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FOREWORD

So here we are, for a second time in 2017, reviewing a Conservative Budget. The political landscape is very different now to that in March, and this is reflected in a Budget that attempted to give a bit here and there such as to:

- The young
- Nurses
- White van drivers
- Housing
- First time buyers
- The North
- Northern Ireland
- Scotland
- Wales
- The Brain Belt

We do however fear that there is too much being spread too thinly, particularly given that the lack of a majority government prevents the action that perhaps is needed to really kick start the economy.

Paul Ffitch and James Hearsey
23 November 2017

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Further copies of this guide, together with further information concerning the Budget, are available on our website at www.sayersb.co.uk.

Note: This Guide has been compiled from the Chancellor's Autumn Statement, Budget Statement and Government Press Releases. The legislation necessary to implement these proposals will be contained in a Finance Bill expected to be published shortly. The Bill will then pass through Parliament before becoming law as the Finance Act 2018. Until then the Chancellor's proposals should be regarded as subject to amendment. No liability can be accepted for any loss incurred by a person relying solely on the content of this Guide.

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PERSONAL TAX AND ADMINISTRATION

Personal Allowance

The Government has continued to increase the Personal Allowance, going from £11,500 to £11,850 in 2018-19. The Basic Rate Limit (BRL) will also be increased by £1,000 to £34,500 (2018-19).

Taxation of dividends

As previously announced (and delayed), the dividend allowance will reduce from £5,000 to £2,000 with effect from 6 April 2018.

Pension Lifetime Allowance

It is with some surprise, and relief, that the Government has confirmed that the Lifetime Allowance is to increase for the first time in many years, from £1,000,000 to £1,030,000, in line with the Consumer Price Index.

While this is only a small increase, the larger boon is that no further reduction has been applied to an allowance that just 13 years ago was unlimited!

Making Tax Digital

As from April 2019 many businesses will have to maintain records digitally and update HM Revenue & Customs on a quarterly basis. Not wanting to upset the white van economy the government has announced that businesses with turnovers below the VAT registration threshold will not be forced to use the Making Tax Digital system. This also exempts many landlords and as such they are spared the additional compliance costs. However, please note on page 2 the planned consultation on the VAT registration thresholds during the period to 31 March 2020.

Extending time limits for offshore non-compliance

Where UK tax has not been paid the current cut off points are 4, 6 or 20 years, depending upon the taxpayer's behaviour and intention that led to the non-compliance. For all offshore cases the government intends to extend the limit to a minimum of 12 years regardless of the behaviour that led to non-compliance. The limit for "deliberate" non-compliance remains at 20 years.

End of Certificate of Tax Deposits

The Tax Deposit system involved lodging funds with HM Revenue & Customs if you believed further taxes may be due, say for example you thought the Inspector of Taxes would argue a higher value than the one reported. If it transpired more tax was due the payment date would be taken as the date the certificate had been purchased and as such limiting the penalties or interest chargeable. It was all slightly surreal as HM Revenue & Customs were not supposedly meant to associate the purchase of a certificate with the taxpayers' belief that more tax may be due.

From 23 November 2017 no new certificates of tax deposits can be purchased although existing certificates will continue to be honoured until 23 November 2023, although if not redeemed shortly after that date, the amounts are forfeit to HMRC.

Investment Relief Arena

A number of amendments have been announced pertaining to Venture Capital Trusts (VCTs), Enterprise Investment Schemes (EIS) and Seed Enterprise Investment Schemes (SEIS).

Knowledge Intensive Companies (KICs) – VCTs and EIS

Intended to encourage further investment in the area, the annual limit for investing in KIC's under the EIS increases as of 6 April 2018 to £2 million, <u>providing that any investments over the £1 million threshold are in KICs.</u> The KIC itself also benefits from an increased EIS and VCT limit to £10 million in tax advantaged investments which it may receive in a year.

