TAX FACULTY

AUTUMN STATEMENT 2016

25 NOVEMBER 2016

AUTUMN STATEMENT 2016 REPORT

The Chancellor of the Exchequer delivered his Autumn Statement on 23 November 2016.

This is a summary of the announcements on tax and related matters. It has been prepared by the ICAEW Tax Faculty team, with an overview by Frank Haskew, and edited by Jane Moore.

The Autumn Statement documents include details of changes which have been announced previously. This summary focuses on new announcements.

All the government announcements and publications including the 'Green Book' can be found on GOV.UK at gov.uk/government/topical-events/autumn-statement-2016.

The draft clauses for Finance Bill 2017 (FB 2017) will be published on 5 December 2016.

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Overview of the 2016 Autumn Statement

All in all, a creditable performance from the Chancellor, Philip Hammond

It is just over eight months since the 2016 Budget. At that stage, the government appeared secure till the next election and the forthcoming EU Referendum was barely on the radar of many people.

How the world has changed since 23 June 2016! Who would have predicted then that, come the time of the Autumn Statement, Theresa May would be the UK's Prime Minister and Philip Hammond would be the Chancellor? Very few of us would have put money on that. Not only are we facing Brexit but, for good measure, we have a US president-elect who, among many other things, wants to tear up the Trans-Pacific trade agreement and implement tax reforms that could have far-reaching consequences throughout the world. All bets are off for predicting the future – it is clearly not a job for ordinary mortals and certainly not for pollsters.

Against this background, the key messages the Chancellor needed to deliver were stability in the short term, coupled with providing certainty and a clear message that the UK is still open for business. Looking to the longer term, he needed to make the case that the UK has a confident future in a post-Brexit new world. And he had to deliver this against a fiscal position that is in stark contrast to that predicted by the Office for Budget Responsibility (OBR) back in March 2016.

Given that difficult background, the Chancellor gave exactly the performance that was needed – competent, steady and straightforward. Further, in contrast to some of his immediate predecessors and belying his nickname of 'spreadsheet Phil', he did not rattle off statistics so quickly you thought he was pulling a fast one. History will judge whether these qualities will be enough to survive in a post-Brexit world, but his commitment to reducing the major annual fiscal events from two to one will certainly help keep him out of the spotlight.

The end of the Autumn Statement
The Chancellor had one major announcement on the budget-setting process – he wants to get back to only one fiscal event a year and proposes to abolish the Autumn Statement. The Spring Budget will be brought forward to the autumn, so the Autumn Statement will now be replaced by the Budget. However, just to complicate matters, there will still need to be a Spring Statement because the OBR is charged with reporting twice yearly, but it will be downgraded in importance. The Chancellor also announced improvements to the consultation process, with draft legislation being published in the summer with a view to it being enacted before the start of the following fiscal year.

This move back to one fiscal event is very welcome, but we have been here before – those of us with longer memories will recall that in 1992, Norman Lamont initiated a move to bring the Budget forward from the spring to the previous autumn; the first unified Budget, in November 1993, was delivered by Ken Clarke. However, this bold decision was undone a few years later by a certain Mr Brown who introduced two Budgets, a position which has remained largely unaltered ever since. Perhaps Parliament needs to legislate to enshrine this discipline into law rather than leave it to the whim of the Chancellor?

Personal tax
The Chancellor confirmed the government's intention to raise the personal allowance by the end of this parliament to £12,500 and the higher rate income tax threshold to £50,000.

The government remains concerned about the taxation of different forms of remuneration and disguised remuneration schemes. Following consultation, from April 2017 the tax and national insurance benefits of certain types of salary sacrifice schemes will be removed. In addition, the

government will extend the scope of legislation to tackle disguised remuneration avoidance schemes to the self-employed.

The government clearly sees insurance premium tax as a cash cow, with the rate increasing in June 2017 from 10% to 12%.

Business taxes
There were few substantive announcements on business taxes. In keeping with his message of certainty, the Chancellor confirmed that the rate of corporation tax will reduce to 17% by 2020. He also confirmed that the government will introduce new rules with effect from April 2017 to limit tax deductions that large groups can claim for interest relief where debt exceeds 30% of UK taxable income and the UK debt interest to earnings ratio is higher than for the worldwide group. At the same time, companies with taxable profits over £5m will be subject to new rules that restrict the offset of carried-forward losses to 50% of the profit,

Those waiting to learn more about Making Tax Digital will need to wait until January 2017 for the next announcements, which is a welcome indication that government and HMRC are taking the time to consider and reflect properly on the huge response they have had to the recent consultations.

The public finances
Fixing the UK's finances and bringing the budget back into balance remain huge challenges and this has become all the more difficult following the Brexit vote. We said in our overview of the March 2016 Budget that it would not take much to knock the UK's deficit reduction strategy off course and push the date when we return to surplus even further into the future. In the event, the OBR's forecasts have not just been knocked off course by events: they have been completely blown apart.

Growth forecasts have been revised downwards as compared to March 2016, which have a major impact on reducing forecast government revenues. The OBR forecasts that the net deficit for 2016/17 will now be nearly £13bn higher than forecast in March 2016, and over the forecast period to 2020/21 the increase in the deficit will be … wait for it … £122bn higher than forecast in March. By any standards that is a colossal increase and shows the difficulty of forecasting fiscal outturns. It is hardly surprising that, although the government remains committed to reducing the net deficit, it no longer expects that this will be achieved by 2019/20. However, it is not clear now when, or even if, the UK might return to a balanced budget.

In conclusion
The new Chancellor gave a creditable performance and set out a budget for challenging times. His candour was refreshing, but nevertheless the scale of the challenge was not immediately clear until you looked at the numbers. These made for sober reading, with the forecast public debt over the five-year forecast period increasing by over £122bn as compared to the March Budget estimates. To put this black hole in perspective, VAT receipts for a typical year are about £120bn. There were mercifully few tax announcements, and the commitment to have only one Budget a year rather than the two we have at present was welcome news, even if he is repeating a change originally made back in 1993. All in all, it was a good performance in challenging times, but whether the changes will leave the UK 'match fit' for Brexit is not a question we can really answer with any confidence. But we are not alone – the OBR is clearly also struggling to predict the UK's future, post Brexit.

