ICAEW TAX FACULTY

TAXguide 06/17
Spring Budget 2017

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The Chancellor of the Exchequer delivered his first Spring Budget on 8 March 2017.

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

All the government announcements and publications can be found on gov.uk on the Spring Budget 2017 page**. There is also a page with links to all the** HMRC tax-related documents and announcements**.**

The main Budget documents are the Red Book**, which summarises the Budget announcements and policy decisions, and the** Overview of Tax Legislation and Rates **(OOTLAR), which sets out details of each policy announcement.**

ICAEW has a UK Spring Budget 2017 **web page which brings together all our commentary.**

The Finance Bill 2017 (FB 2017) will be published on Monday 20 March 2017, together with some new consultations. The Tax Faculty will publish a summary of the Bill clauses and of the new consultations and other announcements.

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Overview

All in all, a creditable, if controversial performance from the chancellor, Philip Hammond

It was Harold McMillan who said that what politicians feared most was 'events, dear boy, events'. Never has that memorable quote seemed so appropriate as to describe the events we have seen over the past year. If the quote is true, very few politicians will be getting much sleep at the moment. As events continue to move apace, the chancellor has a difficult task in delivering stability in the short term, while providing certainty and reinforcing the message that the UK is very much open for business. However, in a welcome contrast to the dire financial forecast in the 2016 Autumn Statement, the UK's financial situation was improved – so the chancellor had an opportunity to make this Budget more like 'business as usual'.

If the chancellor is haunted by fear he certainly did not show it. He made a number of witticisms (some rather barbed) and even managed a joke at his own expense, namely his love of spreadsheets. The performance was clearly aimed at supporting the overall message the government is keen to foster that, in spite of events, there is a steady hand on the tiller.

Personal tax

The chancellor confirmed the rise in the personal allowance from April 2017 to £11,500 and the higher rate income tax threshold to £45,000 (unless you are resident in Scotland when it will remain at £43,000).

The government has been concerned for some time now about the taxation of different forms of remuneration and disguised remuneration schemes. In previous Budgets, George Osborne announced a variety of measures to try and plaster over some of the worst of the cracks in the system. The current chancellor is clearly determined to adopt a more strategic approach to this problem and his line of thinking is becoming clearer – he is clearly of the opinion that the self-employed are paying too little tax and NIC as compared to those in employment and it needs to be rebalanced. His 1% rises in the Class 4 national insurance contribution (NIC) rates for two years starting in April 2018 will raise the Class 4 NIC rate from 9% to 11% and bring it closer to parity with the 12% employee's NIC.

It also looks like this is just the start of the review rather than the end. The new dividend allowance, which only came into effect in April 2016, will be reduced from £5,000 to £2,000 with effect from April 2018. This change will reduce further the benefits available from tax-motivated incorporation. How these changes will play out with businesses remains to be seen. The furious reaction of his fellow MPs to these changes suggests that there is trouble ahead.

Business taxes

Subject to the comments above the Budget was surprisingly light on business tax changes, something that will be welcomed given the extensive changes made in recent years. With a clear eye on Brexit and the need to send out a message that the UK is open for business, the chancellor confirmed that the corporation tax rate will be reduced to 17% from 2020.

The main area of business concern in recent months has been the upcoming changes to business rate bills as a result of the property revaluation, a system that can result in major changes in rates bills and with some winners and others losers. To address concerns, the government is proposing a series of measures to ease the transition for those who face higher rate bills, including indexing rating valuations to reduce the likelihood of large changes in valuations every five years.

The government also remains concerned about productivity and investment and further changes have been announced to the research and development tax credits to encourage smaller companies to take up their allowance.

Making tax digital

The government's proposals for Making Tax Digital (MTD) have been highly controversial since they were first floated in the 2015 Autumn Statement. The government has received a number of representations about the potential burdens and costs that MTD will place on businesses, in particular smaller ones. The chancellor has clearly listened to the concerns, specifically referencing those made by the chairman of the Treasury Committee, and announced that the introduction of MTD for businesses that have a turnover below the VAT threshold (currently £83,000, rising to £85,000 in April 2017) will be deferred by a year, from 6 April 2018 to 6 April 2019. This is a welcome announcement and will give smaller businesses much more time to plan and prepare for the changes, as well as giving more time for the software market to develop further.