Further to this and clearly highlighting this governments drive towards bolstering the 'Knowledge Intensive' sector the government intends to consult in 2018 on a new knowledge intensive EIS fund structure which would allow for increased flexibility around the deployment of capital.

Relevant Investments – VCTs, EIS and Social Investment Tax Relief (SITR)

Building on Finance Act 2007's idea of a 'relevant investment' which limits the amount of EIS and VCT investment a company may receive, from 1 December 2017 the definition is amended to ensure that all such investments made before 2012 are counted towards the lifetime funding limit for companies (generally £12 million for most companies and £20 million for KICs).

The definition will now ensure that all risk finance investments made before 2012 are included and extends to the new lifetime limit under the SITR. This is a change which will effect only a very few investors and limited number of businesses.

Risk to capital conditions - VCTs, EIS and SEIS

The introduction of a new 'risk-to-capital' condition to the EIS, SEIS and VCT rules as of 6 April 2018, is an anti-abuse rule designed to deter tax motivated investment and focus attention on genuinely entrepreneurial companies. The condition is two pronged and requires that the company must have objectives to grow and develop in the long term and that there is a significant risk of loss of capital to the investor of an amount greater than the net return once the tax relief itself is factored in.

VCTs

The government is relaxing some rather harsh anti-abuse measures which were designed to prevent arrangements that effectively aimed to provide income tax relief on the same investment multiple times (known as bed and breakfasting).

The previous measures restricted tax relief where shares were bought back by the VCT and then re-subscribed by the investor within 6 months, either in the same VCT, or in a different VCT which then merges with the original VCT.

Going forward, provided obtaining a tax advantage is <u>not</u> one of the main reasons for the merger, if the merger happens more than two years after the most recent funding then income tax relief should no longer be withdrawn.

Income tax and national insurance contributions: termination payments: removal of foreign service relief for UK residents

As part of the Government's fairer tax system, this measure ensures that from **6 April 2018**, an employee who is UK resident in the tax year their employment is terminated will not be eligible for foreign service relief on their termination payment.

Foreign service relief currently allows qualifying employees to be either completely exempted from income tax, or have the taxable termination payment reduced where the employee has spent part or all of their service with their employer overseas.

Carried Interest

In the latest in a long line of "tweaks" to the carried interest rules, some transitional provisions introduced in July 2015 which allowed certain pre-existing carried interest to effectively be assessed under the old rules, has now been withdrawn. This took effect from 22 November 2017, and is designed to ensure that Capital Gains Tax is payable on the full economic gain.

Extreme care should be taken with any transactions or agreements involving carried interest, as the new rules introduced over the past 2 years have dragged more arrangements within the income tax net, rather than as capital gains under the old regime.

BUSINESS AND CORPORATE TAXES

VAT and digital marketplaces

Some overseas sellers operating through online marketplaces such as Amazon and eBay were not collecting and paying over the correct amount of VAT. The Finance Bill 2017-18 will introduce legislation to make the online marketplace jointly and severally liable for any unpaid VAT of a non-UK business that sells goods in the UK.

Taking this one step further, the government will work with digital platforms to explore ways to promote better tax compliance by their users. Ultimately this will likely result in sales reports being filed directly to HM Revenue & Customs in a similar way that banks currently report interest paid on bank deposits.

VAT registration threshold.

Pre-budget the idea of radically reducing the VAT registration threshold was floated. In reality this would have forced many hundreds of thousands of small businesses to register for VAT with the consequence that the cost of mobile hairdressers, window cleaners, plumbers, etc, etc would have instantly increased by 20%.

We imagine the Chancellor realised that his position was not robust enough to ride out such a major change. Accordingly, the registration and deregistration limits remain unchanged at £85,000 and £83,000 respectively.

Tellingly this is only for two years until 31 March 2020 during which time "the government will consult on the design of the VAT threshold".

Employer provided electricity for electric cars

The Government will legislate to exempt employer provided electricity from being taxed as a benefit in kind from **6 April 2018**.

This will apply to electricity provided in workplace charging points for electric or hybrid cars which are owned by employees.