Budget and Finance Bill timetable

In a moment of humour and perhaps deep irony, of which more below, the Chancellor announced that this would be his first, and last, Autumn Statement. What he meant was that the government proposes to change the Budget process so that there is only one major fiscal event a year rather than two as at present.

The plan is that:

- the Budget will move from the spring in each year to the previous autumn;
- the Finance Bill will be published in the autumn at or around the time of the Budget;
- the Finance Bill will be enacted before the start of the tax year to which the measures relate; and
- there will be a Spring Statement responding to the OBR forecast at that time.

Currently, the Finance Bill is published shortly after the Spring Budget with draft legislation for inclusion in the Bill published the previous December. Under the new proposal, the publication of draft legislation will be brought forward to the previous summer.

The new system will start in the autumn of 2017, and the Spring Budget next year will be the last.

The OBR is required under law to report on the government's finances twice a year, hence the need for the Spring Statement. However, it looks like the Spring Statement may also be used to start consultations on how long-term fiscal challenges may be addressed. In addition, the government reserves the right to make changes to fiscal policy at the time of the Spring Statement should it prove necessary.

We support the move to one fiscal event. We also welcome the proposal to advance the Budget to the previous autumn and bring forward the Finance Bill process so that it is enacted before the start of the tax year. But this is only one half of providing taxpayers with certainty: the other is ensuring that the Finance Bill is well drafted and clear in scope. To do that, more time is needed to allow for greater parliamentary scrutiny. It looks as though the timetable will merely be brought forward rather than allowing more time for consideration – thus failing to address one of the main complaints about the existing Finance Bill process.

Rates and allowances

The government has published a summary of Tax and tax credit rates and thresholds for 2017/18 which also includes national insurance contributions (NIC).

Income tax

The Autumn Statement did not bring any changes to the tax rates and allowances which had already been announced for 2017/18. For income tax, the personal allowance and tax rate bands are, in summary:

Year	Standard personal allowance	Basic rate band of 20% on income	Higher rate 40% threshold	Additional rate of 45% on income over
	£	£	£	£
2016/17	11,000	32,000	43,000	150,000
2017/18	11,500	33,500	45,000	150,000

The government confirmed its commitment to increase the personal allowance to £12,500 and the higher rate threshold to £50,000 by the end of the current parliament. However, once the £12,500 level is reached further increases will be in line with inflation (CPI) rather than with the national minimum wage (NMW) which was the previous intention.

National insurance
The national insurance secondary (employer) and primary (employee) thresholds will be aligned at £157 per week from April 2017.

The national insurance upper earnings limit and upper secondary threshold will remain aligned with the higher rate threshold for income tax.

Property and trading allowances
Two new £1,000 allowances for property and trading income were announced at Budget 2016, to apply from April 2017. The trading allowance will now also apply to certain miscellaneous income from providing assets or services.

Corporation tax
The government also confirmed its commitment to reduce the rate of corporation tax, currently 20%, to 19% in 2017 and to 17% in 2020.

Personal and employment taxes

National living wage and national minimum wage
The national living wage (NLW) will rise from £7.20 to £7.50 from April 2017.

The following national minimum wage (NMW) rates will apply from April 2017 (the rates were last increased in October 2016):

- 21 to 24 year olds £7.05 per hour (from £6.95),
- 18 to 20 year olds £5.60 per hour from £5.55),
- 16 to 17 year olds £4.05 per hour (from £4.00), and
- apprentices to £3.50 per hour (from £3.40).

NMW enforcement will be strengthened, with HMRC teams proactively reviewing those employers considered most at risk of non-compliance. The government will also provide additional support targeted at small businesses to help them to comply, and will run a campaign to raise awareness among workers and employers of their rights and responsibilities.

National insurance: class 1 thresholds
The national insurance secondary (employer) threshold and the national insurance primary (employee) threshold will be aligned from April 2017, meaning that both employees and employers will start paying NIC on weekly earnings above £157.

We welcome this alignment which we believe is long overdue.

National insurance: abolition of class 2
As previously announced, class 2 NIC will be abolished from April 2018.

Following the abolition of class 2 NIC, self-employed contributory benefit entitlement will be accessed through classes 3 and 4 NIC. All self-employed women will continue to be able to access the standard rate of maternity allowance.

Self-employed people with profits below the small profits limit will be able to access contributory employment and support allowance (CESA) through class 3 NIC. There will be provision to support self-employed individuals with low profits during the transition.

Statute of limitations no longer to apply to NIC
From April 2018, the time limits and recovery process for national insurance debts will be aligned with other taxes and the Limitation Act 1980 (and Northern Ireland equivalent) will no longer apply to NIC. The government will consult on the details.

Termination payments
From April 2018 termination payments over £30,000, which are subject to income tax, will also be subject to employer NIC. Tax will only be applied to the equivalent of an employee's basic pay if they do not work their notice. This is intended to make it simpler to apply the new rules. The first £30,000 of a termination payment will remain exempt from income tax and NIC.

Off-payroll working rules
The off-payroll working rules in the public sector will be reformed from April 2017 by moving responsibility for operating them, and paying the correct tax, to the body paying the worker's company. At the moment, the responsibility rests with the worker's company. The reform is intended to ensure that those working in a similar way to employees in the public sector will pay the same taxes as employees. This effectively reverses the IR35 rules for public sector contracts.

In response to feedback during the consultation, the 5% tax-free allowance will be removed for those working in the public sector, reflecting the fact that workers no longer bear the administrative burden of deciding whether the rules apply.

There is no mention of this reform being extended to the private sector.

Legal support
From April 2017, all employees called to give evidence in court will no longer need to pay tax on legal support from their employer. This is intended to level the playing field, as presently only those requiring legal support because of allegations against them are entitled to tax relief.

Salary sacrifice
The government proposes to take action to make the taxation of employer-provided benefits-in-kind and expenses fairer and more coherent. This action will be taken in three areas: salary sacrifice, valuation of benefits-in-kind, and employee business expenses.

Salary sacrifice allows employees to give up part of their salary in exchange for a benefit-in-kind, which itself may be exempt from tax and NIC. At present, if the benefit-in-kind is not exempt, the employee is taxed on the value of the benefit and the employer is charged to class 1A NIC on the value of the benefit, rather than the employee and employer being taxed and liable to class 1 NIC on the salary foregone. This can generate tax and NIC savings for employee and employer.

