2017 CPD Webinar Programme

2017 Budget Update
Monday 27\textsuperscript{th} March 2017
Presented by:
Mark Ward
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Budget Day 2017 was 8 March 2017. The Finance Bill 2017 will be published on 20 March 2017.

Philip Hammond’s first March Budget Statement was also his last, given the announcement that the Statement and the Budget announcements will be swapping places from November 2017. The March 2017 statement included a number of tax changes and consultations as follows.

These notes have been prepared from the legislation, press releases and commentary published by HMRC and HM Treasury in December 2016 and on 8 March 2017. Only major changes are considered: the less relevant or more esoteric measures may need to be reflected upon separately.

Tax law is always open to interpretation and delegates are advised to seek corroboration before acting or refraining from acting after reading the contents.
1. Business and corporation tax

Corporation tax rate – ss45&46

1.1. Legislation was already in place setting the rate of corporation tax at 20% for the financial year beginning on 1 April 2016.

1.2. FA 2016 provides for a reduction in the CT main rate to 17% for the Financial Year beginning 1 April 2020.

1.3. This is an additional 1% cut on top of the previously announced CT main rate cuts which reduced the CT main rate to 18% from 1 April 2020.

<table>
<thead>
<tr>
<th>Financial year</th>
<th>CT rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>20%</td>
</tr>
<tr>
<td>2017</td>
<td>19%</td>
</tr>
<tr>
<td>2018</td>
<td>19%</td>
</tr>
<tr>
<td>2019</td>
<td>19%</td>
</tr>
<tr>
<td>2020</td>
<td>17%</td>
</tr>
</tbody>
</table>

Trading and property income allowances

1.4. As announced at Budget 2016, and confirmed at Autumn Statement 2016, the government will legislate in Finance Bill 2017 to create two new Income Tax allowances of £1,000 each, for trading and property income. The allowances can be deducted from income instead of actual expenses. As announced at Autumn Statement 2016, the trading allowance will also apply to certain miscellaneous income from providing assets or services.

1.5. Following the publication of the draft legislation, revisions will be made to prevent the allowances from applying to income of a participator in a connected close company or to any income of a partner from their partnership. Minor revisions will also be made to improve clarity and correct errors.

Offshore property developers

1.6. As announced at Spring Budget 2017, the government will legislate in Finance Bill 2017 to amend the legislation on profits from trading in and developing land in the UK at sections 76 - 80 Finance Act 2016 to tax all profits arising on or after 8 March 2017.
1.7. This measure amends the ‘Profits from Trading in and Developing Land in the UK’ legislation introduced in FA 2016 to bring all profits recognised in the accounts on or after 8.3.17 into the charge to UK Corporation Tax or Income Tax, regardless of the date the contract was entered into.

1.8. The intention of the legislation is to ensure that all profits from dealing in or developing land in the UK are brought into charge to UK tax. This puts all developers of UK land on an equal footing for tax purposes. The legislation took effect for disposals made on or after 5 July 2016, with an exception where the contract for disposal was entered into before 5 July 2016. The intention was to exclude the standard property disposal arrangement where the parties are committed on making the contract, but the transfer takes place a short time later. However, some contracts are entered into at an early stage in the development with transfers being made over an extended period of months or years. The result is that some profits from these long term contracts are not within the charge. This was not the intention when the legislation was enacted and this measure ensures that the rules set out in FA 2016 work as intended.

Reform of loss relief

1.9. As announced at Budget 2016, the government will reform the rules governing certain corporate losses carried forward from earlier periods. Firstly, the reform 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 other group companies. Secondly, companies will have their use of carried forward losses restricted so that they cannot reduce their profits arising on or after 1 April 2017 by more than 50%.

1.10. This restriction will apply to a company or group’s profits above £5m. Carried forward losses arising at any time will be subject to the restriction. For banking companies, losses that are within the separate bank loss restriction will continue to be subject to those rules (see ‘Bank loss relief restriction: amendment to restriction’). Profits and losses subject to the oil and gas ring-fence regime will be excluded from the loss reform. Following a consultation later in 2016 on the detailed design and implementation of the reform, legislation will be introduced in Finance Bill 2017.

Capital allowances: first-year allowance for electric charge-points

1.11. The measure provides a 100% first-year allowance (FYA) for expenditure incurred on electric charge-point equipment. The allowance will expire on 31 March 2019 for Corporation Tax purposes and 5 April 2019 for Income Tax purposes.
1.12. The measure is designed to support the development and installation of electric recharging equipment for electric vehicles as part of the process of promoting the wider uptake of such vehicles. It will encourage the use of cleaner vehicles by making electric charge-points a more common feature on the high street.

1.13. The measure complements the 100% FYA for cars with low carbon dioxide (CO2) emissions, and the 100% FYA for cars powered by natural gas, biogas and hydrogen.

1.14. The measure will have effect for expenditure incurred on or after 23 November 2016. It will expire on 31 March 2019 for Corporation Tax and 5 April 2019 for Income Tax purposes.

**Plant and machinery leasing – response to lease accounting changes**

1.15. 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. The tax treatment of a lease, in some important respects, is determined by its treatment in the accounts. Following the discussion document published in summer 2016, the government intends to maintain the current system of lease taxation by making legislative changes which enable the rules to continue to work as intended.

**Research and development (R&D) tax review**

1.16. The government will make administrative changes to research and development (R&D) tax credits, following a review of the tax environment for R&D. This will increase the certainty and simplicity around claims, and will take action to improve awareness of R&D tax credits among SMEs.

**Non-resident companies chargeable to Income Tax and non-resident Capital Gains Tax**

1.17. As announced at Autumn Statement 2016, the government will consult on the case and options for bringing non-UK resident companies, who are currently chargeable to Income Tax on their UK taxable income, and to non-resident Capital Gains Tax (CGT) on certain gains, within the scope of Corporation Tax. Under such a move, these companies would then be subject to the rules which apply generally for the purposes of Corporation Tax, including the limitation to corporate interest expense deductibility and loss relief rules.
2. Employment tax and national insurance contributions

Company car tax rate

2017-18 - 2019-20

2.1. The appropriate percentages to be applied to list prices until 5 April 2020 were announced

2.2. The following table will hopefully act as an aide memoire.

<table>
<thead>
<tr>
<th>Emissions of CO₂</th>
<th>Multiple applied to list price</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016-17</td>
</tr>
<tr>
<td>0g/km/0-50g/km</td>
<td>7%</td>
</tr>
<tr>
<td>Up to 75g/km</td>
<td>11%</td>
</tr>
<tr>
<td>Up to 94g/km</td>
<td>15% + 1% for every 5g/km (max 37%)</td>
</tr>
</tbody>
</table>

2.3. The 3 percentage point diesel supplement will continue until 5 April 2021, subject to a maximum percentage for diesel cars of 37%.

2021 onwards

2.4. As part of the December 2016 documentation relating to proposals for Finance Bill 2017, HMRC released details of five specific bands to apply by reference to the electric range of cars (see below), of between 2% and 14%, as well as proposed rates for other lower emission company cars

<table>
<thead>
<tr>
<th>CO₂ (g/km)</th>
<th>Electric range (miles)</th>
<th>% 2020/21</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>1 - 50</td>
<td>&gt;130</td>
<td>2</td>
</tr>
<tr>
<td>1 - 50</td>
<td>70 - 129</td>
<td>5</td>
</tr>
<tr>
<td>1 - 50</td>
<td>40 - 69</td>
<td>8</td>
</tr>
<tr>
<td>1 - 50</td>
<td>30 - 39</td>
<td>12</td>
</tr>
<tr>
<td>1 - 50</td>
<td>&lt;30</td>
<td>14</td>
</tr>
<tr>
<td>51 - 54</td>
<td></td>
<td>15</td>
</tr>
<tr>
<td>55 - 59</td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>60 - 64</td>
<td></td>
<td>17</td>
</tr>
<tr>
<td>65 - 69</td>
<td></td>
<td>18</td>
</tr>
<tr>
<td>70 - 74</td>
<td></td>
<td>19</td>
</tr>
</tbody>
</table>
The benefit in kind beyond that point will be calculated at an additional 1% of list price for every further 5g/km of emissions.