Another way for the Government to support the UK's transition to less polluting zero and ultra-low- emission cars.

Van benefit charge and van and car fuel benefit tax charges

The Budget announced the increase in Van Benefit Charge together with the van and car fuel benefit charges from **6 April 2018.**

The government will legislate in December 2017 to ensure tax code changes are reflected in 2018/19 tax codes which begin in April 2018.

Cars: Increasing diesel tax charges on company cars

The Budget announced the tax charge increase from **6 April 2018** on diesel cars provided by an employer. The diesel supplement is increased from 3% to 4% for all diesel cars not certified to the Real Driving Emissions 2 (RDE2) Standard.

The supplement will apply to cars propelled solely by diesel (not diesel hybrids) and registered after 1 January 1998 which do not have registered NOx emissions value or to those cars which have a registered NOx emissions value exceeding the RDE2 standard.

The diesel supplement does not apply for diesel cars which are certified to the RDE2 standard.

Apprenticeship Levy

There is no change to Apprenticeship Levy rates and allowances. The levy rate will remain at 0.5% of an employer's pay bill. The allowance of £15,000 also remains unchanged which means that the levy still applies only where an employer's pay bill is over £3m.

Partnership Taxation

The current rules governing the allocation of partnership profits for tax purposes involving bare trustees, partnerships and offshore members who are partners will be further clarified to ensure that Partnership Tax Returns contain sufficient information for all partners to be properly assessed and to prevent partnerships from manipulating the allocation of taxable profits to obtain a tax advantage.

Royalties Withholding Tax

With effect from April 2019 the situations where royalties paid to non-UK resident entities which are subject UK withholding tax will be expanded. A consultation is to be published on 1 December 2017.

This change is part of the broader attempt to protect the UK tax base from erosion through profit shifting to low tax jurisdictions.

Corporate interest restriction

Effective from 1 April 2017, for global groups this provision restricts the tax deductions available for interest and financing costs by reference to the economic activity undertaken in the UK. This targets large businesses within the charge to Corporation Tax which incur net interest expenses and other financing costs in excess of £2 million per annum and seeks to ensure the location of the taxable profit is aligned with the location of economic activities. The budget introduces a small number of changes to ensure the regime operates as intended.

Hybrid mismatches

Long seen as a method of avoiding tax on cross-border revenue or gaining a possible double deduction for expenditure, the UK now has legislation addressing structural arbitrage between tax regimes. Introduced in 2016 as part of the global OECD BEPS initiative, the hybrid mismatch legislation is complex anti-avoidance legislation aimed at cross-border structures and instruments which are interpreted differently by the tax regimes concerned. The budget introduces a small number of changes to ensure the regime operates as intended.

Double tax relief and permanent establishment losses

UK companies with an overseas permanent establishment (PE) are able to claim relief against UK tax on the same income or gain on which foreign tax has been suffered. The budget introduces a measure to restrict the amount of relief available where losses of the PE have been set off against profits other than of the overseas PE. This measure seeks to ensure double tax relief is only claimed where profits have been taxed both in the UK and overseas.

Research and Development

Large companies (and SMEs in some cases) that carry out qualifying R&D activities are able to claim a Research and Development Expenditure Credit (RDEC). The RDEC reduces the amount of corporation tax payable for profitable companies, or for those companies with losses, can be claimed as a ***cash repayment*** from HMRC. The RDEC is increasing from 11% to 12% for expenditure incurred on or after 1 January 2018.

Additionally, HMRC is extending its Advanced Assurance service for R&D claims to large businesses, which provides a pre-filing agreement for the first 3 years. Previously, this service was only available to SMEs.

These measures provide further incentives for large businesses to carry out R&D activity in the UK. We have successfully assisted a large number of our clients with R&D tax relief claims under both the SME and RDEC schemes. If you think your company may have undertaken qualifying R&D activity, please contact Phil Taylor who will be happy to discuss the potential relief with you.