From April 2017, most benefits-in-kind received by employees by way of salary sacrifice schemes will be subject to the same tax as cash income and the NIC saving will be restricted.

This will affect types of salary sacrifice differently:

- pensions, pensions advice, childcare, cycle to work and ultra-low emission cars will be unaffected;
- other arrangements in place before April 2017 will be protected up to April 2018; and
- arrangements in place before April 2017 for cars, accommodation and school fees will be protected up to April 2021.

Valuation of benefits-in-kind
The government will consider how benefits-in-kind are valued for tax purposes, and will consult on employer-provided living accommodation and call for evidence on the valuation of all other benefits at Budget 2017.

Employee business expenses
The government proposes to call for evidence at Budget 2017 on the use of the income tax relief for employees' business expenses, including those that are not reimbursed by their employer.

We welcome this as we have long felt that there is inconsistency between the ability of employees to get relief for (for example) training costs incurred by employees but not reimbursed, as compared to equivalent costs paid by employers.

Company car tax bands and rates for 2020/21
To provide stronger incentives for the purchase of ultra-low emission vehicles, new and lower bands will be introduced for the lowest emitting cars. The appropriate percentage for cars emitting greater than 90g CO_2/km will rise by 1%.

Dates for 'making good' on benefits-in-kind
From April 2017, an employee who wants to 'make good' on a non-payrolled benefit-in-kind will have to make the payment to their employer by 6 July in the following tax year.

'Making good' is where the employee makes a payment in return for the benefit-in-kind they receive. This reduces its taxable value.

Assets made available without transfer of ownership
Where assets belonging to employers are made available to employees or their family, the annual tax charge on the benefit is usually valued at 20% of the market value of the asset when first made available, plus any expenses incurred in connection with its provision. Currently, where assets are provided for only part of the tax year, no apportionment of the benefit charge is made.

From 6 April 2017 employees will be taxed on business assets only for the period that the asset is made available for their private use. We welcome this change, which gives much fairer treatment.

Simplifying the PAYE settlement agreement process
PAYE settlement agreements (PSAs) are annual agreements made in writing between employers and HMRC. They provide a mechanism for employers to pay on behalf of their employees the tax liability on certain benefits-in-kind and expenses which would be disproportionately costly to report via PAYE/P11D, or where the tax cannot be properly apportioned between the employees. Items accounted for in this way are subject to grossed-up tax and employer class 1B NIC.

Following consultation, which included a proposal to remove the requirement for upfront agreement, the process for applying for and agreeing PSAs will be simplified. This will have effect in relation to agreements for the 2018/19 tax year onwards.

Disguised remuneration
Disguised remuneration schemes generally involve an employer paying a contribution to a third party, often an employee benefit trust (EBT) or, latterly, an employer-financed retirement benefit scheme (EFRBS), instead of paying remuneration directly to the employee. The third party then usually provides the money to the employee in the form of loans, often interest-free and on terms that mean the loans are never repaid during the employee's lifetime.

The government has been tackling these schemes and intends to widen the scope of the legislation as follows:

- **Company deduction:** tax relief will be denied for an employer's contributions to disguised remuneration schemes unless tax and NIC are paid within a specified period.
- **Extension to self-employed:** the scope of the Budget 2016 changes for employees will be extended to tackle the use of disguised remuneration avoidance schemes by the self-employed (normally individual contractors).

Employee shareholder shares: new shares
Employee shareholder shares (ESS) were introduced in 2013. The rules allow employees to receive shares worth at least £2,000 in exchange for giving up some of their statutory employment rights. No income tax charge arises under the employment-related securities provisions on the first £2,000 of value. On the ultimate sale of the shares, which can include a company purchase of own shares, the employees are exempt from capital gains tax (CGT) on the first £100,000 of gains.

In changes which apply from 1 December 2016, income tax reliefs on the receipt or buy-back of shares issued to an employee under an employee shareholder agreement and the CGT exemption relating to shares received as consideration for entering into an employee shareholder agreement will no longer be available. This applies to shares acquired in consideration for an employee shareholder agreement entered into on or after that date.

The delay until 1 December is to allow any individual who has received independent advice regarding entering into an employee shareholder agreement before 23 November 2016 the opportunity to enter into an ESS before 1 December and still receive the income and CGT tax advantages that were known to be available at the time the individual received the advice. Where advice was received on 23 November before 13:30, the deadline for entering into an ESS is extended to 2 December.

Shares received under agreements made before the aforementioned dates and corporation tax reliefs for the employer company are not affected.

Non-domiciled individuals: status
The removal of permanent non-domicile status from April 2017 is confirmed. The changes mean that from April 2017 anybody who has been resident in the UK for 15 out of the past 20 years will be deemed UK-domiciled for all taxes. In addition, anybody with a UK domicile of origin will be immediately UK-domiciled if they return to the UK.

It was also confirmed that if an individual set up an offshore trust before becoming deemed domiciled, they will not be taxed on income and gains arising outside the UK and retained in the trust.

Non-domiciled individuals: IHT on UK residential property
Also confirmed was the charge to inheritance tax (IHT) for UK residential property where it is owned indirectly by a non-domiciliary via an offshore structure. It is likely that the annual tax on enveloped dwellings (ATED) charge will also be payable on these properties but there is no indication that relief will be available to allow structures to be unwound.

Business investment relief
The consultation during summer 2016 on non-domiciliaries asked for suggestions to improve the business investment relief scheme to attract more capital investment into the UK from non-domiciliaries on the remittance basis. Reforms are promised along with a commitment to continue to consider improvements.

Inheritance tax and political parties
Gifts made to qualifying political parties are exempt from IHT. A political party qualifies for exemption if, at the last general election (ie, by-elections are ignored) preceding the gift either two members of that party were elected to the House of Commons or one member was elected and at least 150,000 votes were cast for candidates who were members of that party.

With effect from Royal Assent of Finance Bill 2017 the relief will be extended to parties with representatives in the devolved legislatures as well as parties that have acquired representatives through by-elections.

Pensions and savings

Money purchase pensions: annual allowance
Where an individual has accessed their defined contribution pension pot by either taking lump sums or putting it into an income drawdown fund, and started to take income from it, the maximum pension contribution qualifying for income tax relief is £10,000 per annum for 2016/17. This will be reduced to £4,000 per annum from April 2017.