Van benefit charge

*Zero-emission vans*

2.5. Existing legislation continues to restrict the level of the van benefit charge for zero-emissions vans to 20% of the charge for conventionally fuelled vans for 2017-18.

*Other vans*

2.6. The value of the benefit in kind for non-incidental private use of a van will increase from £3,170 to £3,230 with effect from 6.4.17.

2.7. The cash equivalent of the van benefit charge remains £nil where the restricted private use condition is met.

*Car and van fuel benefit charge: 2017-18*

2.8. The car fuel benefit charge multiplier will increase from £22,200 to £22,600 for cars; and the value of benefit for fuel in vans from £598 to £610 with effect from 6.4.17.

*Income Tax and NICs treatment of termination payments*

2.9. Legislation will be introduced in Finance Bill 2017 to come into effect on 6 April 2018.

2.10. The legislation splits an employee’s termination payment into two types of payment: payments that can still benefit from the £30,000 threshold and those that cannot. The legislation works by first identifying any payments that should be treated as earnings and any remainder is then subject to the £30,000 exemption.

2.11. The legislation ensures that statutory redundancy is exempt from Income Tax and NICs.

2.12. Foreign service relief is removed except for seafarers.

2.13. A new power to vary the threshold upwards or downwards is also provided.

2.14. The employer NICs charge on termination payments over £30,000 will be made via a Class 1A charge on termination payments that count as employment income under section 403 ITEPA, provided the earner also pays Income Tax on that termination payment.

2.15. It is anticipated that the Class 1A charge will arise and be paid in ‘real-time’, rather than after the end of the tax year, as with other Class 1A charges.
Optional remuneration payments (salary sacrifice)

2.16. The measure will limit the Income Tax and employer National Insurance contributions (NICs) advantages where BiKs are offered through salary sacrifice or where the employee can choose between cash allowances and BiKs.

2.17. The measure will fix the taxable value of those BiKs provided through salary sacrifice at the higher of the amount of cash forgone or the amount calculated under the existing BiK rules.

2.18. The following will not be affected by this rule:
- employer provided pension saving - sections 308 to 308A
- employer provided pensions advice - section 308C
- childcare vouchers - section 270A
- workplace nurseries - section 318
- directly contracted childcare - section 318A
- cycle to work schemes - section 244
- ULEVs emitting 75g CO2/km or less - section 139

2.19. Current contracts will remain under the pre-2017 rules until the contract ends, is modified or changed or is renewed, or April 2018 at the latest. However, the April 2018 deadline is extended to April 2021 for cars, accommodation and school fees.

Alignment of dates for ‘making good’ on benefits-in-kind

2.20. Where an employee gives something (usually a cash payment) to the person providing a benefit in kind in return for it, the payment has the effect of reducing the taxable value of the benefit in kind, often to zero.

2.21. This measure sets a date of 6 July after the end of the tax year (for 2017-18 onwards) for making good on benefits in kind which are not accounted for in real time through Pay As You Earn (‘payrolled’). The taxable value, and the value on which Class 1A National Insurance contributions (NiCs) are payable, will be reduced only if the benefit in kind is made good by that date. There are already dates in legislation for making good on benefits in kind which are payrolled.

2.22. Employees will still have the discretion to make good after 6 July but doing so will not reduce the taxable value of the benefit in kind.
Assets made available to employees without transfer

2.23. This measure introduces rules for calculating the taxable value (cash equivalent) of an asset provided to an employee or a member of their family or household which is available for their private use. The rules will allow for days when the asset is unavailable for private use to be ignored for the purposes of calculating the cash equivalent under certain circumstances. These rules will apply only to assets which do not currently have specific charging provisions elsewhere in the legislation.

2.24. This measure will also allow for the reduction in the level of the taxable benefit if the asset is first made available part way through the year or permanently ceases to be available part way through the year.

Employee liabilities and indemnity insurance

2.25. This measure ensures that employees (or former employees) who may require legal advice or indemnity insurance which is funded by their employer, for example, in preparation for an appearance before a public enquiry, will not be taxed on the benefit provided whether or not any allegation is made.

2.26. A tax deductions or relief will be available for expenses incurred where an employee:

- gives evidence about a matter related to his employment in his capacity as an employee or where he acted in the performance of the duties of the employment
- is under general investigation about a matter related to his employment to determine whether or not there has been wrong doing

2.27. In addition, the government is amending the legislation to ensure that individuals subject to a termination settlement are treated in the same way for legal costs relating to their employment as any other employee or former employee.

Tackling disguised remuneration

2.28. This measure will prevent the future use of disguised remuneration schemes by strengthening the existing rules in ITEPA 2003. The changes will put beyond doubt that the anti-avoidance applies to loan transfers and the remuneration of employees, and directors, who have a material interest in their close company employer. A new charge on the write-off, or release, of a disguised remuneration loan will also be introduced. These measures will be effective from 6 April 2017.

2.29. The measure will also tackle the existing use of disguised remuneration schemes with a new charge (the ‘loan charge’) on disguised remuneration loans outstanding on 5 April 2019.
2.30. Legislation will be also 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).

Simplifying the PAYE Settlement Agreement process

2.31. This proposal seeks to remove the requirement for an employer to request and obtain agreement for items to be included in a PSA, in advance of their PAYE end of year reporting obligations. It will also introduce a new digital process for reporting PSAs to HMRC. The removal of the up-front agreement and the new digital process will be simpler and less time consuming for employers.

2.32. Guidance on the conditions for a PSA will be strengthened, reducing errors and providing certainty for employers.

Off-payroll working in the public sector: reform of the intermediaries legislation

2.33. The off-payroll rules (often known as IR35, or the intermediaries legislation), ensure that individuals who work through their own company pay broadly equivalent taxes as employees, where they would be employed if they were taken on directly.

2.34. This measure moves responsibility for deciding if the off-payroll rules for engagements in the public sector apply, from an individual worker's PSC to the public sector body, agency or third party paying them. This measure also makes that organisation responsible for deducting and paying associated employment taxes and National Insurance contributions (NICs) to HM Revenue and Customs (HMRC). These changes do not affect workers and PSCs who provide their services to private sector organisations.

2.35. The 5% allowance currently available to those who apply the off-payroll rules to reflect the costs of administering the rules will be removed for those who work in the public sector. These changes will also introduce a requirement for public sector bodies to provide information to agencies and workers about whether engagements are within the off-payroll rules.

2.36. As a result of feedback received during the technical consultation, it will be optional for the agency or public sector body to take account of the worker’s expenses when calculating the tax due. This change would put these workers in the same position as other employees, whose employers can choose whether or not to reimburse the expenses they incur. The application of the rules to Parliament and Statutory Auditors will also be clarified.
2.37. HMRC released a new digital employment status service at the beginning of March 2017, to help identify whether engagements fall within the off-payroll rules to support customers impacted by the reform.

2.38. Finance Bill 2017 provides that where an individual works for the public sector, through their own PSC and falls within the rules:

- the public sector engager or agency is treated as an employer for the purposes of taxes and Class 1 NICs;

- the amount paid to the worker's intermediary for the worker's services is deemed to be a payment of employment income, or of earnings for Class 1 NICs for that worker;

- the public sector engager or the agency is liable for secondary Class 1 NICs and must deduct tax and NICs from the payments they make to the intermediary in respect of the services of the worker;

- the public sector is defined using the definitions in the Freedom of Information Act 2000 and the Freedom of Information (Scotland) Acts;

- the person deemed to be the employer for tax purposes is obliged to remit payments to HMRC and to send HMRC information about the payments using Real Time Information

### HMRC Example (February 2017)

A company invoices the fee-payer for £7,200 for services provided (£6,000 fees and £1,200 VAT). The fee-payer deducts £1,871 (£1,458 tax and £413 primary class 1 NIC) which it pays to HMRC. The company receives £4,129 for the services invoiced plus £1,200 VAT. The fee-payer also pays secondary NIC on the deemed direct payment.