Removal of indexation allowance

A company that disposes of a capital asset which gives rise to a chargeable gain will no longer be able to apply indexation allowance up to the date of disposal. This measure aligns the treatment of capital gains by companies with that for individuals and non-incorporated businesses for whom indexation allowance was abolished in 2008. This will apply for disposals made on or after 1 January 2018 so indexation can still be applied up to 31 December 2017.

Depreciatory transactions within a group

When a company disposes of shares in a subsidiary company, the depreciatory transactions rules must be considered. A depreciatory transaction is one that takes value out of shares, which most commonly occurs when assets are transferred between group companies for little or no cost. The legislation requires that previous depreciatory transactions are adjusted for in computing any loss on disposal.

For disposals of shares made before 22 November 2017, the company would have needed to look back 6 years for any depreciatory transactions and account for these in computing any loss. This 6 year time limit has been removed in the budget for disposals made on or after 22 November 2017, so the full history of the shares now needs to be considered.

CAPITAL TAXES

Entrepreneurs’ Relief

In an unexpected but welcome development, the Government is moving to relax one of the more restrictive elements that could prevent the 10% Entrepreneurs’ Relief rate from being obtained.

The general principal is that throughout the 12 months prior to disposal, the shareholder should own at least 5% of the shares of the company. This change would allow for a reduced holding provided that the original holding was over 5% and has only been reduced as a result of dilution from new shares issued to raise funds for commercial purposes.

No further details are available, with consultation expected in spring 2018.

Stamp Duty Land Tax (SDLT)

There have been two welcome changes to Stamp Duty Land Tax.

The first change, which has been well publicised is the relief for first time buyers purchasing properties up to £500,000. There will be no SDLT due on the first £300,000 of the purchase price. This will save first time buyers up to £5,000 of SDLT. However, a first time buyer purchasing a property for over £500,000 will not be entitled to this relief.

The second change, also welcome but not as widely publicised, introduces a measure to prevent property transferred between spouses being caught by the 3% SDLT surcharge.

Annual tax on enveloped dwellings (ATED): chargeable amounts

Companies, partnerships with company members and collective investment schemes, all referred to as non-natural persons owning an interest in UK residential property which at April 2017 is valued at over £500,000 will be required to file an ATED return and pay the ATED charge annually. This revaluation applies to ATED periods commencing 1 April 2018.

Where the property meets the exemptions, such as it being let to an unconnected third party, or being part of a property development trade, no tax is due, however any claim for an exemption must be made on an annual ATED Return, which still needs to be prepared and submitted.

Please refer to our rates table for the increased fixed ATED charges which will apply for the **2018 to 2019** chargeable period.

Residential Property Gains

It has been previously announced that the Government intends for any tax payable on the disposal of residential property to be settled within 30 days of completion. This change has been deferred until April 2020.

OFFSHORE ISSUES

Offshore Trusts

A variety of measures to counteract perceived avoidance that were dropped from the spring 2017 Finance Bill have been reintroduced to take effect from 6 April 2018.

UK-resident Settlors may be taxed on distributions from the trust if the distribution is to a close family member and is not subject to UK tax because the beneficiary is either non-resident or claims the remittance basis.

UK resident individuals may be subject to UK tax if they receive a distribution from an offshore trust that has been paid to them using a non-resident or remittance basis beneficiary as a conduit.

Further payments to non-UK residents from an offshore Trust will no longer diminish the pool of undistributed gains.

Essentially, from 6 April 2018, it will no longer be possible to 'wash out' capital gains from an offshore settlement by making a distribution to a non-UK resident beneficiary.

Non-UK Resident Companies

Following an earlier consultation the Government will now legislate so that non-UK resident companies that carry on a UK property business or have other UK property income will in future be charged to UK Corporation Tax rather than Income Tax as at present. Chargeable gains on the disposal of UK residential property will also be charged to Corporation Tax instead of Capital Gains Tax as at present. This change will take effect from 6 April 2020.

