DIXON WILSON
CHARTERED ACCOUNTANTS

Autumn 2017 Budget Update

23 November 2017

INTRODUCTION

The Autumn Budget 2017 was the first Autumn Budget in almost 20 years, and was the first in the new annual tax policymaking cycle. The aim of moving the Budget from the spring to the autumn is to provide greater tax certainty by consulting on any proposed changes further in advance and amending tax legislation less frequently. In accordance with these objectives, this Budget did not include many headline-grabbing tax changes, but still introduced some changes which will be significant to those affected.

We highlight some of the important changes below.

PERSONAL TAXES

INCOME TAX AND NATIONAL INSURANCE

The personal allowance will increase to £11,850 from 6 April 2018. The basic rate band will increase to £34,500. This is in line with the government's stated policy of increasing the amounts to £12,500 and £37,500 respectively by 2020/21.

As previously announced, the abolition of Class 2 NICs will be deferred until at least 6 April 2019. Class 2 NICs are paid by individuals with self-employment profits above the Small Profits Threshold of £6,205 at a rate of £2.95 per week (for 2018/19).

DIVIDEND ALLOWANCE

The recently introduced dividend allowance will reduce from £5,000 to £2,000 from 6 April 2018. Dividends within this allowance are not subject to an income tax charge.

LATE FILING AND PAYMENT PENALTIES AND INTEREST

The government will reform the penalty system for late or unfiled tax returns using a points-based system, and will consult on whether to simplify penalties and interest due on late payments and repayments of tax.

The current penalty system came into effect in April 2009 after a wide-ranging review and consultation. It unified multiple penalty systems that were previously in place.

The proposed new system should be kinder to those who are occasionally and unintentionally late in filing returns, but will include higher penalties for those who make late filings regularly or deliberately.

RECOVERY OF SELF-ASSESSMENT DEBTS

From 6 April 2019, HMRC will recover additional Self-Assessment debts in closer to real-time by adjusting the tax codes of individuals with Pay As You Earn (PAYE) income.

RESIDENTIAL PROPERTY CGT PAYMENT

The government previously announced that they would require capital gains tax in respect of the sale of residential property to be paid within 30 days of completion. The introduction of these rules has been deferred until April 2020.

STAMP DUTY LAND TAX

First time buyers of properties paying up to £300,000 will pay no SDLT on purchase of their new home, and for properties costing up to £500,000 no SDLT will be payable on the first £300,000.

BENEFITS IN KIND – ELECTRIC VEHICLES

From 6 April 2018, there will be no benefit in kind charge on electricity provided by employers to charge employees' electric vehicles.

CERTIFICATES OF TAX DEPOSIT

The Certificate of Tax Deposit scheme allowed taxpayers to pay tax liabilities in advance by depositing funds with HMRC. This was especially useful in cases where there was a known, large future tax liability as it effectively removed any bank default risk and paid a modest amount of interest.

As of 23 November 2017, the scheme will close. New certificates cannot be purchased, although the terms of certificates purchased before this date will continue to be honoured until November 2023.

TAXATION OF TRUSTS

The government will publish a consultation in 2018 on how to make the taxation of trusts simpler, fairer and more transparent. In particular, we expect this to lead to changes to the IHT treatment of relevant property trusts.

PERSONAL SERVICE COMPANIES

The government will consult on whether the restriction of individuals contracting with the public sector through a personal service company should be extended to the private sector. This would result in individuals who effectively work as employees being taxed as employees, even if they engage with the private-sector 'employer' through a service company.

CARRIED INTEREST

Various changes have been made to the taxation of carried interest over the last couple of years. Some key changes had effect from 8 July 2015, but there were transitional provisions which could extend the application of the old rules past this date. The transitional provisions will be removed with immediate effect (i.e. from 22 November 2017). This is a result of the provisions being used to reduce tax payable in circumstances not intended by the original legislation.

INTERNATIONAL CHANGES

TAXATION OF GAINS MADE BY NON-RESIDENTS ON UK LAND AND PROPERTY

The government previously extended the scope of capital gains tax to non-resident owners of UK residential property with effect from April 2015. The Chancellor has now announced that the government will further extend capital gains tax to cover gains made by non-resident owners of all other types of UK immovable property, including commercial and agricultural. The changes will come into effect from 6 April 2019. This is subject to consultation on the details, but we expect rebasing to April 2019 to be available. In some circumstances, capital gains tax will also be charged on the disposal of shares in a non-UK company which holds UK property.