There is a consultation on the detail, Reducing the money purchase annual allowance, inviting comments by 15 February 2017.

Foreign pensions
The Chancellor announced that the tax treatment of foreign pensions will be more closely aligned with the tax treatment of UK pensions for UK residents. This appears to signal the end of the 10% reduction for foreign pensions given by s617, Income Tax (Earnings and Pensions) Act 2003. However, it is not clear how any changes will impact on those double tax treaties that give the taxing right to the country of the pension's origin.

Other changes to foreign pensions include:

- the taxing rights over recently emigrated lump sum payments from funds that have had the benefit of UK tax relief will be extended from five to 10 years;
- the tax treatment of funds transferred between registered pension schemes will be aligned;
- the eligibility criteria for qualifying recognised overseas pension schemes (QROPS) will be tightened; and
- specialist pension schemes for those employed abroad will be closed to new savings.

Pension scams
There will be a consultation on options to tackle pension scams, including banning cold calling in relation to pensions, giving firms greater powers to block suspicious transfers and making it harder for scammers to abuse small self-administered schemes.

ISAs
Internal analysis by HMRC indicates that 98% of adults pay no savings tax (although there is no indication as to how many of the 98% actually have savings income); ISAs, the 0% savings rate band and now the personal savings allowance contribute to this statistic.

Government will continue to support savings:

- the £5,000 0% savings rate band will continue;
- the ISA limit (currently £15,240) will increase from April 2017 to £20,000;
- the Junior ISA limit will increase to £4,128, currently £4,080.

NS&I Investment Bond

There will be a new three-year savings bond offered by National Savings & Investment. The indicative rate is 2.2% but this may be adjusted to reflect market conditions when the product is launched. The bond will be open to those aged 16 and over, subject to a minimum investment limit of £100 and a maximum investment limit of £3,000. The product will be available for 12 months from spring 2017.

Life insurance policies

In *Lobler v HMRC* [2015] UKUT 152 (TCC), Mr Lobler ticked the wrong box when withdrawing some cash from a life policy which resulted in a significant tax liability. When he encashed the rest of the policy it had made a loss but the way the legislation operated gave him a 700% tax bill. The problem was caused by Mr Lobler choosing to do a part encashment across all his policies when he should have opted for a full encashment of some of them to raise the same amount. The Upper Tribunal allowed rectification and Mr Lobler was taxed as if he had surrendered some policies in full.

Following this high profile case, HMRC consulted on how similar situations could be avoided in future (see our comments in ICAEW REP 106/16) and the solution will be to allow taxpayers in this situation to apply to HMRC to have the charge recalculated on a just and reasonable basis. The change will take effect from 6 April 2017.

This seems to be a pragmatic and reasonable solution that will not cause wholesale change to the legislation surrounding the taxation of these policies.

Personal portfolio bonds

A personal portfolio bond (PBP) is defined as a policy of life insurance, contract for a life annuity or capital redemption policy (in practice most PPBs will be single premium investment bonds) that meets certain conditions as regards the investments held. Following a consultation in the summer of 2016 legislation will be introduced giving a power to amend the regulations governing the list of assets included within the permitted investments.

Offshore funds

Currently UK taxpayers pay income tax on the offshore reporting fund's reportable income and CGT on any gain on disposal of the fund. At present performance fees linked to the increase in value in the fund can be deducted from the reportable income but from April 2017 they will have to be deducted from the capital value. This will bring the treatment of offshore bonds in line with onshore bonds. Given the disparity in income tax and CGT rates it will be a revenue raiser.

Tax credits and state benefits

Welfare cap

The government announced that it has no plans to introduce further welfare savings measures in the current parliament, beyond those already announced. The changes previously announced were already very significant. The cap on welfare spending remains but has been reassessed to take account of previously announced changes.

State pension triple lock

The 'triple lock' which applies to the state pension will be retained for the current parliament, in line with the Conservative party manifesto. The Chancellor did indicate that it would then be reviewed, saying: "as we look ahead to the next Parliament, we will need to ensure we tackle the challenges of rising longevity and fiscal sustainability".

Universal credit taper rate

The rate at which universal credit is withdrawn will reduce from 65% to 63% from April 2017. This means that for each £1 of income over the work allowance, the maximum amount of universal credit is reduced by 63p rather than 65p. The work allowance (the amount which a

claimant is entitled to earn without a reduction to their entitlement) was reduced significantly from 6 April 2016 and this change has not been reversed.

There is no equivalent change to the withdrawal rate for tax credits which remains at 41%. (Tax credits are based on gross income whereas universal credit is based on net income after tax and NIC.)

Tax credits
From April 2017, new tax credit claims can be made using digital devices. The online system for tax credits was suspended soon after their introduction, due to concerns about fraudulent activity. The ability to renew claims online was reintroduced a few years ago. The option to make new claims online is welcome but does seem rather late in the day, as tax credits are being phased out.

At paragraph 5.9 of the Green Book there is a statement that "HMRC will make in-year award adjustments so the disability elements of child tax credit will be paid to a group of recipients who are eligible, but not currently receiving this entitlement". The cost of this is estimated at £95m in the current year. We understand this follows a three-year period when HMRC could not automatically update these awards, with the result that around 28,000 families are currently not receiving the higher level of credit they could be entitled to because of their child's disability.

Tax-free childcare
The new tax-free childcare scheme will be introduced gradually from early 2017. Once the scheme is fully rolled out, the government will review its operation to ensure it is delivering as intended and to assess the benefit it is delivering for working parents.

Business and company tax

Business tax road map
The government is recommitting to the Business tax road map published at Budget 2016 and to the principles that it sets out. These include cutting the corporation tax rate to 17% by 2020 and reducing the burden of business rates.

The principles as set out in the Foreword to the (March 2016) business tax road map are:

"Taxes should be low, but must be paid. There should be a level playing field, including between large businesses and small, and between different corporate structures. The system must encourage entrepreneurship and not reward aggressive tax planning. Wherever possible, [the government] will take opportunities to simplify the tax code, and make the administration of tax fit for modern business practices."
in the sector.

Tax deductibility of corporate interest expense
The government confirmed that a limit on the tax deductions that large groups can claim for their UK interest expenses will be effective from 1 April 2017. These rules will limit deductions where a group has:

- net interest expenses of more than £2m;
- net interest expenses exceeding 30% of UK taxable earnings; and
- a net interest to earnings ratio in the UK exceeding that of the worldwide group.