The net amount of £4,129 can be paid out as a ‘non-taxable payment’ to the worker (reported on the FPS), or as a tax-free dividend (not reportable at all).

When calculating the company's income, it should deduct the total amount of the invoice, less the amount of income tax and NIC that were deducted at source. In the example given, that would be £4,129 (£6,000 minus £1,871). The accounts should reflect this deduction to ensure that the amount is not taxed twice.
NATIONAL INSURANCE CONTRIBUTIONS

2.39. The National Insurance upper earnings and upper profits limits will increase to stay in line with the higher rate threshold.

NIC rates

2.40. The rates for the 2016-17 tax year are as follows:

<table>
<thead>
<tr>
<th>Employee and employer rates</th>
<th>Employee (Class 1 primary)</th>
<th>Employer (Class 1 secondary)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings per week</td>
<td>Threshold April 2017-18</td>
<td>Threshold April 2017-18</td>
</tr>
<tr>
<td>Below primary threshold / secondary threshold</td>
<td>£8,164</td>
<td>Nil</td>
</tr>
<tr>
<td>Above primary threshold/ secondary threshold*</td>
<td>12%</td>
<td>13.8%</td>
</tr>
<tr>
<td>Below upper secondary threshold for under 21’s and apprentices</td>
<td></td>
<td>0%</td>
</tr>
<tr>
<td>Above upper earnings limit</td>
<td>£45,000</td>
<td>2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Self-employed rates</th>
<th>Class 2 (per week)</th>
<th>Class 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profits per year</td>
<td>Limit April 2017-18</td>
<td>Limit April 2017-18</td>
</tr>
<tr>
<td>Below small earnings threshold</td>
<td>£6,025</td>
<td>Nil</td>
</tr>
<tr>
<td>Above small earnings threshold to lower profits limit</td>
<td>£2.85/week</td>
<td>-</td>
</tr>
<tr>
<td>Lower profits limit to upper profits limit</td>
<td>£8,164</td>
<td>9%</td>
</tr>
<tr>
<td>Above upper profits limit</td>
<td></td>
<td>£45,000</td>
</tr>
</tbody>
</table>

Notes

- The rate of secondary NICs for all employees under the age of 21 years and apprentices under the age of 25 years on earnings between the ST and UST/UEL is 0%.
- Class 2 NICs are paid at a weekly flat rate of £2.85 by all self-employed persons. Those with profits less than, or expected to be less than, the level of the small profits threshold may apply for exemption from paying Class 2 contributions.
- Class 2 NICs for share fishermen continue at £3.50 per week; and those for volunteer development workers at £5.65 per week.
- Class 3 contributions are set at £14.25 per week.
- The upper accruals point for state second pension purposes remains at £40,040 per annum.

National Insurance Employment Allowance

2.41. As announced at Spring Budget 2017, HMRC is actively monitoring compliance with the National Insurance Employment Allowance, following reports of some businesses using avoidance schemes to avoid paying the correct amount of National Insurance
contributions. The government will consider taking further action in the event that this avoidance continues.
3. **Personal income tax**

**Personal allowances**

3.1. The government will meet their commitment to raise the income tax personal allowance to £12,500 and the higher rate threshold to £50,000, by the end of this Parliament. From 6 April 2017, the personal allowance will rise to £11,500 and the higher rate threshold to £45,000.

3.2. The age related allowance is no longer relevant, having been superseded by an increase in the basic personal allowance.

<table>
<thead>
<tr>
<th>£ per year (unless stated)</th>
<th>2015-16</th>
<th>2016-17</th>
<th>2017-18</th>
<th>2017-18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal allowance</td>
<td>£10,600</td>
<td>£11,000</td>
<td>£11,500</td>
<td>£11,500</td>
</tr>
<tr>
<td>Personal allowance (born before 6.4.38)</td>
<td>£10,660</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Income limit for personal allowances</td>
<td>£100,000</td>
<td>£100,000</td>
<td>£100,000</td>
<td>£100,000</td>
</tr>
<tr>
<td>Transferable married allowance</td>
<td>£1,100</td>
<td>£1,100</td>
<td>£1,150</td>
<td>£1,150</td>
</tr>
<tr>
<td>Married couple's allowance* (age 80 and over)</td>
<td>£8,355</td>
<td>£8,355</td>
<td>£8,355</td>
<td>£8,355</td>
</tr>
<tr>
<td>Married couple's allowance* - minimum amount</td>
<td>£3,220</td>
<td>£3,220</td>
<td>£3,220</td>
<td>£3,220</td>
</tr>
<tr>
<td>Income limit for allowances – born before 6.4.48</td>
<td>£27,700</td>
<td>£27,700</td>
<td>£27,700</td>
<td>£27,700</td>
</tr>
<tr>
<td>Blind person's allowance</td>
<td>£2,290</td>
<td>£2,290</td>
<td>£2,290</td>
<td>£2,290</td>
</tr>
<tr>
<td>Dividend allowance</td>
<td>n/a</td>
<td>£5,000</td>
<td>£5,000</td>
<td>£5,000</td>
</tr>
<tr>
<td>Personal savings allowance (basic rate taxpayers)</td>
<td>n/a</td>
<td>£1,000</td>
<td>£1,000</td>
<td>£1,000</td>
</tr>
<tr>
<td>Personal savings allowance (higher rate taxpayers)</td>
<td>n/a</td>
<td>£500</td>
<td>£500</td>
<td>£500</td>
</tr>
</tbody>
</table>

*Married couple's allowance is given at the rate of 10%, where one party was born before 6 April 1935. For marriages/civil partnerships entered into before 5 December 2005, the income of the husband is taken into account in determining eligibility.

**Income tax rates for 2016-17**

3.3. Finance Act 2014 introduced a new starting rate of 0% on savings income up to a £5,000 limit for 2015-16 onwards. Savings income in excess of £5,000 is chargeable in the normal way, subject to the new personal savings allowance for 2016-17 et seq.

3.4. The National Insurance contributions (NICs) upper earnings limit and upper profits limit continue to be aligned with the level of the combined personal allowance/higher rate threshold, by separate regulations.
**Income tax: taxable bands**

3.5. Bands are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2015-16</th>
<th>2016-17</th>
<th>2017-18</th>
<th>2017-18</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>rUK</td>
<td>Scottish</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Starting savings income rate limit 0%</td>
<td>£0-£5,000</td>
<td>£0-£5,000</td>
<td>£0-£5,000</td>
<td>£0-£5,000</td>
</tr>
<tr>
<td>Basic rate: 20%</td>
<td>£0-£31,785</td>
<td>£0-£32,000</td>
<td>£0-£33,500</td>
<td>£0-£31,500</td>
</tr>
<tr>
<td>Higher rate: 40%</td>
<td>Over £31,785</td>
<td>Over £32,000</td>
<td>Over £33,500</td>
<td>Over £31,500</td>
</tr>
<tr>
<td>Additional rate: 45%</td>
<td>Over £150,000</td>
<td>Over £150,000</td>
<td>Over £150,000</td>
<td>Over £150,000</td>
</tr>
<tr>
<td>Dividend ordinary rate – for dividends otherwise taxable at the basic rate)</td>
<td>10% (0%)</td>
<td>7.5%</td>
<td>7.5%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Dividend upper rate – for dividends otherwise taxable at the higher rate</td>
<td>32.5% (25%)</td>
<td>32.5%</td>
<td>32.5%</td>
<td>32.5%</td>
</tr>
<tr>
<td>Dividend additional rate – for dividends otherwise taxable at the additional rate</td>
<td>37.5% (30.6%)</td>
<td>38.1%</td>
<td>38.1%</td>
<td>38.1%</td>
</tr>
</tbody>
</table>

(Figures in brackets show the effective rate with tax credit for 2015-16 – this became obsolete for 2016-17 et seq.)