EXTENDING OFFSHORE TIME LIMITS

For offshore-related matters, HMRC will be able to assess up to 12 years of historic taxes without proving that deliberate behaviour led to the non-compliance. The current time limit is six years unless deliberate behaviour can be established (in which case the time limit is 20 years). This is subject to consultation in spring 2018.

REQUIREMENT TO NOTIFY HMRC OF OFFSHORE STRUCTURES

The government will shortly publish their response to the consultation on whether designers of certain offshore structures will be required to notify HMRC of these structures and identify the clients using them. These proposed changes are being taken forward in conjunction with the OECD and the EU.

TERMINATION PAYMENTS

Those who have worked overseas but are UK resident in the year that their employment is terminated will be taxed in the same way as others who have worked in the UK only. For payments received after 6 April 2018, the only income tax exemption will be the existing £30,000 available to all UK resident individuals.

If individuals expect a termination payment to be received after 6 April 2018, they should consider whether this could be accelerated to 2017/18.

BUSINESS TAXES

CORPORATE INDEXATION ALLOWANCES

The relief for inflation on disposals of capital assets by companies (indexation allowance) will be frozen from 1 January 2018. Relief will continue to be available on assets disposed after this date, but the indexation allowance will only represent inflation to December 2017. This is a significant change as it will affect all companies disposing of capital assets after 1 January 2018.

VAT REGISTRATION THRESHOLD

The government will freeze the VAT registration threshold at £85,000 for two years from April 2018.

A consultation will be launched on the design of the threshold to see if VAT registration requirements may be simplified, following recommendations by the Office of Tax Simplification.

NON-RESIDENT COMPANIES – UK PROPERTY

From April 2020, UK rental income received by non-resident companies will be chargeable to corporation tax rather than income tax. From the same date, capital gains arising on the disposal of UK residential property will be charged to corporation tax rather than capital gains tax.

ENTERPRISE INVESTMENT SCHEME LIMITS

The annual limit for individuals investing in 'knowledge intensive' companies will increase from £1 million to £2 million. Investors will still be able to invest £1 million in non-knowledge intensive companies, but anything over £1 million (and below £2 million) will need to be invested in knowledge intensive companies to qualify for EIS relief.

The annual limit on tax-advantaged investments that a knowledge-intensive company may raise will increase to £10 million.

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VENTURE CAPITAL SCHEMES – RISK TO CAPITAL CONDITION

HMRC are introducing new rules to ensure that there is a sufficient degree of risk in any proposed EIS, SEIS or VCT investment.

The measure aims to prevent relief being claimed on investments where most of the return for an investor is from tax reliefs, with limited risk to the original capital invested. The condition depends on taking a 'reasonable' view as to whether any EIS, SEIS or VCT investment has been structured with the aim of providing a low risk return to investors.

The new condition will apply to investments made on or after 6 April 2018, but HMRC will cease to provide advance assurance on proposed investments that would appear to fall into the new rules from the date of publication of draft guidance, which will be alongside the Finance Bill publication process.

R&D EXPENDITURE CREDIT

The R&D expenditure credit will increase from 11% to 12% with effect from 1 January 2018. An Advanced Clearance Service will also be introduced for R&D expenditure credit claims to provide businesses with the confidence to make R&D investment decisions.

WITHHOLDING TAX ON ROYALTIES

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

MAKING TAX DIGITAL

This will apply initially from April 2019 only to businesses above the VAT threshold and only for VAT obligations. The government has stated that the scope of making tax digital will not be widened to other areas such as corporation tax until April 2020 at the earliest.

DISGUISED REMUNERATION

Following previous consultations, the government will legislate to introduce the close companies' gateway and introduce measures to ensure liabilities arising from the loan charge are collected from the appropriate person. There will also be a requirement for all employees and self-employed individuals, who have received a disguised remuneration loan, to provide information to HMRC by 1 October 2019.

PROFIT FRAGMENTATION

The government will consult in 2018 on the best way to prevent UK traders or professionals from avoiding UK tax by fragmenting their UK income between unrelated entities.

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