There was a consultation in the summer on the detailed policy design and implementation, to which the Tax Faculty responded in ICAEW REP 119/16.

The government has now confirmed there will be a widening of the public interest exemption which aims to ensure that projects for the public benefit are not affected by the new restriction.

A somewhat unexpected development is that banking and insurance groups will be subject to the rules in the same way as groups in other industry sectors. Originally it was thought targeted rules for banks and insurance companies would be required. Banking and insurance companies typically generate net interest income and should not be affected by the rules. Their inclusion, however, is an indication that targeted rules will not be introduced on the basis that existing financial regulation places sufficient restrictions on these sectors. The limitation will apply to external debt as well as internal debt. It is not yet known whether there will be any grandfathering provisions for existing debt.

Reform of CT loss relief
The government has confirmed that the proposed changes to the carried-forward tax loss relief rules, announced in Budget 2016 and subsequently consulted on, will go ahead broadly as planned from April 2017. Tax Faculty responded to the consultation in ICAEW REP 125/16.

There are two principal measures:

- tax losses arising after 1 April 2017 will be available for carry forward against profits from the company's other income streams and profits of other group companies; and
- for profits arising after 1 April 2017, only 50% of group profit can be sheltered by carry forward losses (subject to a £5m profit *de minimis*).

The potential impact of the loss restriction is eased by the £5m profit *de minimis* which means that the majority of businesses will not be adversely affected by this element of the package and the burden will fall only on larger groups.

The requirement to stream tax losses has long been a frustration for those who consider that a company's tax bill should align with its economic profit and so this relaxation is welcome. While there is no indication that the government is thinking of moving to full group tax consolidation, the ability to offset a carried-forward loss in one company against a profit of another company is a welcome improvement to the existing group relief system.

The government has also stated that it wishes to simplify the administration of the new rules. It will be interesting to see whether, since the consultation, there has been any movement away from the schedular system and the need to stream trading and non-trading losses and profits.

Banks will continue to be able to shelter only 25% of their profits by pre-April 2015 tax losses. In respect of their post-April 2015 tax losses, banks will continue to be treated in the same way as other companies.

Patent box
The patent box rules will be amended in FB 2017 for cases where research and development (R&D) is undertaken collaboratively by two or more companies under a cost sharing arrangement. The new provisions will ensure that there is neither an advantage nor disadvantage for the companies involved from organising the R&D activity in this way. The change will take effect for accounting periods beginning on or after 1 April 2017.

Substantial shareholdings exemption reform
The government undertook a consultation exercise on the substantial shareholdings exemption after the March 2016 Budget, to which the Tax Faculty responded in ICAEW REP 124/16. We welcome the announcement that the government is going to make changes to simplify the rules from April 2017.

Currently, to qualify for the exemption, both the investor group and the investee subgroup must meet a trading status requirement. The proposal is that the exemption will be reformed to remove the test for the investor group. From April 2017 it is the trading status of the investee company (and, if relevant, its subgroup) which counts. This should help groups with a

combination of trading and investment activities, eg a mixed property group may access the exemption when selling its development subsidiary. Furthermore, the new approach has the advantage that the UK company should itself have ready access to the required information. In the case of foreign owned groups, obtaining information about the foreign parent's wider group activities has proved onerous and the proposed change should remove this requirement.

The Chancellor also indicated that a more comprehensive exemption will be introduced for companies owned by 'qualifying institutional investors'. Beneficiaries may include pension funds and sovereign wealth funds whose gains would be tax exempt when investing directly, but are currently taxable when investing through a UK company. This has caused some to invest through offshore holding companies, and the reform is designed to remove that incentive. This change could benefit UK companies which own at least 10% of the equity of another company when they sell at a gain.

Extension of corporation tax to non-resident companies
The government will consult in 2017 on whether the UK income of non-UK resident companies should be brought within the charge to corporation tax so that such companies will be subject to the same rules as UK resident companies.

With the exception of non-UK resident companies undertaking a trade in UK land, currently, non-UK resident companies which trade in the UK without a permanent establishment are, in principle, chargeable to UK income tax. UK income tax also applies to the rental income of non-UK resident companies holding UK real estate for the purposes of investment. There are already some significant differences in the tax rules between income tax and corporation tax which can mean that such companies are not charged to tax in the same way or at the same rate as companies already within the charge to UK corporation tax. In addition, certain changes to corporation tax announced in this Autumn Statement, along with the reduction in the headline rate of corporation tax to 17% by April 2020, will result in a marked difference between companies chargeable to income tax and corporation tax unless the treatment of both is aligned.

If the proposal is implemented, it could have a significant effect, in particular for non-UK resident owners of UK investment property. While such businesses might benefit from future reductions in corporation tax rates, they would become subject to the same restrictions to interest deductibility which will apply to UK corporates from April 2017. As property investment activity is often highly geared, this could result in a significant additional tax burden.

Companies that are affected by the change could find themselves liable to UK CGT, as non-UK resident companies are generally only chargeable to CGT on residential property in the UK.

Bank levy reform
As announced at Summer Budget 2015, the bank levy charge will be restricted to UK balance sheet liabilities from 1 January 2021. Following consultation there will be an exemption for certain UK liabilities relating to the funding of non-UK companies and an exemption for UK liabilities relating to the funding of non-UK branches. Details will be set out in the government's response to the consultation, with the intention of legislating in a future Finance Bill.

The government will continue to consider the balance between revenue and competitiveness with regard to bank taxation, taking into account the implications of the UK leaving the EU.

Petroleum revenue tax: reducing administrative burden
Two measures were announced to reduce administrative burdens for participators in the petroleum revenue tax (PRT) regime.

The first measure will remove the conditions for opting fields out of PRT so that opting out can be achieved by a simple election. The measure has effect from 23 November 2016. A draft clause and draft explanatory notes have been published.

The second measure will simplify the reporting requirements for those that remain. Both this measure, and the first measure, are explained in a Technical Note PRT: cutting administrative costs for the oil industry The second measure will remove the oil allowance reporting requirements from the PRT 1 and 2 forms. There will also no longer be a requirement to report the tax liability instalment on the PRT 6 form. Both measures will take immediate effect. This means that a responsible person will be able to elect to opt fields out of the PRT regime for chargeable periods beginning on or after 1 January 2017 and the simplified reporting will apply to the current chargeable period (ending 31 December 2016) and any subsequent reporting periods.