The public finances

The task of bringing the UK budget back into balance, let alone surplus, remains a huge challenge. The next few years are likely to be rocky but the chancellor was buoyed by the news that the OECD has increased its UK growth forecast for 2016 from 1.2% to 1.6%. In complete contrast to the position announced in the Autumn Statement, the Office for Budget Responsibility (OBR) has now forecast that the borrowing requirement for 2016/17 will be £11bn less than it anticipated at the time of the 2016 Autumn Statement. Back in November 2016, the OBR had forecast a £13bn increase in borrowing needed as compared to March 2016, so for the moment we are back largely to where we were before the EU referendum on 23 June 2016.

Given the uncertain outlook, the chancellor has decided to play it safe. Overall, the budget was largely fiscally neutral over the five-year review period, with spending increases in the first two years (mainly on schools and social care) matched by tax and NIC increases over the following three years (the reduction in the dividend allowance and the increase in class 4 NICs). Given the difficulty in forecasting in periods of uncertainty, this approach looks sensible.

In conclusion

In his second outing, the chancellor again gave a creditable performance. He was certainly in chirpier mood, no doubt buoyed by a set of growth and fiscal forecasts that were much more favourable than those he had to present in the 2016 Autumn Statement. His candour is refreshing, but he must have been relieved that the economic data was much more encouraging than last time.

There were mercifully few tax announcements this time around, which will help businesses to plan with more certainty. However, the chancellor has clearly set his forensic mind on tax strategy so, at the next Budget in the Autumn, we can expect more developments on addressing the tax (not forgetting NIC of course!) differences between the employed and the self-employed. It is already clear in the reaction to the Budget that any changes in this area are not likely to go down well with UK businesses. It was an assured performance but, judging from the reaction to his main announcement on the taxation position of the self-employed, he may be about to find out just how tough it is to be chancellor.

Rates and allowances

The government has published a table of rates and allowances (Annex A to the OOTLAR).

The Tax Faculty will be publishing an updated version of our tax rates and allowances TAXguide.

Personal allowances

The intention to increase the personal allowance to £12,500 by the end of the current parliament was confirmed.

The personal allowance in 2016/17 is £11,000. As previously announced, this will increase to £11,500 for 2017/18.

Higher rate threshold

The intention to increase the higher rate tax threshold to £50,000 by the end of the current parliament was confirmed.

The income tax 20% basic rate band for 2016/17 is £32,000 (with a 0% starting rate band of £5,000 for savings income in certain circumstances).

As previously announced the 20% basic rate limit will increase to £33,500 for 2017/18. As a result, the higher rate threshold (ie, the personal allowance plus the basic rate band) is £43,000 in 2016/17 and will be £45,000 in 2017/18.

In summary

Year	Standard personal allowance	Basic rate band of 20% on income	Higher rate 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

* A lower higher rate threshold applies to earned income of Scottish taxpayers

Dividend allowance

The tax-free dividend allowance of £5,000 (more correctly described as a dividend nil rate band) which was introduced from April 2016 is to be reduced to £2,000 from April 2018. See the Personal and employment taxes section.

National insurance

The NIC upper earnings limit remains aligned with the higher rate threshold.

For the self-employed, class 2 NIC will be abolished from April 2018 and there will be an increase in the rate of class 4 NIC. See the Business and company tax section below.

Capital gains tax

The CGT annual exemption for 2017/18 will be £11,300 (£5,650 for most trustees).

Corporation tax

The rate of corporation tax is currently 20%. As previously announced it will be reduced to 19% from April 2017 and to 17% from April 2020.

VAT

The VAT registration threshold will increase from £83,000 from April 2017. For details, see the VAT section below.

Business and company tax

Trading and property allowances

From 6 April 2017 individuals with small amounts of income from the provision of goods, property or services or the sharing of assets will no longer be required to declare the income they earn nor pay tax on it, provided it does not exceed £1,000. If the income exceeds £1,000 the individual can elect to deduct the allowance from their receipts or, if no election is made, deduct actual expenses in the usual way.

This measure was announced at Budget 2016 and draft legislation was published on 5 December 2016. Following consultation the draft legislation is amended to deny the use of the allowances where income is received by a participator of a close company.

Self-employed NIC

Class 4 NIC, which is payable by the self-employed, will rise from 9% from April 2018 with a further 1% increase in April 2019 to 11%. This change is expected to generate around £2bn in total by the end of the forecast period in 2021/22.

This is clearly the most controversial announcement in the budget. While it will be unwelcome news for many small businesses, the increase in the rate is clearly part of a strategy to reduce the disparity between the amount of tax (including NIC) individuals pay depending on the business structure they adopt.