The trust rate remains at 45%.

**Scottish income tax**

3.6. In Edinburgh on 15.12.16, Scottish finance secretary Derek Mackay delivered his draft Budget for 2017-18. This has been described by some as the most important Budget in Scottish parliamentary history, being the first time there has ever been a Scottish income tax.

3.7. As proposed by the Scottish National Party before it was re-elected to form a new minority administration in May of this year, the government have opted to freeze the Scottish basic income tax rate at 20% in order to protect low-income taxpayers. They also propose to freeze the Scottish higher and additional rates at 40% and 45%.
3.8. Also as expected, the government have decided not to follow Philip Hammond's example of raising the higher rate income tax threshold by £2,000. Instead, the threshold for Scottish taxpayers will be lifted by only £430, in line with the increase in RPI. Since the personal allowance is being increased by £500, the basic rate band for Scottish taxpayers will be reduced by £70.

3.9. Pressure to raise the Scottish additional rate of income tax to 50% was resisted on grounds that it would risk loss of revenues from behavioural changes by taxpayers.

3.10. Because the Scottish income tax rates and thresholds apply only to non-savings, non-dividend income, tax on the savings and dividend income of Scottish taxpayers will continue to be levied at the rates and thresholds applying in the rest of the UK. Their capital gains will be taxed as though they were not Scottish taxpayers. Westminster will also continue to levy other taxes such as NIC and IHT at UK rates.

3.11. For many Scottish taxpayers this will mean that two separate tax computations will be required each year, one using Scottish rates and thresholds, and the other based on those that apply in the rest of the UK. While that may not create any insurmountable compliance difficulties in this computer age, it will certainly make it much more difficult for many Scottish taxpayers to understand how they are taxed.

3.12. Thankfully for tax practitioners, the transition from the current Scottish rate of income tax regime to the new Scotland Act 2016 powers will not involve any substantial legislative changes. An HMRC technical note published on 30 November 2016, sets out how various aspects of the UK income tax regime will interact with the new Scottish tax powers.

**Dividend taxation**

3.13. Finance Act 2016 replaced the lower tax rates applicable to dividend income with a new £5,000 dividend tax allowance for all taxpayers, accompanied by increased tax rates on dividend income. These rates were set at 7.5%, 32.5% and 38.1%, equivalent to an increase of 7.5% where dividend income exceeds £5,000. While explaining that the measure would only affect those receiving more than £140,000 in dividend income, the Chancellor made it clear that this was a specific attack on tax-motivated incorporation.

3.14. Legislation will be introduced in Finance Bill 2017 to change the amount of dividend income that is charged at the nil rate by section 13A to £2,000 from tax year 2018-19. According to the government, this will reduce the tax differential between the employed and self-employed on the one hand and those working through a company on the other, and raise revenue to invest in public services. The change will take place from April 2018.
Individual investment plans for children

3.15. The Junior ISA investment allowance for the tax year 2016-17 continues at £4,080, as does the CTF investment allowance.

ISAs: limits on investment

3.16. The total amount you can save each year into all ISAs will be increased from £15,240 to £20,000 from April 2017.

Lifetime ISAs

3.17. From April 2017, any adult under 40 will be able to open a new Lifetime ISA. Up to £4,000 can be saved each year and savers will receive a 25% bonus from the government on this money.

3.18. Money put into this account can be saved until you are over 60 and used as retirement income, or you can withdraw it to help buy your first home.

3.19. Contributions can continue to be made with the bonus paid up to the age of 50. Funds can be used to buy a first home with the government bonus at any time from 12 months after opening the account, and can be withdrawn from the Lifetime ISA with the government bonus from age 60 for use in retirement.

3.20. The government will set the limit for property purchased using Lifetime ISA funds at £450,000. This limit will apply nationally. People can continue to open a Help to Buy: ISA until November 2019, as planned. They can also choose to open a Lifetime ISA, but will only be able to use the government bonus from one of their accounts to buy their first home. During the 2017-18 tax year, those who already have a Help to Buy: ISA will be able to transfer the savings they have built up into the Lifetime ISA and still save an additional £4,000.

3.21. Whilst this is a product aimed at encouraging saving for the long term, the government understands that circumstances change so wants to ensure that people can access their own money if they need it whilst also keeping an incentive to leave funds invested for the long term. The government will consider whether Lifetime ISA funds plus the government bonus can be withdrawn in full for other specific life events in addition to buying a first home.

3.22. The government proposes that savers can make withdrawals at any time for other purposes, but with the bonus element of the fund plus any interest or growth on it returned to the government, and a small 5% charge applied. The government will also explore with the industry whether there should be the flexibility to borrow funds against the Lifetime ISA without incurring a charge if the borrowed funds are fully repaid. In the US some retirement
plans allow 50% to be borrowed up to a maximum of $50,000. Further details on the Lifetime ISA are set out in the document published alongside Budget.

Help to Save

3.23. To help the people who find it hardest to save, the government will introduce a new Help to Save scheme for those on low incomes who wish to regularly set aside some of their income. The scheme will be open to 3.5 million 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 Credit. It will work by providing a 50% government bonus on up to £50 of monthly savings into a Help to Save account. The bonus will be paid after two years with an option to save for a further two years, meaning that people can save up to £2,400 and benefit from government bonuses worth up to £1,200. People will be able to use the funds in any way they wish.

Amendments to Social Investment Tax Relief

3.24. As announced at Autumn Statement 2016, the government will amend the requirements for the Social Investment Tax Relief (SITR) scheme. These amendments:

- increase the amount of investment a social investment may receive over its lifetime to £1.5 million for social enterprises that receive their initial risk finance investment no later than 7 years after their first commercial sale, the current limit will continue to apply to older social enterprises;

- reduce the limit on full-time equivalent employees to below 250 employees;

- exclude certain activities, including asset leasing and on-lending, to ensure the scheme is well targeted - investment in nursing homes and residential care homes will be excluded initially, however the government intends to introduce an accreditation system to allow such investment to qualify for SITR in the future;

- exclude the use of money raised under the SITR to pay off existing loans;

- clarify that individuals will be eligible to claim relief under the SITR only if they are independent from the social enterprise; and

- introduce a provision to exclude investments where arrangements are put in place with the main purpose of delivering a benefit to an individual or party connected to the social enterprise.

3.25. The changes will take effect for investments made on or after 6 April 2017.
Tax-advantaged venture capital schemes

3.26. As announced at Autumn Statement 2016, the government will amend the requirements of the Enterprise Investment Scheme (EIS), the Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCTs). These amendments:

- clarify the EIS and SEIS rules for share conversion rights - the rights to convert shares from one class to another will be excluded from being an arrangement for the disposal of those shares within the no pre-arranged exits requirements for the EIS and SEIS for shares issued on or after 5 December 2016;

- provide additional flexibility for follow-on investments made by VCTs in companies with certain group structures, to align with EIS provisions, for investments made on or after 6 April 2017; and

- introduce a power to enable VCT regulations to be made in relation to certain share for share exchanges to provide greater certainty to VCTs, which will take effect on the date from which Finance Bill 2017 receives Royal Assent.

New tax allowances for money earned from the sharing economy

3.27. From April 2017, there will be two new tax-free £1,000 allowances – one for selling goods or providing services, and one income from property you own.

3.28. People who make up to £1,000 from occasional jobs – such as sharing power tools, providing a lift share or selling goods they have made – will no longer need to pay tax on that income.

3.29. In the same way, the first £1,000 of income from property – such as renting a driveway or loft storage – will be tax free.

3.30. As announced at Autumn Statement 2016, the trading allowance will also apply to certain miscellaneous income from providing assets or services.