Taxing Non-UK Residents on Immoveable Property

With effect from April 2019 tax will be charged on capital gains made by non-UK residents on disposals of all types of UK immoveable property extending the existing rules to include the disposal of non-residential property in the UK (i.e. UK commercial property to include offices, factories, warehouses, shops, hotels, agricultural land etc.) as well as UK residential property. This change will also extend the rules for UK residential property to indirect sales and disposals made by widely-held companies. Non-UK resident companies will be subject to Corporation Tax and individuals subject to Capital Gains Tax. An April 2019 rebasing option will be available for non-residential property and also residential property owned by widely held non-UK resident companies not previously caught. April 2015 will remain the rebasing point for residential property for those already in the Non-resident CGT regime. An anti-forestalling rule will apply with immediate effect for anyone endeavouring to exploit the provisions of some Tax Treaties to avoid this new tax charge.

RATES AND ALLOWANCES (1)

INCOME TAX

INCOME TAX			2017/18 £	2018/19 £
Personal Allowance		*	11,500	11,850
Married Couple's Allowance	(born before 6 April 1935)	***	8,445	8,695
	minimum amount	***	3,260	3,360
	transferable tax allowance	****	1,150	1,185
Income Limit for Personal Allowances (where born before 6 April 1938)		**	28,000	28,900
Blind Person's Allowance			2,320	2,390

*Personal Allowance restricted by £1 for every £2 of income over £100,000 (irrespective of age)

**The Married couple's allowance will be restricted by £1 for every £2 of income over the "Income Limit" down to the minimum amount.

***Indicates allowances where tax relief is restricted to 10%.

****Available to spouses/civil partners born after 5 April 1935. Allows a spouse/civil partner to transfer this amount of their personal allowance to their spouse / civil partner. Neither can be liable to income tax above the basic rate.

Tax bands	2017/18 £	2018/19 £
Basic Rate	0 – 33,500	0 – 34,500
Higher Rate	33,501 – 150,000	34,501 – 150,000
Additional Rate	Over £150,000	Over £150,000

Tax rates	2017/18		2018/19	
	Income tax	Dividend tax	Income tax	Dividend tax
Dividend 0% band	n/a	First £5,000	n/a	First £2,000
Basic Rate	20%	7.5%	20%	7.5%
Higher Rate	40%	32.5%	40%	32.5%
Additional Rate	45%	38.1%	45%	38.1%

UK savings income falling within the first £5,000 is taxed at 0%, provided that the non-savings income does not exceed this limit.

The £1,000 Personal Savings Allowance is available for basic rate taxpayers, £500 for higher rate taxpayers, and £nil for additional rate taxpayers. Although called an 'allowance', income falls within the usual tax bands, but is taxed at 0% rather than the usual rate.

The £5,000 0% dividend tax band will reduce to £2,000 from 6 April 2018. This band is treated as the first slice of dividend income, taking up the part of any tax bands that it falls into.

NATIONAL INSURANCE – 2018/19

Class 1 Contributions for Employees (primary)	Up to £162	£163 -£892	Over £892
Contribution Rate/(Contracted Out Rate)	**0%**	**12% (10.6%)**	**2%**
Weekly Earnings	£0 - £162	£163 - £892	Over £892
Monthly Earnings	£0 - £702	£703 - £3,865	Over £3,865
Annual Earnings	£0 - £8,424	£8,425 - £46,384	Over £46,384

Class 1 Contributions for Employers (secondary)		
Weekly Earnings	**Up to £162**	**Over £162**
Standard Rate/(Contracted Out Salary Related)	0%	13.8% (10.4%)

RATES AND ALLOWANCES (2)

NATIONAL INSURANCE – 2018/19 (continued)

Class 2 Contributions for the Self-Employed*

Weekly Flat Rate	£2.95
Small Earnings Exemption	£6,205

***The Government has previously announced its intention to abolish Class 2 NICs in 2018.**

Class 3 Voluntary Contributions

Weekly Rate	£14.65

Class 4 Contributions for the Self-Employed

Profits between £8,424 and £46,350	9%
Profits above £46,350	2%

CORPORATION TAX - Standard rate 19% (17% from 1 April 2020)