The increase in class 4 NIC is somewhat offset by the abolition of class 2 NIC from April 2018, saving businesses approximately £148 per annum (based on 2017/18 figures). In addition to this, from April 2016 self-employed individuals were given the same state pension entitlement as employed individuals, which is estimated to bring a benefit to individuals of £1,800 per year (paragraph 3.5, Red Book).

Taking the changes to NIC together the government anticipates that only businesses with profits above £16,250 will be affected by the change, although the Institute for Fiscal Studies suggests the figure is £15,570. This will be welcome news for new businesses who do not expect to turn a large profit in the first few years of trade and who might have been concerned about how the increase in class 4 NIC would affect them.

This measure will leave class 4 NIC 1% lower than class 1 primary NIC. The narrowing of the difference in rates reflects the fact that the NIC paid by the self-employed now brings almost the same rights to contributory social security benefits as for the employed; the exception is contributory jobseekers' allowance to which the self-employed are not entitled.

For businesses with very low profits, below the NIC threshold, the abolition of class 2 NIC brings a problem: in order to maintain their contribution record and have access to contributory benefits including the state pension, they will have to pay the much higher voluntary class 3 NIC (currently £14.10 a week) rather than class 2 (currently £2.80).

The government published a national insurance and the self-employed factsheet on 8 March 2017 which provides an overview of national insurance, the contributory aspect and illustrative examples of how the changes will affect individuals.

Business rates

The business rate revaluation takes effect in April 2017 in England which will result in large increases in business rates for many businesses. In response to this the government announced three measures to alleviate the pressure for small businesses:

- Businesses which no longer qualify for small business rate relief will see a cap imposed on the amount by which their rates bill increases. This will be the higher of £600 or the real terms transitional relief cap for small businesses.
- Local authorities will be given £300m of discretionary relief. The relief will be allocated to individual hard cases according to a formula, details of which have not been released. While the relief may be valuable, it highlights the fact that the existing system creates winners and losers, and is in need of reform.
- A one year £1,000 discount will be available for pubs with a rateable value of up to £100,000, which is expected to cost the exchequer £25m in 2017/18.

Taken together these three measures will provide relief of approximately £435m to businesses in that face significant rises in their rates bill.

The government has listened to requests for more frequent revaluations to take place, at three year intervals. Details will be published at Autumn Budget 2017, ahead of the next revaluation date which is currently 2022.

From 1 April 2017, rural rate relief is doubled to 100% to remove the inconsistency between small business rate relief and rural rate relief and small business rate relief is permanently doubled (ie, the value below which properties get 100% relief will go up from £6,000 to £12,000.

Cash basis of accounting for trading income

From 6 April 2017 the entry threshold for the cash basis will increase from £83,000 (the current VAT threshold) to £150,000. The exit threshold will increase to £300,000 on the same date. The increase was announced on 31 January 2017 as part of HMRC's response to the MTD consultations and should be of help to unincorporated businesses with relatively straight forward affairs.

Cash basis for unincorporated landlords

The cash basis will be the default method for calculating rental profits and losses for individuals from 6 April 2017, unless the landlord opts out, or the gross annual rents exceed £150,000, in which case the accruals basis must be used.

If the cash basis is going to be used, it must be used for the rental business as a whole, it is not an election on a property by property basis. If a husband and wife each have a rental business, and they own just one property jointly, then they will have to use the same basis for their entire property business as they must use the same basis for their jointly owned property. However, individuals with both a UK and overseas property can decide separately whether to apply the cash or accruals basis.

Capital expenditure within the cash basis

The government will make some minor amendments to the draft legislation published on 31 January 2017 which sets out the treatment of capital items purchased under the cash basis. Changes will be made to specifically exclude some items of capital expenditure from being deductible under the cash basis.

R&D tax relief

The government has undertaken a review of the tax environment for research and development (R&D) in the UK, and findings have confirmed that the R&D tax relief regime is an effective measure supporting innovation in the UK. To further support business and maintain the regime's competitiveness, administrative changes will be made.

These changes will affect both ends of the company spectrum. For large businesses, there will be a focus on improving the certainty around how the rules of R&D tax relief apply to claims and for SMEs there will be an increase in the awareness of the availability of R&D tax credits.

Contributions to grassroots sports

Draft legislation has been amended to extend the treatment of a sport governing body to its 100% subsidiaries. This is a result of feedback from stakeholders during the consultation period. Corporation tax relief for companies that make contributions to grassroots sports will be available from 1 April 2017.