3.31. Following the publication of the draft legislation, revisions will be made to prevent the allowances from applying to income of a participator in a connected close company or to any income of a partner from their partnership. Minor revisions will also be made to improve clarity and correct errors.

Life insurance policies - part surrenders and part assignments

3.32. As announced at Autumn Statement 2016 and confirmed at Spring Budget 2017, the government will legislate in Finance Bill 2017 to change the current tax rules for part surrenders and part assignments of life insurance policies 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.

3.33. Following consultation, the legislation has been revised to clarify who can apply, when and how the recalculation is given effect. These changes will have effect from Royal Assent of

Reducing the money purchase annual allowance

3.34. Following a consultation launched at Autumn Statement 2016, the government will legislate in Finance Bill 2017 to reduce the money purchase annual allowance to £4,000 from April 2017. This restricts the amount of tax relieved contributions an individual can make in a year into a money purchase pension, if they have flexibly accessed their pension savings. A response to the consultation will be published on 20 March 2017.

Changes to tax treatment of foreign pension regimes

3.35. As announced at Autumn Statement 2016, the government will legislate in Finance Bill 2017 to more closely align the treatment of foreign pensions with the UK’s domestic pension regime. Following consultation, the legislation has been revised to set out the position for defined benefit specialist pension schemes for those employed abroad (section 615 schemes) and clarify that all lump sums paid out of funds built up before 6 April 2017 will be subject to existing tax treatment. These changes will have effect from 6 April 2017.

Qualifying recognised overseas pension schemes (QROPS): introduction of a transfer charge

3.36. As announced at Spring Budget 2017, the government will legislate in Finance Bill 2017 to apply a 25% tax charge to pension transfers made to 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, where:

- both the individual and the pension scheme are in countries within the European Economic Area (EEA); or
- if 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.

3.37. If the individual’s circumstances change within five tax years of the transfer, the tax treatment of the transfer will be reconsidered. The changes will take effect for transfers requested on or after 9 March 2017.
3.38. The government will also legislate in Finance Bill 2017 to apply UK tax rules to payments from funds that have had UK tax relief and have been transferred, on or after 6 April 2017, to a qualifying recognised overseas pension scheme. UK tax 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.

**Tax-free childcare**

3.39. From early 2017, the government is introducing tax-free childcare to help working parents with the cost of childcare, ensuring more parents who want to can go out to work or increase the number of hours they work. Tax-free childcare will be rolled out in such a way that allows the youngest children to enter the scheme first, with all eligible parents brought in by the end of 2017. The existing scheme employer-supported childcare will remain open to new entrants until April 2018 to support the transition between the schemes. This will sit alongside doubling the free childcare entitlement from 15 hours to 30 hours a week for working families with three and four year olds from September 2017.
4. Capital Taxes

CAPITAL GAINS TAX

Annual exempt amount

4.1. As announced in Budget 2017, the annual exempt amount for capital gains tax has increased by £200 to £11,300 for 2017-18.

4.2. Trustees are entitled to half this amount, £5,650.

Income Tax and Capital Gains Tax: employee shareholder status

4.3. Legislation will be introduced in Finance Bill 2017 to ensure that the full value of shares received as consideration for entering into an employee shareholder agreement constitutes earnings of the recipient.

4.4. CGT will be chargeable on all gains accruing on disposals of shares received as consideration for entering into an employee shareholder agreement. Losses on such disposals will be allowable losses.

4.5. If an issuing company buys-back from an employee shares which were issued to that employee as consideration for entering into an employee shareholder agreement, the payment given by the company may be taxed as a distribution in respect of those shares.

4.6. These changes apply only to shares acquired in connection with employee shareholder agreements made on or after 1 December 2016.

INHERITANCE TAX

Inheritance tax allowance

4.7. Legislation was introduced in Finance Act 2015 to maintain the freeze on the IHT nil-rate band of £325,000 until 2020-21.

Reform of domicile rules and Inheritance tax

4.8. As announced at Summer Budget 2015, from April 2017 non-UK domiciled individuals (“non-doms”) will be deemed domiciled in the UK for tax purposes where they have been UK resident for 15 of the past 20 tax years. Additionally, individuals who were born in the UK with a UK domicile of origin, but have acquired a domicile of choice elsewhere, will be deemed UK domiciled for all tax purposes while they are UK resident. Non-doms who set up a non-UK resident trust before becoming deemed domiciled in the UK will not be taxed on any income and gains retained in that trust.
4.9. As previously announced at Summer Budget 2015 and following further consultation on draft legislation published in December 2016 on charging IHT on UK residential property, the limit below which minor interests in UK property are disregarded has been increased from 1% to 5% of an individual’s total property interests.

4.10. As first announced at Summer Budget 2015, from April 2017 inheritance tax (IHT) will be charged on all UK residential property even when indirectly held by a non-dom through an offshore structure.

4.11. As announced at Budget 2016, non-doms will be able to segregate amounts of income, gains and capital within their overseas mixed funds to provide certainty on how amounts remitted to the UK will be taxed. Following consultation on the draft legislation this will be extended by government amendment to income, gains and capital held in mixed funds from years before 2007/08, as well as those from subsequent years.

4.12. Those who become deemed domicile in April 2017, excepting those who were born in the UK with a UK domicile of origin, will be able to treat the cost base of their non-UK based assets as the market value of that asset on 5 April 2017.

4.13. The government will legislate these reforms in Finance Bill 2017 to have effect from 6 April 2017.

Inheritance Tax: donations to political parties

4.14. As announced at Autumn Statement 2016, the government will legislate in Finance Bill 2017 to 2018 to extend the existing IHT exemption for donations to political parties to include donations made to qualifying political parties in the devolved legislatures and parties that have acquired representatives through by-elections. These changes will modernise the IHT exemption and reflect changes to the political landscape in which political parties operate.

ANNUAL TAX ON ENVELOPED DWELLINGS

Increased charges

4.15. The annual charges for the annual tax on enveloped dwellings (ATED) are increased to:

<table>
<thead>
<tr>
<th>Property value</th>
<th>Annual charge in 2017-18</th>
</tr>
</thead>
<tbody>
<tr>
<td>£500,000 - £1m</td>
<td>£3,500</td>
</tr>
<tr>
<td>£1m - £2m</td>
<td>£7,050</td>
</tr>
<tr>
<td>£2m-£5m</td>
<td>£23,550</td>
</tr>
<tr>
<td>£5m-£10m</td>
<td>£54,950</td>
</tr>
<tr>
<td>£10m-£20m</td>
<td>£110,100</td>
</tr>
</tbody>
</table>
£20m+  £220,350

4.16. The new charges will apply from 1 April 2017.

4.17. Delegates are reminded that all enveloped properties should be revalued at 1 April 2017, but the revised revaluations will not be effective until the following year.

**STAMP DUTY AND STAMP DUTY LAND TAX**

**Stamp duty land tax: accelerating receipts**

4.18. As announced at Autumn Statement 2015, the government consulted in 2016 on a reduction in the Stamp duty land tax (SDLT) filing and payment window from 30 days to 14 days, as well as on the SDLT filing and payment process generally.

4.19. After consideration of the responses, the government will delay the reduction in the filing and payment window until after April 2018.
5. **Value added tax**

**Registration and deregistration thresholds**

5.1. The following changes have been made to the VAT registration and deregistration thresholds:

- the taxable turnover threshold, which determines whether a person must be registered for VAT, is increased from £83,000 to £85,000;
- the taxable turnover threshold which determines whether a person may apply for deregistration is increased from £81,000 to £83,000; and
- the registration and deregistration threshold for relevant acquisitions from other EU Member States is also increased from £83,000 to £85,000.

5.2. A statutory instrument applies the revalorised thresholds. The simplified reporting requirement (three line accounts) for the income tax Self Assessment return as well as entry and exit thresholds for the income tax cash basis of assessment, will continue to be aligned with the VAT registration threshold.