CAPITAL GAINS TAX

	2017/18 £	2018/19 £
Annual Exemption		
Individuals and executors (within two years of death)	11,300	11,700
Trusts	5,650	5,850
Entrepreneurs' Relief/Investors' Relief - tax at 10%	10,000,000	10,000,000

Capital Gains are added to taxable income as the top slice and are taxed at 10% if the total falls within the basic rate band. All excess gains are taxed at the rate of 20%. Residential property continues to be taxed at the old 18%/28% rates.

INHERITANCE TAX

	2017/18 £	2018/19 £
Nil-Rate Band (frozen until 2020/21)	325,000	325,000
Additional Nil-Rate Residential Band	100,000	125,000

The rate of Inheritance Tax is 40% on death and 20% for lifetime chargeable transfers. The rate of Inheritance Tax on death where 10% or more of the net estate is left to Charity is 36%. The annual allowance and small gifts exemption remain at £3,000 and £250 respectively. The additional nil rate band for residential property is tapered away for estates over £2million,

TAX FREE SAVINGS ACCOUNTS

	2017/18	2018/19
Individual Savings Account (ISA) subscription limit	£20,000, of which £4,000 can be saved into a Lifetime ISA	£20,000, of which £4,000 can be saved into a Lifetime ISA
Junior ISA subscription limit	£4,128	£4,260
Child Trust Fund (CTF) subscription limit	£4,128	£4,260

PENSIONS TAX RELIEF

	2017/18	2018/19
Lifetime Allowance Limit	£1,000,000	£1,030,000
Annual Allowance Limit (maximum) *	£40,000	£40,000

* This is tapered down to £10,000 per annum for annual income between £150,000 and £210,000, to include employer pension contributions.

** A lower annual allowance limit of £4,000 may apply if you have already started drawing a pension.

RATES AND ALLOWANCES (3)

STAMP DUTY

Residential Property	Rate Payable (incremental)	Commercial and Mixed Property	Rate Payable (incremental)
£0 - £125,000	Nil	£0 - £150,000	Nil
£125,001 - £250,000	2%	£150,001 - £250,000	2%
£250,001 - £925,000	5%	Over £250,000	5%
£925,001 - £1,500,000	10%		
Over £1,500,000	12%		
Certain non-natural persons >£500,000	15%		

From 6 April 2017, any person acquiring a second (or additional) property may be subject to a Stamp Duty surcharge of 3%.

Sale or Transfer of Shares and Securities (excluding AIM shares) – 0.5%

From 22 November 2017, a first time buyer paying up to £300,000 for a residential property will pay no SDLT.
First time buyers paying £300,000 to £500,000 will pay SDLT at 5% on the amount of purchase price exceeding £300,000.
This new relief will potentially reduce a first time buyer's SDLT liability by up to £5,000.
A first time buyer purchasing a property for more than £500,000 will not be entitled to this relief.

ANNUAL TAX ON ENVELOPED DWELLINGS (ATED)

Property Value	**Charge for tax year 2017/18**	**Charge for tax year 2018/19**
More than £500,000 but no more than £1m	£3,500	£3,600
More than £1m but not more than £2m	£7,050	£7,250
More than £2m but not more than £5m	£23,550	£24,250
More than £5m but not more than £10m	£54,950	£56,550
More than £10m but not more than £20m	£110,100	£113,400
More than £20m	£220,350	£226,950

VALUE ADDED TAX (VAT)

Thresholds from 1 April 2017		£	
VAT registration threshold		85,000	
VAT deregistration threshold		83,000	
Flat-rate scheme	VAT turnover	150,000	(ex VAT) in next 12 months
Cash Accounting	Turnover	1,350,000	(ex VAT) in next tax year
Annual Accounting	Turnover	1,350,000	

The standard rate of VAT is 20%.