Museums and galleries relief

There is good news for exhibitions that have a live performance as part of the exhibition which, following consultation, will now qualify for the museums and galleries tax relief. The relief takes 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

Enterprise management incentives

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

Patient Capital Review

The Patient Capital Review was announced in November 2016. The review, led by HM Treasury, aims to identify barriers to access to long-term finance for growing firms. As part of review the government will look at various reliefs available to investors and entrepreneurs to ensure they are fit for purpose, effective and well targeted.

Large business risk review

There is to be a 12-week consultation over the summer to review the current process for risk profiling large businesses in order to promote stronger compliance.

Separately, HMRC has recently started to engage with large businesses to understand how well the Customer Relationship Manager (CRM) model is currently working, and what changes could be made for it to work better for taxpayers and HMRC alike.

Corporate interest restrictions: amendments

The interest restrictions will give effect to an OECD Base Erosion and Profit Shifting (BEPS) minimum standard and will come into effect from 1 April 2017. Draft legislation was published on 5 December and 26 January and there are to be a few further amendments to these provisions which will be included in Finance Bill 2017.

The further amendments include:

- provisions to amend the worldwide debt cap to prevent an unintended restriction in the carry forward provisions for UK groups;
- the rules which treat interest on debt guaranteed by related parties as related party interest and which can be subject to restriction will not apply to certain performance guarantees and all guarantees granted before 31 March 2017, nor will it apply to intragroup guarantees in the context of the group ratio rule;
- amendments to the public infrastructure exemption including a relaxation of requirements for comparable non-qualifying companies to have similar levels of financing as those covered by the exemption;
- the definition of interest will include income and expenses from dealing in financial instruments as part of a banking trade; and
- rules will be introduced for insurers regarding the calculation of interest on an amortised cost basis to provide a practical alternative to fair value accounting

The first two amendments will make the rules operate more fairly for many groups but will add to the complexity of the new regime which will take up well over 100 pages of Finance Bill 2017.

Loss relief reform

There is to be more flexibility in the use of losses carried forward which arise on or after 1 April 2017: these losses can be set against profits from different types of income and profits of other group companies.

The use of losses in existence at April 2017 will not be able to reduce profits arising on or after 1 April 2017 by more than 50% of the profit. This restriction will apply to a company or group's profit above £5m. Draft legislation to this effect was published on 5 December 2016 and 26 January 2017.

Substantial shareholding exemption reform

The government has confirmed that it will simplify the SSE rules, remove the investing company requirement and provide a more comprehensive exemption for companies owned by qualifying institutional investors.

Patent box: cost-sharing arrangements

The new patent box regime, introduced by Finance Act (FA) 2016, will be amended to ensure that when R&D is undertaken collaboratively by two or more companies under a cost-sharing arrangement, companies are neither advantaged or disadvantaged by organising their R&D in this way.

Withholding tax on interest and double tax treaty passport scheme

The double taxation treaty passport scheme is an administrative scheme which simplifies the process for accessing reduced withholding tax rates for interest payments by UK borrowers to overseas lenders under the relevant double taxation treaty. The scheme involves the overseas lender applying for a treaty passport. Once granted, this can be used to make further loans to UK borrowers without contacting the overseas tax authority and HMRC in respect of every loan.

This is currently restricted to corporate lenders and UK borrowers but from 6 April 2017 the scheme will apply to all types of overseas lenders and UK borrowers. Revised terms and conditions for the scheme will be published on 6 April 2017.

The government has also announced an exemption from withholding tax for interest on debt traded on a multilateral trading facility, removing a barrier to the development of UK debt markets. A consultation document on the implementation of the exemption will be published on 20 March 2017.

Offshore property developers: land in the UK

The government has announced changes to the 'Profits from Trading in and Developing Land' legislation, introduced in FA 2016. The change announced in Budget 2017 removes the exception which grandfathered contracts entered into before 5 July 2016, such that all profits recognised in a company's accounts on or after 8 March 2017 will be subject to tax, regardless of the date that the contract was entered into.

Non-resident companies liable to corporation tax

A consultation document will be published on 20 March which will examine the case for bringing non-UK resident companies currently chargeable to income tax on their UK taxable income (and to non-resident capital gains tax on certain gains) within the scope of corporation tax.

Personal and employment taxes

Dividend allowance

The tax-free dividend allowance of £5,000 (more correctly described as a dividend nil rate band) which was introduced from April 2016 is to be reduced to £2,000 from April 2018. This change is one of the measures intended to reduce the differential between the treatment of the employed, self-employed and those trading through a limited company. It is unfortunate that this change to the increasingly complex array of rates and allowances is required, given the short period since it was introduced.