**VAT: tackling aggressive abuse of the VAT Flat Rate Scheme**

5.3. At Autumn Statement on 23 November 2016, the Chancellor of the Exchequer announced the introduction of a new 16.5% VAT flat rate for businesses with limited costs. This is due to take effect from 1 April 2017, but Budget documents are seemingly silent on the issue.

5.4. From 1 April 2017, FRS businesses must determine whether they meet the definition of a limited cost trader, which will be included in new legislation.

5.5. A limited cost trader will be defined as one whose VAT inclusive expenditure on goods is either:

- less than 2% of their VAT inclusive turnover in a prescribed accounting period
- greater than 2% of their VAT inclusive turnover but less than £1000 per annum if the prescribed accounting period is one year (if it is not one year, the figure is the relevant proportion of £1000)

5.6. Goods, for the purposes of this measure, must be used exclusively for the purpose of the business but exclude the following items:

- capital expenditure
- food or drink for consumption by the flat rate business or its employees
• vehicles, vehicle parts and fuel (except where the business is one that carries out transport services - for example a taxi business - and uses its own or a leased vehicle to carry out those services)

5.7. These exclusions are part of the test to prevent traders buying either low value everyday items or one off purchases in order to inflate their costs beyond 2%.

**VAT: ‘split payment’ model**

5.8. As announced at Budget 2016, the government is considering alternative methods of collecting VAT. This is in addition to the measures it has already introduced to tackle the problem of overseas businesses selling goods to UK consumers via online marketplaces without paying VAT.

5.9. At Spring Budget 2017, the government will publish a call for evidence on 20 March 2017 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. This type of model is often referred to as split payment.

5.10. A call for evidence will be published on 20 March 2017.

**VAT: relief on adapted motor vehicles for disabled wheelchair users**

5.11. This measure introduces primary legislation that will end abuse of the VAT relief on substantially and permanently adapted motor vehicles for disabled wheelchair users.

5.12. There will be a limit on the number of vehicles that can be purchased under this relief in a set period of time. An eligible individual will be able to purchase one vehicle every three years. There are some instances when this limit can be exceeded, so if an individual's car is written off or stolen or if the vehicle has ceased to be suitable for the disabled person's use because of changes in the person's condition. These exceptions to the limit will be covered in primary legislation.

5.13. The government is also making the use of eligibility declaration forms which are available on GOV.UK mandatory. This form clarifies exactly what information an individual needs to provide to support their claim to a zero rated supply.

5.14. Motor dealers are also required to send information regarding these zero-rated sales to HMRC. The information required will be specified by a public notice, HMRC will use this information to monitor the exemption to guard against abuse and fraud.

5.15. The section 62 penalty will apply to a person who gives an incorrect eligibility declaration to the supplier of a vehicle. The relevant penalty is equivalent to the amount of VAT
chargeable on a standard-rated supply of the vehicle. In severe cases of abuse, where fraudulent intent can be established, the individual can be prosecuted in a criminal court.

**VAT: Use and enjoyment provisions for business to consumer mobile phone services**

5.16. As announced at Spring Budget 2017, 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. This will bring UK VAT rules in line with the internationally agreed approach. Secondary legislation to effect the change together with a TIIN will be published before summer recess.

**VAT: fraud in the provision of labour in the construction sector.**

5.17. As announced at Spring Budget 2017, the government will launch a consultation on 20 March on a range of policy options to combat supply chain fraud in supplies of labour within the construction sector.

5.18. Options include a VAT reverse charge mechanism so the recipient accounts for VAT. It will also consider other changes, including to the qualifying criteria for gross payment status within the Construction Industry Scheme. The government is consulting to ensure any option taken forward is targeted effectively, is simple to operate and minimises impacts on businesses, whilst tackling the fraud as effectively as possible. A consultation document will be published on 20 March 2017.
6. Anti-avoidance provisions

Disclosure of indirect tax avoidance schemes

6.1. As announced at Autumn Statement 2016, legislation will be introduced in Finance Bill 2017 to strengthen the regime for the Disclosure of Indirect Tax Avoidance. Provision will be made to make scheme promoters primarily responsible for disclosing schemes to HMRC and the scope of the legislation will be extended to include all indirect taxes, including the Soft Drinks Industry Levy. Details of the tests to apply to arrangements to determine if they should be disclosed to HMRC will be contained in regulations. These measures will come into effect on 1 September 2017.

VAT: penalty changes in fraud cases

6.2. As announced at Autumn Statement 2016, the government will legislate in Finance Bill 2017 to introduce a penalty for participating in VAT fraud.

6.3. Following consultation on the draft legislation some minor changes have been made to improve the clarity of the measure and also to limit the naming of a company officer to instances where the amount of tax due exceeds £25,000. The new penalty will take effect once the Finance Bill receives Royal Assent.

Promoters of Tax Avoidance Schemes

6.4. As announced at Autumn Statement 2016, the government will legislate in Finance Bill 2017 to ensure that promoters of tax avoidance schemes can’t circumvent the Promoters of Tax Avoidance Schemes (POTAS) regime by re-organising their business by either sharing control of a promoting business or putting a person or persons between themselves and the promoting business. This will ensure HMRC can apply the POTAS regime as intended. The changes will take effect from 8 March 2017.

Strengthening tax avoidance sanctions and deterrents

6.5. As announced at Autumn Statement 2016 and confirmed at Spring Budget 2017, the government will introduce a new penalty on those individuals or entities who enable the use of tax avoidance arrangements which HMRC later defeats (‘enablers’). This new regime reflects an extensive consultation and input from stakeholders. The legislation will also provide clarification as to what constitutes ‘reasonable care’ in relation to the application of the penalties charged on taxpayers following the defeat of tax avoidance.

6.6. Following consultation, the enablers legislation has been revised to provide further detail of when and how the General Anti Abuse Rule (GAAR) Advisory Panel will consider enabler cases. Further changes have been made to apply the enablers regime to arrangements that seek to avoid NICs, to make consequential changes to the Promoters
of Tax Avoidance Scheme legislation and to provide further detail regarding when enablers will be named. Minor amendments have also been made to further improve the clarity and targeting of both the legislation for enablers and reasonable care.

6.7. The changes relating to reasonable care come into effect at Royal Assent and apply to inaccuracies in documents relating to tax periods which begin on or after 6 April 2017. The penalty for enablers will apply prospectively to enabling activity after Royal Assent.

Offshore evasion: requirement to correct previous non-compliance

6.8. As announced at Budget 2016, legislation will be introduced in Finance Bill 2017 for a new legal requirement for those who have failed to declare UK tax on offshore interests to correct that situation, with tougher sanctions for those who fail to do so before 1 October 2018. This new ‘requirement to correct’ is expected to come into force when the Finance Bill 2017 receives 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. Following consultation a response document was published on 5 December 2016. The draft legislation will be revised to ensure the reasonable excuse provision doesn’t apply where advice is received from an adviser who is not independent. This reflects the government’s response on this point in the document published on 5 December 2016.
7. Administration and miscellaneous

Making tax digital

**Increasing the cash basis entry threshold**

7.1. As announced in January 2017, the government will increase the trading cash basis thresholds for unincorporated businesses. Increasing the cash basis thresholds will make it easier for businesses to work out if their expenditure is deductible for tax. Following consultation, and as announced in January 2017, from the 2017-18 tax year the general entry threshold for the trading cash basis will be increased to £150,000. (For Universal Credit claimants, the entry threshold will be increased to £300,000.) The exit threshold will be increased to £300,000 for all users of the trading cash basis.