Hybrids and other mismatches

The government will issue a technical note on 5 December to improve the new hybrid mismatch regime introduced by FA 2016. The regime was introduced as a result of the OECD Base Erosion and Profit Shifting project and is designed to counter the use of hybrid or mismatch structures – essentially situations where an amount is deductible in one jurisdiction but not taxed in any other, or is deductible more than once.

Following consultation there are going to be technical modifications in two areas of the legislation. These concern financial sector timing claims and the rules concerning deductions for amortisation. The technical note will set out the detail of the changes required. These modifications will take effect along with the new regime on 1 January 2017. The necessary legislation will be introduced in FB 2017.

Authorised investment funds: distributions to corporate investors

The government will amend the rules on the taxation of dividend distributions to corporate investors so that exempt investors, such as pension funds, can obtain credit for tax paid by authorised investment funds. Proposals will be published in draft secondary legislation in early 2017.

Insurance linked securities (ILS)

The government is consulting on a new regulatory and tax framework for Insurance Linked Securities business in the UK which will enable insurers to transfer large and complex risks to capital market investors.

The consultation document sets out the approach to tax and regulation of ILS vehicles in the UK. It contains details on:

- the background to the consultation and the government's aims for the ILS project;
- the responses received to the first ILS consultation in March;
- the corporate structure of ILS vehicles to be used in the UK, which will provide for ILS vehicles to be set up as protected cell companies;
- the taxation treatment of ILS vehicles and their investors; and
- the approach to authorisation and supervision of ILS vehicles by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

Tax treatment of partnerships

The government will seek to legislate changes to clarify the taxation of partnerships following HMRC's consultation partnership taxation: proposals to clarify the tax treatment earlier this year. A number of areas had been identified as unclear, in particular where the partners named on the tax return differ from those registered at Companies House and where there are multiple levels of partnership structures making it unclear who the ultimate partner is.

While the majority of partnerships will not be affected by the changes, we made the following key points in ICAEW REP 170/16:

- In January 2015 the Office of Tax Simplification (OTS) conducted a review of partnerships and listed 17 recommendations for consideration by HMRC. We are disappointed that none of these recommendations have been considered in this consultation document, in particular the treatment of partner specific expenses (recommendation five of the OTS report).
- Rather, the focus of this consultation is to consider “areas where the government has identified that the tax rules may be seen as unclear or produce an inappropriate outcome” (paragraph 1.2) which appear to be peripheral and relevant to only large and complex partnerships (as the consultation document itself states at paragraph 1.3, “it will have no effect on the vast majority of partnerships”).
- The proposals in this consultation intend to place responsibility on the nominated partner. Where there is a lack of information (for example in structures where an LLP is a member of another LLP and foreign entities are involved) this will lead to undue administrative and possible financial burdens on a typically compliant partner.

Draft legislation will be published for consultation, when we will see to what extent the proposals have been adapted for comments received.

Capital allowances for electric car charge-points
From 23 November 2016 businesses acquiring new and unused electric charge-points will be eligible to claim a 100% first year allowance (FYA). This is a temporary measure which will expire on 31 March 2019 for companies, and 5 April 2019 for businesses subject to income tax. It is introduced to encourage the use of electric vehicles in a bid to improve air quality in towns and cities across the UK. We support this relief which complements the 100% FYA available on the purchase of low emission cars.

Contributions to grassroots sports
A corporation tax deduction will be available for companies that make contributions to grassroots sports from 1 April 2017. This measure, announced at Autumn Statement 2015, was consulted on during Spring 2016 and we responded in ICAEW REP 90/16. FB17 will provide details of which sports will be eligible and the types of expenditure which will qualify for the relief.

Museums and galleries tax relief
Further details of the new museums and galleries tax relief were announced in the green book. Budget 2016 announced that tax relief would be available for temporary and touring exhibitions but it is now confirmed that it will be extended to include permanent exhibitions, a move which we believe supports the government’s aim to encourage the creation of high quality exhibitions. The relief will take effect from 1 April 2017 and will be available at 25% for touring exhibitions and 20% for non-touring exhibitions. Relief will be available on 80% of qualifying expenditure (in line with other creative sector tax reliefs) and will be capped at £500,000 per exhibition.

Social investment tax relief
Certain changes will be made to social investment tax relief with effect from 6 April 2017, including an increase in the amount of investment social enterprises can raise to £1.5m. While at the moment investment in nursing and residential care homes is not entitled to the relief, the government will consider the introduction of an accreditation system which will allow such investments to qualify in the future. Other changes announced include a reduction to the limit on full time equivalent employees to 250.

Tax advantaged venture capital schemes
A number of changes will be made in FB17 to the Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trust (VCT) rules.

The government will clarify the treatment of share conversion rights for EIS and SEIS shares issued on/after 5 December 2016. This is intended to provide more certainty to those making investments and help reduce the backlog of cases.

In relation to VCTs the government will:

- for investments made on/after 6 April 2017, provide additional flexibility for follow-on investments made by VCT companies in companies with certain group structures to align with EIS provisions, and
- introduce a power to enable VCT regulations to be made in relation to certain shares for share exchanges to provide greater certainty for VCTs.

It was also announced that the government will consult on the advance assurance service it offers.

More information about these measures will be available in the draft legislation and supporting documentation to be published on 5 December.

Business rates
Budget 2016 announced the permanent doubling of small business rate relief from 50% to 100%. The government has now confirmed it will double rural rate relief to 100% to remove the inconsistency between small business rate relief and rural rate relief. This will take effect from 1 April 2017.

There will be a new 100% business rates relief for new full-fibre infrastructure for a five-year period from 1 April 2017, designed to support roll-out to more homes and businesses.

VAT and duties

VAT flat rate scheme: anti-abuse
A new 16.5% VAT flat rate will apply from 1 April 2017 for businesses with limited costs, such as many labour-only businesses. The government says: “This will help level the playing field, while maintaining the accounting simplification for the small businesses that use the scheme as intended”.