Rent-a-room relief

The rules for rent-a-room relief will be reviewed later this year to consider whether the current system supports long-term lodgings and property lets.

Deemed domicile

It was confirmed that the change to the legislation – which will make long-term UK residents not currently domiciled in the UK for tax purposed become deemed UK domiciled after 15 out of 20 years' residence in the UK – will go ahead as planned from April 2017.

The draft legislation published on 26 January is still work in progress and some changes are still required. Following meetings with HMRC, the Tax Faculty has published two TAXguides to clarify some of the provisions: TAXguide 04/17 Offshore trust changes – income tax legislation and TAXguide 05/17 Tainting protected settlements.

Alignment of deadlines for making good benefits-in-kind which are not payrolled

The deadlines for making good benefits-in-kind not accounted for in real time through PAYE (ie not payrolled) will be aligned at 6 July following the end of the tax year. The taxable value of the benefits-in-kind will be reduced or removed if making good takes place by that date.

The change will first affect making good on a tax liability arising in the tax year 2017/18 and subsequent years.

Optional remuneration arrangements (salary sacrifice)

The income tax and employer NIC treatment of benefits-in-kind provided through salary sacrifice or other optional remuneration arrangements will be changed from 6 April 2017.

Under the new rules, tax and employer NIC will be charged on the higher of the value of the benefits-in-kind and the cash foregone, instead of, as at present, tax and employer NIC being charged on the value of the benefits-in-kind, this will apply even where the benefits-in-kind is currently exempt from tax and NIC.

This provision is being introduced because the government considers that it is unfair that less tax and NIC is payable when employees exchange cash earnings for benefits-in-kind compared to when employees are paid in cash.

A transitional rule will protect employees who are in contractual arrangements before 6 April 2017 until the earlier of a variation or renewal of the contract or 6 April 2018, except for cars with emissions above 75g CO2/km, accommodation and school fees for which the final date is 6 April 2021. Employer-provided pensions and pension advice, childcare vouchers, employer-provided childcare and workplace nurseries, cycle to work schemes and ultra-low emissions cars, with emissions not exceeding 75g CO2/km will be excluded from this measure.

Reform of termination payments

The tax treatment of termination payments will be changed. This will include making all contractual and non-contractual payments in lieu of notice (PILON) taxable as earnings and requiring employers to tax the equivalent of an employee's basic pay if notice is not worked.

The tax and employer NIC treatment of termination payments will also be aligned so that, for example, employer NIC will be payable on the elements of the termination payment exceeding £30,000 on which income tax is due.

The first £30,000 of a termination payment will remain exempt from income tax and NIC.

These changes, including to foreign service relief, will take effect from 6 April 2018.

Disguised remuneration avoidance schemes

The future use of disguised remuneration avoidance schemes will be prevented by strengthening the current rules. The existing use of schemes will be tackled by the introduction of a new charge on disguised remuneration loans that were made after 5 April 1999 and remain outstanding on 5 April 2019.

The proposed new rules will be revised to ensure the loan charge and the exclusions operate as intended. The close companies' gateway will now be introduced in Finance Bill 2017 to commence from 6 April 2018. This will allow for further consultation to ensure it is appropriately targeted at disguised remuneration schemes. Proposals on how the tax and NIC arising from the changes will be collected will be set out in a technical consultation later in 2017.

Similar rules will apply to the self-employed with effect from Finance Bill 2017 Royal Assent.

Employers will be prevented from claiming a deduction when computing their taxable profits for contributions to a disguised remuneration scheme unless income tax and NIC are paid within a specified period. This will have effect for contributions made on or after 1 April 2017 for corporation tax purposes or 6 April 2017 for income tax purposes.

Off-payroll working in the public sector

Modifications are being made to the proposed reforms to the off-payroll rules (often known as IR35, or the intermediaries legislation) for engagements in the public sector.

The proposals move responsibility for deciding if the off-payroll rules apply from an individual worker's personal service company (PSC) to the public sector body, agency or third party directly paying the PSC. This measure also makes that organisation responsible for deducting under PAYE and paying to HMRC associated employment taxes and NIC. These changes do not affect workers and PSCs who provide their services to private sector organisations. The 5% expenses allowance currently available to those who apply the off-payroll rules to reflect the costs of administering the rules will be removed for those who work in the public sector. These changes will also introduce a requirement for public sector bodies to provide information to agencies and workers about whether engagements are within the off-payroll rules.