**Simplified cash basis for unincorporated businesses**

7.2. As announced in January 2017, the government will legislate in Finance Bill 2017 to provide a simple list of disallowed expenditure in order to simplify the rules for allowable deductions within the cash basis. Following consultation, the legislation has been revised slightly to make certain that specific items are clearly excluded from the list, and to ensure the rules for moving between the cash basis and accruals accounting are robust. Minor amendments have also been made to improve clarity. These changes will have effect from April 2017, though for the 2017 to 2018 tax year trading profits can be calculated using either the new rules or the existing rules.

**Simplified cash basis for unincorporated property businesses**

7.3. As announced in August 2016 and confirmed at Spring Budget 2017, the government will legislate in Finance Bill 2017 to allow most unincorporated property businesses (other than Limited Liability partnerships, trusts, partnerships with corporate partners or those with receipts of more than £150,000) to calculate their taxable profits using a cash basis of accounting. Landlords will continue to be able to opt to use Generally Accepted Accounting Principles (GAAP) to prepare their profits for tax purposes.

7.4. Those with both a UK and an overseas property business will be able to choose separately whether to use the cash basis or GAAP for each. Those with a trade as well as a property business both eligible for the cash basis, will be able to decide separately for each of these, and persons other than spouses or civil partners who jointly own a rental property will be able to decide individually.

7.5. To align the treatment with those who opt to use GAAP, the initial cost of items used in a dwelling house will also not be an allowable expense under the cash basis. The existing ‘replacement of domestic items relief’ will continue to be available for the replacement of
these items when the expenditure is paid. Interest expense will be treated consistently between those using the cash basis and those using GAAP.

7.6. The changes will have effect from 6 April 2017.

**Making tax digital for business**

7.7. As announced at Autumn Statement 2015 and confirmed at Budget 2016 and Spring Budget 2017, the government will legislate in Finance Bill 2017 to implement digital record keeping and updating by businesses, the self-employed and landlords, as part of Making Tax Digital for Business. As also announced the start date for mandation for unincorporated businesses and landlords with gross income (turnover) below the VAT registration threshold will be deferred until April 2019. This change will be made through regulations. The legislation includes powers to make regulations, including on the form and content of periodic updates and ‘end of period statements’. There are also powers to set out the scope and operation of certain exemptions by regulations. Following consultation, the legislation published in draft on 31 January 2017 has been revised and expanded to:

- provide explicitly for income-based exemptions to be introduced through regulations;
- allow businesses with profits chargeable to Income Tax to finalise their total income chargeable to Income Tax and National Insurance contributions for any tax year, make a final declaration about this income (outside of any ‘end of period statement’ in relation to business income) and any chargeable gains;
- replicate existing Income Tax compliance powers so that they apply to the Making Tax Digital for Business requirements;
- make miscellaneous consequential amendments to the Taxes Management Act 1970; and
- introduce a clause amending Schedule 11 to the Value Added Tax Act 1994, to enable equivalent regulations and exemptions for VAT purposes to those proposed for Income Tax.

7.8. The legislation will generally have effect from Royal Assent, but some consequential amendments will apply from specific future income tax years of assessment.
8. Future proposals

Tax-advantaged venture capital schemes

8.1. As announced at Autumn Statement 2016, the government will amend the requirements of the Enterprise Investment Scheme (EIS), the Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCTs). These amendments:

- clarify the EIS and SEIS rules for share conversion rights - the rights to convert shares from one class to another will be excluded from being an arrangement for the disposal of those shares within the no pre-arranged exits requirements for the EIS and SEIS for shares issued on or after 5 December 2016
- provide additional flexibility for follow-on investments made by VCTs in companies with certain group structures, to align with EIS provisions, for investments made on or after 6 April 2017
- introduce a power to enable VCT regulations to be made in relation to certain share for share exchanges to provide greater certainty to VCTs, which will take effect on the date from which Finance Bill 2017 receives Royal Assent

8.2. A summary of responses to a consultation on options to streamline and prioritise the advance assurance service will be published after the Budget.

Rent-a-Room relief

8.3. As announced at Spring Budget 2017, the government will consult on proposals to rent-a-room relief to ensure it is better targeted to support longer-term lettings. This will align the relief more closely with its intended purpose, to increase supply of affordable long-term lodgings.

Partnership taxation: proposals to clarify tax treatment

8.4. As announced at Autumn Statement 2016, the government will publish a response document and draft legislation to clarify and improve aspects of partnership taxation. The government intends to legislate in Finance Bill 2017-18.

Employee expenses

8.5. As announced at Autumn Statement 2016, the government will publish a call for evidence on 20 March 2017 to better understand the use of the income tax relief for employees’ expenses, including those that are not reimbursed by their employer.
Patient Capital review

8.6. As announced at Spring Budget 2017, the government will consider existing tax reliefs aimed at encouraging investment and entrepreneurship to make sure that they are effective, well targeted, and still provide value for money as part of the Patient Capital review.

Employer-provided accommodation

8.7. As announced at Autumn Statement 2016, the government will publish a consultation paper with proposals to bring the tax treatment of employer-provided living accommodation and board and lodgings up to date. This will include proposals for when accommodation should be exempt from tax and support taxpayers during any transition.


Increase the rate of Class 4 national Insurance contributions (NICs)

8.9. The government has already announced that it will abolish Class 2 NICs from April 2018. On its own this would increase the differential between the rates of National Insurance paid by employees and those paid by the self-employed. As announced at Spring Budget 2017 the government will legislate to increase the main rate of Class 4 NICs from 9% to 10% with effect from 6 April 2018 and from 10% to 11% with effect from 6 April 2019. Since April 2016, the self-employed also have access to the same State Pension as employees, worth £1,800 a year more to a self-employed individual than under the previous system.

Removing NICs from the effects of Limitation Act and aligning recovery of debts

8.10. As announced at Autumn Statement 2016, the government will remove NICs from the effects of the Limitation Act 1980 and will align the time limits for the recovery of NICs debts with those for tax. To allow more time for a full consultation on the draft legislation, the government will be deferring this and will introduce the measure in a future NICs Bill.

Taxation of benefits in kind

8.11. As announced at Spring Budget 2017, the government will publish a call for evidence on 20 March 2017 on exemptions and valuation methodology for the Income Tax and employer NICs treatment of benefits in kind in order to better understand whether their use in the tax system can be made fairer and more consistent.

Image rights

8.12. As announced at Spring Budget 2017, HMRC will publish guidelines in spring 2017 for employers who make payments for image rights to their employees to improve the clarity of the existing scheme.
Pensions tax

Master trusts tax registration

8.13. As announced at Spring Budget 2017, the government will amend the tax registration process for master trust pension schemes to align with the Pensions Regulator’s new authorisation and supervision regime. This will help to boost consumer protection and improve compliance. Legislation will be included in Finance Bill 2017-18 and will apply to all master trust pension schemes from October 2018.

Corporation tax

Plant and machinery leasing – response to lease accounting changes

8.14. As announced at Spring Budget 2017, 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. The tax treatment of a lease, in some important respects, is determined by its treatment in the accounts. Following the discussion document published in summer 2016, the government intends to maintain the current system of lease taxation by making legislative changes which enable the rules to continue to work as intended.

Research and development (R&D) tax review

8.15. As announced at Spring Budget 2017, the government will make administrative changes to research and development (R&D) tax credits, following a review of the tax environment for R&D. This will increase the certainty and simplicity around claims, and will take action to improve awareness of R&D tax credits among SMEs.

Withholding tax exemption for debt traded on a multilateral trading facility

8.16. As announced at Spring Budget 2017, the government will introduce an exemption from withholding tax for interest on debt traded on a multilateral trading facility, removing a barrier to the development of UK debt markets, and will consult from spring 2017 on implementation.