Currently businesses determine which flat rate percentage to use by reference to their trade sector. From 1 April 2017, businesses in the Flat Rate Scheme (FRS) must also determine whether they meet the definition of a limited cost trader, which will be one whose VAT-inclusive expenditure on goods is either:

- less than 2% of its VAT inclusive turnover in a prescribed accounting period; or
- greater than 2% of its 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 £1,000).

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; and
- 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).

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%.

Draft secondary legislation will be published on 5 December 2016.

VAT relief on adapted cars for wheelchair users
The application of the VAT zero-rating for adapted motor vehicles will be clarified to stop the abuse of this legislation, while continuing to provide help for disabled wheelchair users.

VAT grouping
The government confirms that it will consult on VAT grouping.

VAT retail export scheme
Funding will be provided with a view to fully digitising the VAT retail export scheme to reduce the administrative burden to travellers.

VAT avoidance disclosure regime
The regime for disclosure of avoidance of indirect tax will be strengthened with effect from 1 September 2017. Provision will be made to make scheme promoters primarily responsible for disclosing schemes to HMRC and the scope of the regime will be extended to include all indirect taxes.

Penalty for participating in VAT fraud
A new penalty for participating in VAT fraud will be implemented following Royal Assent to the Finance Bill 2017. It will be applied to businesses and company officers when they knew or should have known that their transactions were connected with a fraudulent default along the transaction chain. The intention is to strengthen the application of penalties to those facilitating orchestrated VAT fraud.

The Tax Faculty responded to the consultation on this proposal in ICAEW REP 179/16. We were concerned that the proposals as drafted are two wide and could have an unfair impact on those who genuinely had no knowledge of a fraud, even if HMRC thinks they should have known.

The new penalty will be a fixed rate penalty of 30% for participants in VAT fraud.

Implementation of the Fulfilment House Due Diligence Scheme
A new Fulfilment House Due Diligence Scheme will be introduced in 2018 to ensure that fulfilment houses play their part in tackling VAT abuse by some overseas businesses selling goods via online marketplaces. The scheme will open for registration in April 2018.

Power to examine and take account of goods at any place
The current customs and excise powers of inspection will be extended with effect from Royal Assent of the Finance Bill 2017. This will amend the Customs and Excise Management Act 1979 and enable officers to examine goods away from approved premises such as airports and ports, to search goods liable for forfeiture, and to open or unpack any container.

Freeplays in remote gaming duty
The tax treatment of freeplays for remote gaming will be brought more in line with the treatment for free bets under General Betting Duty. The changes will take effect for accounting periods beginning on or after 1 August 2017.

Tobacco illicit trade protocol: licensing of tobacco machinery and the supply chain
A licensing scheme for tobacco machinery to allow officials to quickly determine whether machines are being held legally will come into force on 1 April 2018. Applications for licences will be accepted from January 2018.

Fuel duty
The fuel duty rate will remain frozen for the seventh successive year, saving motorists around £130 a year compared to what they would have been paying under the pre-2010 escalator.

Air passenger duty: regional review
A summary of responses to the consultation is being published on how to support regional airports in England from the potential effects of air passenger duty devolution. Given the strong interaction with EU law, the government does not intend to take specific measures now, but intends to review this area again after the UK has exited from the EU.

Other taxes

Insurance premium tax
The standard rate of insurance premium tax (IPT) will rise from 10% to 12% from 1 June 2017.

This means that the rate of IPT will have doubled from 6% prior to November 2015.

The government states, at paragraph 4.40 of the Green Book, that IPT is "a tax on insurers". But this is not correct: HMRC Notice IPT1: Insurance Premium Tax states at paragraph 2.1 that "IPT is a tax on premiums received under taxable insurance contracts". It is collected by insurers on behalf of government from policy-holders and the cost of the tax, and the incidence of the tax, is likely to fall on more than 50 million policy holders.

The latest 2% increase will bring in an extra £4.2bn over the next five years but the cumulative increases since last year will bring in more than £12bn over that period.

Annual tax on enveloped dwellings
Good news for those liable to the ATED: the increase in the charge from April 2017 will be in line with inflation. This is in contrast to the increase for 2015/16 which was a 50% increase plus inflation.

Landfill tax: definition of taxable disposal
As announced at Budget 2016 and following consultation, the government will amend the definition of a taxable disposal for landfill tax purposes in Finance Bill 2017. The date of the change will appointed by order, once Finance Bill 2017 has received Royal Assent.

This will bring greater clarity and certainty for taxpayers on the landfill tax liability of activities carried out at a landfill site. The change was prompted by uncertainty about what exactly is meant by a taxable disposal. It will mean that all material disposed of at a permitted landfill site will be taxable, subject to certain exceptions.

Soft drinks industry levy
The government will publish draft legislation for the soft drinks industry levy on 5 December 2016.

Avoidance, evasion and compliance

At the beginning of the Avoidance and Evasion section in the Green Book the government publishes the following statement:

"The government believes that all individuals and businesses have a responsibility to pay the tax they owe. Since 2010, the government has secured around £130bn in additional tax revenue as a result of tackling avoidance, evasion and non-compliance. The UK's tax gap, the difference between the amount of tax due and the amount collected, remains one of the lowest in the world. The UK has played and continues to play a leading role in Europe, the G20 and through

the 2013 G8 Presidency in bringing about a step change in international tax transparency and ensuring that profits are taxed where the economic activity takes place. Following the publication of the OECD Base Erosion and Profit Shifting outputs in October 201531 and the endorsement by G20 leaders in November 2015, the business tax road map set out a comprehensive package to take further action, to modernise the tax rules in the UK and to ensure these rules are applied effectively to multinationals."

In his actual statement the Chancellor of the Exchequer said: "These measures – and others set out in the Autumn Statement document – raise around £2bn over the forecast period."

The policy announcements on avoidance and evasion that are going to have the greatest impact on the public finances are the changes to the VAT flat rate scheme (£695m), the further measures to target disguised remuneration avoidance schemes (£630m) and the HMRC counter-avoidance measures (in excess of £500m).

VAT flat rate scheme: anti-abuse
This is covered in the VAT section.

Disguised remuneration
As discussed in the 'Personal and employment taxes' section, the government will extend the scope of the Budget 2016 changes, which targeted employers and employees using avoidance schemes, to tackle the use of disguised remuneration avoidance schemes by the self-employed.

The government will also reduce the attractiveness of disguised remuneration avoidance schemes for employers by denying tax relief for an employer's contributions to such schemes unless tax and national insurance are paid within a specified period.