As a result of feedback received during the recent technical consultation on the draft legislation, to which we responded in ICAEW REP 15/17, it will be optional for the public sector body, agency or other third party paying the PSC to take account of the worker's expenses when calculating the tax due.

The application of the rules to statutory auditors (who as office holders would technically be caught by the new rules) and to parliament will also be clarified.

The change will come into effect from 6 April 2017 and apply across the UK.

Benefits-in-kind, expenses and accommodation

The government's stated aim is to pursue a tax system with competitive rates and a sustainable base to ensure that the UK remains one of the best places in the world to set up and grow a

business and builds on its reputation as a competitive and open economy. At the same time, the government wants to ensure that public services can be funded sustainably.

To this end, the government will be consulting on the following:

- Taxation of benefits-in-kind – exemptions and valuation methodology for the income tax and employer NIC treatment of benefits in kind.
- Accommodation benefits including board and lodging – including proposals for when accommodation should be tax exempt and support during any transition.
- Employee expenses – tax relief for employees' expenses, including those not reimbursed by employers.

Image rights

HMRC will publish guidelines for employers who make payments of image rights to their employees to improve the clarity of the existing rules.

NIC employment allowance: avoidance

HMRC is monitoring employment allowance compliance following reports of some businesses using avoidance schemes to avoid paying the correct amount of NIC. The government will consider further action if this avoidance continues.

NIC employment allowance: illegal workers restriction

We welcome the fact that, following a consultation on withholding employment allowance for one year from employers who receive a civil penalty from the Home Office (to which we responded in ICAEW REP 1/17), the government has decided that this should not be taken forward at present due to concerns raised about complexity.

NIC time limits to be aligned with tax

NIC is to be removed from the scope of the Limitation Act 1980 and the time limits for the recovery of NIC debts will be aligned with those for tax.

To allow time for a full consultation on the draft legislation, the government will be deferring this and will introduce the measure in a future NIC Bill.

Childcare

The new Tax-Free Childcare scheme for working families with children under 12, providing up to £2,000 a year for each child to help with childcare costs, will start to be rolled out shortly. This scheme will in due course replace childcare vouchers and employer provided childcare. The interaction with these schemes and with the childcare elements of tax credits and universal credits is complex and careful analysis of which is the most favourable is advised.

From September 2017, the free childcare offer will double, from 15 to 30 hours a week for working families with three- and four-year-olds in England.

The government is also considering whether there is a case for greater parity in the reliefs available to parents between the self-employed and the employed.

Pensions and savings

Pensions

In contrast to recent budgets there was very little mention of pensions in the budget speech which brought a sigh of relief from pension specialists. There was confirmation of a couple of measures announced previously:

Money purchase annual allowance

The tax allowable contribution into a pension after it has been accessed flexibly will be reduced from £10,000pa to £4,000pa from April 2017.

Foreign pensions

The taxation of foreign pensions received by UK residents will be aligned with the tax treatment of pensions earned in the UK. The 10% reduction in the taxable pension income received each year will no longer apply and lump sums built up after 6 April 2017 will be taxed as for UK pension lump sums.

Qualifying recognised overseas pension schemes (QROPS)

Members of pension schemes have taken advantage of QROPS for many years, one of the reasons was to enable them to access their pension fund in ways not available at that time in the UK regime or to avoid having to purchase an annuity. Following the introduction of the flexible pension regime from April 2015 many pension members have been able to achieve their objectives without having to transfer their funds into a QROPS but they are still used.

A transfer into a QROPS was not a taxable event up to and including 8 March 2017 and some individuals have been able to transfer their pension into a QROPS and then access the entire fund without incurring a tax charge. From 9 March 2017 there will be a 25% tax charge on transferring a fund into a QROPS with some exceptions where there is a genuine need to transfer the fund:

- both the individual and the pension scheme are in countries within the European Economic Area (EEA); or
- if outside the EEA, both the individual and the pension scheme are in the same country; or
- the QROPS is an occupational pension scheme provided by the individual's employer.

If the individual's circumstances change within five tax years of the transfer, the tax treatment of the transfer will be reconsidered.

It is also planned to apply UK tax rules to payments from funds that have had the benefit of UK tax relief and have been transferred, on or after 6 April 2017, to a QROPS. UK tax rules will apply to any payments made in the first five full tax years following the transfer, regardless of whether the individual is or has been UK resident in that period.

Master trust tax registration

The supervision and authorisation scheme has been toughened for master trust pension schemes giving greater protection to members.

