fit for purpose. This will be driven by technological innovation and his plans aim to see the UK becoming a world leader in new and emerging technologies. Some of the key actions to achieve this are supporting connectivity between city regions, a further £2.3 billion support in R&D and unlocking £20 billion of patient capital so innovative high-growth firms can achieve their full potential. Interestingly this is being combined with ambitions to lead the world in developing standards and ethics for data and AI whilst creating the most advanced framework for driverless cars in the world. There are also plans to ensure the work force is fit for purpose to achieve these aims so that young people and people who want to retrain can learn the skills it takes to be innovators of the future.

The government is increasing the R&D Expenditure Credit to 12% with effect on or after 1 January 2018 in line with the governments ambition to raise the level of investment in R&D to 2.4% of GDP. This will not only affect large corporates, but our smaller clients who undertake subcontracted R&D or have received state aid towards their R&D projects.