Enterprise Management Incentives: continued provision of the relief

8.18. The government will seek State Aid approval to extend provision of this tax relief beyond 2018.

Extension of High-end TV, animation and video games tax reliefs

8.19. The government will seek State Aid approval for the continued provision of the reliefs beyond 2018.
Corporation tax and capital gains tax

Non-resident companies chargeable to income tax and non-resident capital gains tax

8.20. As announced at Autumn Statement 2016, the government will consult on the case and options for bringing non-UK resident companies, who are currently chargeable to Income Tax on their UK taxable income, and to non-resident Capital Gains Tax (CGT) on certain gains, within the scope of Corporation Tax. Under such a move, these companies would then be subject to the rules which apply generally for the purposes of Corporation Tax, including the limitation to corporate interest expense deductibility and loss relief rules.

Indirect Tax

HGV vehicle excise duty and HGV levy

8.21. As announced at Spring Budget 2017, the government will freeze rates of VED for HGVs in 2017 to 2018, which includes all rates linked to the basic goods rate. Levy rates will also be frozen from 1 April 2017. The government will also launch a call for evidence in spring 2017 on updating the existing HGV Road User Levy so that it rewards hauliers that plan their routes effectively, to incentivise the efficient use of roads, and improve air quality.

Value of the Landfill Communities Fund

8.22. As announced at Spring Budget 2017, the value of the Landfill Communities Fund for 2017 to 2018 will remain unchanged at £39.3 million and the cap on contributions by landfill operators will be increased from 4.2% to 5.3%. This cap will be maintained subject to consideration of Landfill Tax receipts, continued progress in reducing the level of unspent funds held by environmental bodies and the proportion of LCF funds spent on administration costs. A statutory instrument will be laid on 10 March 2017. The changes will take effect from 1 April 2017.

Landfill Tax – extending the scope to illegal dispo
as

8.23. As announced at Spring Budget 2017, the government will consult on extending the scope of Landfill Tax to material disposed at illegal waste sites. Landfill Tax is currently only chargeable on waste disposed of at permitted sites in England, Wales, and Northern Ireland. As such, the aim of this measure is to tackle the evasion of Landfill Tax resulting from the disposal of material at illegal waste sites, and deter environmentally damaging behaviour.

**Aggregates Levy**

8.25. As announced at Spring Budget 2017 the government will freeze the aggregates levy rate for 2017 to 2018 at £2 per tonne. This continues the freeze that has been in place since 2009.

**Alcohol Duty rates and bands**

8.26. As announced at Spring Budget 2017, the government will publish a consultation on 20 March 2017 on:

- introducing a new band for still cider just below 7.5% adv. to target white ciders; and
- the impacts of introducing a new duty band for still wine and made-wine between 5.5% and 8.5% abv

**Heated Tobacco consultation**

8.27. As announced at Budget 2016, the government will consult on the duty treatment of heated tobacco products. The consultation will be launched on 20 March 2017, and will inform future decisions on the duty regime for these products. If legislation is required following the consultation, it will be introduced in a future Finance Bill.


**Red diesel call for evidence**

8.29. As announced at Spring Budget 2017, the government will publish a call for evidence alongside Finance Bill 2017 on the use of rebated gas oil (often called red diesel) in order to improve understanding of eligible industries and current use in particular in urban areas. The call for evidence will be published on 20 March 2017.

**VAT**

**Revalorisation of registration and deregistration thresholds**

8.30. As announced at Spring Budget 2017 secondary legislation will amend the VAT Act 1994 to increase the VAT registration and deregistration thresholds in line with inflation so that:

- the taxable turnover threshold which determines whether a person must be registered for VAT, will be increased from £83,000 to £85,000;
- the taxable turnover threshold which determines whether a person may apply for deregistration will be increased from £81,000 to £83,000; and
- the registration and deregistration threshold for relevant acquisitions from other EU member states will also be increased from £83,000 to £85,000.
8.31. These changes will be effective from 1 April 2017.

’Split payments’ model

8.32. As announced at Budget 2016, the government is considering alternative methods of collecting VAT. This is in addition to the measures it has already introduced to tackle the problem of overseas businesses selling goods to UK consumers via online marketplaces without paying VAT. At Spring Budget 2017, the government will publish a call for evidence on 20 March 2017 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. This type of model is often referred to as split payment.

8.33. A call for evidence will be published on 20 March 2017.

Use and enjoyment provisions for business to consumer mobile phone services

8.34. As announced at Spring Budget 2017, 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 can’t use the inconsistency to avoid UK VAT. This will bring UK VAT rules in line with the internationally agreed approach.

8.35. Secondary legislation to effect the change together with a TIIN will be published before summer recess.

Fraud in the provision of labour in the construction sector

8.36. As announced at Spring Budget 2017, the government will launch a consultation on 20 March 2017 on a range of policy options to combat supply chain fraud in supplies of labour within the construction sector. Options include a VAT reverse charge mechanism so the recipient accounts for VAT. It will also consider other changes including to the qualifying criteria for gross payment status within the Construction Industry Scheme. The government is consulting to ensure any option taken forward is targeted effectively, is simple to operate and minimises impacts on businesses, whilst tackling the fraud as effectively as possible.


Stamp duty land tax

Accelerating receipts

8.38. As announced at Autumn Statement 2015, the government consulted in 2016 on a reduction in the Stamp Duty Land Tax (SDLT) filing and payment window from 30 days to 14 days, as well as on the SDLT filing and payment process generally. After consideration
of the responses, the government will delay the reduction in the filing and payment window until after April 2018.

Avoidance and evasion

Hidden economy – sanctions and conditionality

8.39. Following consultation and an announcement at Autumn Statement 2016, the government will take further action to tackle the hidden economy. It will:

- develop further proposals on conditionality - the principle of making access to certain licences or services conditional on tax registration - and explore options to trial conditionality through pilot activity - there is a good case for conditionality as a tool to prevent non-compliance, the government recognises that conditionality must also minimise burdens for compliant businesses and providers of licences or services; and

- consider the design of a stronger ‘failure to notify’ hidden economy penalty which may take account of past behaviour, this will be delivered as part of the longer term HMRC Penalties Review.

8.40. HMRC will also strengthen its monitoring of taxpayers found to be operating in the hidden economy, to keep them compliant.

8.41. These measures will tackle the hidden economy and level the playing field between compliant and non-compliant businesses.

National insurance employment allowance

8.42. As announced at Spring Budget 2017, HMRC is actively monitoring compliance with the National Insurance Employment Allowance, following reports of some businesses using avoidance schemes to avoid paying the correct amount of National Insurance contributions. The government will consider taking further action in the event that this avoidance continues.

Tax administration

Digital tax administration

8.43. As announced at Spring Budget 2017, the government will consult on proposals for late submission penalties and charging of penalty interest on late payments. The government previously consulted on a model for late submission penalties. The government will also consult on the design aspects, of the tax administration system, including interest and penalties, with the aim of adopting a consistent approach across taxes. This will simplify the system for taxpayers.
8.44. A consultation document will be published on 20 March 2017.

**HMRC Large Business Risk Review**

8.45. As announced at Spring Budget 2017, HMRC will launch a consultation into its process for risk profiling large businesses. The consultation will review how HMRC can promote stronger compliance. The consultation will be released ahead of the summer recess and will run for 12 weeks.

**Employment allowance - illegal workers restriction**

8.46. As announced at Spring Budget 2016, the government consulted from November 2016 to January 2017 on restricting the Employment Allowance for one year from employers who receive a civil penalty from the Home Office. Following this consultation, the government has decided that this should not be taken forward at this point in time, because of concerns raised around complexity.

**Double taxation treaty passport scheme**

8.47. As announced at Spring Budget 2017, the government will renew and extend the administrative simplifications of the Double Taxation Treaty Passport scheme to assist foreign lenders and UK borrowers. The scheme simplifies, for overseas lenders, access to reduced withholding tax rates on interest that are available within the UK’s tax treaties with other territories. The Double Taxation Treaty Passport scheme was previously restricted to corporate lenders and corporate UK borrowers – from 6 April 2017, this restriction will be removed and will now apply to all types of overseas lenders and UK borrowers. Guidance and the revised terms and conditions applying to this scheme will be published on GOV.UK on 6 April 2017.