A trust based pension scheme is generally established by an employer for its employees, representatives of the employer will usually form the majority of the board of trustees. A master trust is typically established by a provider, generally an insurance company, it is a multi-employer occupational scheme where each employer has its own division within the master arrangement.

Many of these master trusts have been set up in response to auto enrolment, where companies are required to provide a pension scheme for their employees.

Life insurance policies: part surrenders and part assignments

Following on from the *Lobler* case, when Mr Lobler was assessed to pay a significant tax liability following the partial surrender of his life policies when in reality he had suffered an economic loss, changes will be included in Finance Bill 2017 to allow individuals in a similar predicament to apply to have the chargeable gain recalculated. We reviewed the draft legislation in ICAEW REP 12/17.

Lifetime ISA

The Lifetime ISA (LISA) announced in spring budget 2016 was confirmed to launch from 6 April 2017. The LISA is available to those aged under 40 who can save up to £4,000pa, a 25% bonus will be added by the government giving a maximum bonus each year of £1,000. The bonus will be paid at the end of the year for 2017/18 and monthly thereafter. The bonus is paid for each year the saver is aged between 18 and 50. The savings can only be used to help purchase a first home or when the saver reaches age 60, withdrawals that do not match these criteria mean the bonus is lost.

Several banks and investment house have said they will not be offering the LISA at 6 April 2017, some may come on stream later in the tax year – but the idea has not attracted many providers.

As an alternative to pension saving it offers the same ‘free’ cash as a pension contribution for a basic rate taxpayer but there is no employer contribution so an employee is probably better of sticking with auto enrolment.

As an alternative to the help to buy ISA it does allow an extra £1,000pa to be saved giving access to an additional £250 of bonus each year.

NS&I investment bond

The interest rate on the new investment bond announced in the Autumn Statement 2016 was confirmed at 2.2%. The bond is available to all savers aged over 16, with a minimum deposit of £100 and maximum of £3,000. The bond has a three-year term.

VAT and duties

VAT turnover thresholds

With effect from 1 April 2017:

- The annual taxable turnover threshold, which determines whether a person must be registered for VAT, will be raised from £83,000 to £85,000.
- The taxable turnover threshold which determines whether a person may apply for deregistration will be increased from £81,000 to £83,000.

- The registration and deregistration limits for relevant acquisitions from other EU member states will also be increased from £83,000 to £85,000.

The increase in the annual taxable turnover threshold means that a person will have to apply for registration if:

- at the end of any month, the value of the taxable supplies made in the past 12 months or less has exceeded £85,000; or
- at any time there are reasonable grounds for believing that the value of the taxable supplies to be made in the next 30 days alone will exceed £85,000.

If at the end of any month, a person's taxable turnover in the past 12 months or less exceeds £85,000 but HMRC is satisfied that it will not exceed £83,000 in the next 12 months, that person will not have to be registered.

VAT: use and enjoyment provisions for B2C mobile phone services

The VAT use and enjoyment provision for mobile phone services provided by businesses to consumers (B2C) is to be withdrawn. This will bring those services used outside the EU within the scope of UK VAT. The place of supply for UK VAT purposes is currently the country in which the phone is actually used when outside the EU. This change will also ensure that mobile phone companies will be unable to use the inconsistency to avoid UK VAT and make UK VAT rules consistent with the internationally agreed approach.

Secondary legislation to effect the change will be published before the summer recess.

VAT evasion

There are two measures designed to eliminate VAT fraud relating to:

- the split payment method; and
- provision of labour in the construction sector.

For details see the Avoidance, evasion and compliance section below.

Fulfilment House Due Diligence Scheme

The government will legislate for the Fulfilment House Due Diligence Scheme (FHDDS) in Finance Bill 2017. The scheme will require all UK fulfilment houses to register with HMRC from 1 April 2018 and comply with record-keeping and due diligence standards. Following consultation, the draft legislation has been revised to provide for a disclosure gateway that will permit HMRC to disclose taxpayers' information to fulfilment houses for the purpose of meeting their obligations under the scheme.

Minimum excise tax

The minimum excise tax (MET) will be set at £268.63 per 1000 cigarettes with effect from 00:01am on 20 May 2017. A MET sets a minimum level of total duty for all packets of cigarettes, which will tackle the very cheapest cigarettes. This change applies to cigarettes sold in the UK.