Tax enabler legislation
The government published a consultation document in the summer *Strengthening tax avoidance sanctions and deterrents* to which Tax Faculty responded in October ICAEW REP 153/16 . The Tax Faculty argued that the proposals in the consultation document were too widely targeted and "could catch ordinary commercial transactions and damage the UK as a place to transact business".

The Tax Faculty made five practical recommendations:

1. The definition of 'enablers' should be amended.
2. TAARs should be removed from the definition of 'relevant defeat' but if they are to be retained only specific TAARs should be included.
3. The proposed penalties should be recalibrated.
4. There should be improved safeguards including a defence of 'reasonable excuse'.
5. The impact of the new provisions should be on prospective, future, advice and not affect advice that has already been given.

At the moment we do not know what HMRC is going to propose but on 5 December, or shortly afterwards, HMRC will publish draft legislation together with a paper summarising the responses to the consultation. Tax Faculty is likely to be meeting HMRC before Christmas to discuss these latest proposals.

HMRC counter-avoidance
The three areas of change are anticipated to bring in about £500m in the period to 2021/22.

- HMRC and the taxpayer will be given powers to bring enquiries under self assessment and CT self assessment to a close in respect of a part of an enquiry when that individual element has been brought to a conclusion even though some elements of the enquiry remain unresolved.

- Under its Litigation and Settlement work, HMRC will increase the number of cases challenged under the General Anti-Abuse Rule (GAAR), accelerate litigation and follower notices and expand litigation settlement activity amongst those who have used avoidance schemes
- Finally, HMRC will, starting in 2017/18, develop its ability to identify emerging insolvency risk using external analytical expertise. This will be used in HMRC's debt collection activity and is intended to provide support to struggling businesses and minimise HMRC's losses caused by business insolvency.

Offshore tax evasion
The government will introduce a new legal requirement to correct a past failure to pay UK tax on offshore interests within a defined period of time, with new sanctions for those who fail to do so.

The government will consult on a new legal requirement for intermediaries arranging complex structures for clients holding money offshore to notify HMRC of the structures and the related client lists.

Hidden economy
The government will legislate to extend HMRC's data-gathering powers to money service businesses in order to identify those operating in the hidden economy.

The government will consult on whether to make access to licences or services for businesses conditional on them being registered for tax. It will also develop proposals to strengthen sanctions for those who repeatedly and deliberately participate in the hidden economy. Further details will be announced in Budget 2017

Administration and HMRC

Making Tax Digital
Those waiting to learn more about Making Tax Digital will need to wait until January 2017 for further announcements. We understand that government and HMRC are taking the time to consider and reflect properly on the huge response they have had to the recent consultations, which will include our own ICAEWREP 171/16

HMRC performance reporting
HMRC has announced that from 2017 it will report its external performance data monthly. The level of detail will be greater and will include phone, post, digital and complaints data. This more frequent publication is welcome and, we believe, a sensible move on HMRC's part as the reporting will become more routine, rather than a potentially more significant quarterly or annual event. A consultation on exactly what data will be published would be welcome.

Tax enquiries: closure rules
HMRC and the taxpayer will be given powers to bring enquiries under tax self assessment and CT self assessment to a close in respect of a part of an enquiry when that individual element has been brought to a conclusion even though some elements of the enquiry remain unresolved.

Office of Tax Simplification: work programme
Both the Chancellor and the Financial Secretary to the Treasury have separately written to the OTS regarding its work programme. These letters were published on 23 November: see Correspondence between the Chancellor, Financial Secretary to the Treasury and the Office of Tax Simplification regarding recent OTS publications

The OTS has performed numerous reviews this year, including small company tax issues and the alignment of income tax and NIC alignment.

The Financial Secretary to the Treasury's letter to the OTS reviews the current projects and announces new projects for the department to consider. She expresses thanks for work to date on the proposed sole enterprise with protected assets (SEPA) entity and looks forward to the OTS's thoughts on the revision of the corporation tax computation in March 2017.

In addition the government has now asked the OTS to perform a review of stamp duty on share transactions and to consider simplification measures from both a technical and administrative perspective. The OTS will consider the possibility of removing the need to physically stamp paper transactions. Further details are yet to be released.

In addition to this, the OTS will undertake a review of various aspects of the VAT system, and terms of reference are expected to be published shortly. We welcome a review of VAT as this is the tax most likely to be affected by Brexit, offering opportunities for simplification where possible.

Tax simplification: alignment of national insurance and income tax
The OTS was asked in 2015 to consider all aspects regarding an alignment of income tax and national insurance together with modernising NIC for 21st century work patterns. The OTS reported in March 2016 and the then Financial Secretary to the Treasury asked for a further report looking more deeply into two particular aspects of the initial report: the calculation of employee's NIC on an annual basis and the reform of employer's NIC. The OTS's second report was published on 14 November 2016.

The Chancellor has thanked the OTS for the detailed work it has undertaken. The government has concluded that rule and definition alignments of earnings and benefits-in-kind will not be considered for major revision, but it will be mindful of the complexities that can be created in writing future legislation. The Chancellor acknowledges that changing employee NIC to an annual, cumulative and aggregated basis contains potential gains, but this is considered too much of an upheaval at the moment. However, the options for reforming employer's NIC will be reviewed further by the Treasury.

Devolution of taxes

Northern Ireland
It is expected that from April 2018 the Northern Ireland government will lower the corporation tax rate there to 12.5%, the same as the Republic of Ireland, provided that the Northern Ireland Executive demonstrates its finances are on a sustainable footing.

The Northern Ireland corporation tax regime will be amended in the FB 2017 to give all SMEs trading in Northern Ireland the potential to benefit from the proposed 12.5%, corporation tax rate. Currently, SMEs will only qualify for the 12.5% rate if 75% or more of employee time and costs are incurred in Northern Ireland. This change would appear to widen the scope considerably and put all SMEs on a level playing field – it is not clear whether the 75% test will still be retained as it would no longer appear to be necessary. We presume that this change will be permitted under EU state aid rules – at least while the UK still remains a member of the EU.

Inheritance tax and political parties
As noted under 'Personal and employment taxes' above, the IHT exemption for gifts made to qualifying political parties will be extended to parties with representatives in the devolved legislatures.

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