Gaming duty

The gross gaming yield (GGY) bandings for gaming duty will be raised in line with inflation (based on Retail Prices Index (RPI)). The revised GGY bandings used to calculate gaming duty must be used for accounting periods starting on or after 1 April 2017.

Remote gaming duty: freeplays

The definition of gaming payments and prizes will be amended to change the tax treatment of freeplays for remote gaming duty. The proposed legislation will ensure that, where appropriate, freeplays used to participate in remote gaming will have a value as stakes when calculating the operator's dutiable profit, and that freeplays given as prizes will not be deductible.

Air passenger duty rates

Air passenger duty rates will increase in line with RPI from 1 April 2017 and again from 1 April 2018. Rates for 2019 to 2020 will be set at Autumn Budget 2017.

Alcohol duty rates

The duty rates on beer, cider, wine and made-wine and spirits will be increased in line with inflation (based on RPI) with effect from 13 March 2017.

A consultation will be published on 20 March 2017 on introducing a new band for still cider just below 7.5% abv. to target white ciders and the impacts of introducing a new duty band for still wine and made-wine between 5.5% and 8.5% abv

Tobacco duty rates

The duty rates for all tobacco products were increased by 2% above RPI inflation from 6pm on 8 March 2017, in accordance with the Budget 2014 announcement that all tobacco duty rates will increase by this amount each year until the end of the current parliament.

Heated tobacco consultation

A consultation document will be published on 20 March 2017 on the duty treatment of heated tobacco products to inform future decisions on the duty regime for these products. If legislation is required following the consultation, it will be introduced in a future Finance Bill.

Vehicle excise duty uprating

Vehicle excise duty (VED) rates for cars, motorcycles and vans registered before 1 April 2017 will increase by the RPI with effect from 1 April 2017.

HGV vehicle excise duty and HGV levy

The VED for HGVs will be frozen in 2017 to 2018, including all rates linked to the basic goods rate. The government will also launch a call for evidence in spring 2017 on updating the existing HGV road user levy so that it rewards hauliers that plan their routes effectively, to incentivise the efficient use of roads, and improve air quality.

Red diesel call for evidence

A call for evidence will be published on 20 March 2017 on the use of rebated gas oil (often called red diesel) in order to improve understanding of eligible industries and current use in particular in urban areas.

Other taxes

Stamp duty land tax

Many people were hoping for a reduction in the rates of stamp duty land tax (SDLT) charges claiming that punitive rates were causing the property market to stagnate. The only mention of SDLT in the budget was a delay in the reduction in the time period for file and pay until 2018/19 as a result of feedback on the consultation Stamp duty land tax: changes to the filing and payment process.

Currently 30 days is allowed to file and pay SDLT for a property transaction and the plan was to reduce this window to 14 days. The exact date of implementation for the reduction in the time frame was never confirmed but it was planned to be between 1 January 2018 and 1 March 2018 so the time extension could be quite short!

The driver to reduce the time limit was to encourage more on line filing and bank transfers and reduce the number of paper filings and cheque payments. Paper filings represent just 3% of filings and cheques represent about 30% of payments.

Insurance premium tax

The standard rate increase of IPT to 12% from 1 June 2017 will be protected by the introduction of anti-forestalling provisions.

Soft drinks industry levy

The two thresholds for the soft drinks industry levy, at 5g and 8g of sugar per 100ml, have been designed so that, by taking reasonable steps to reduce sugar content, UK producers and importers of soft drinks can pay less or escape the charge altogether. The rates will be 18 pence per litre (ppl) for the main rate and 24ppl for the higher rate. The levy will take effect from April 2018.

Landfill tax: definition of taxable disposal

The definition of a taxable disposal for landfill tax is to be amended. The changes clarify the tax treatment of material disposed of at landfill sites and give greater certainty to landfill site operators. Following technical consultation, the draft legislation has been restructured to simplify and improve ease of comprehension. The measure will come into effect after Royal Assent of Finance Bill 2017 and the changes will apply to disposals to landfill in England, Wales and Northern Ireland.

Landfill tax: extending the scope to illegal disposals

A consultation document will be published on 20 March 2017 on extending the scope of landfill tax to material disposed at illegal waste sites. Landfill tax is currently only chargeable on waste disposed of at permitted sites in England, Wales, and Northern Ireland. As such, the aim of this measure is to tackle the evasion of landfill tax resulting from the disposal of material at illegal waste sites, and deter environmentally damaging behaviour.

Value of the Landfill Communities Fund

The value of the Landfill Communities Fund (LCF) for 2017/18 will remain unchanged at £39.3m and the cap on contributions by landfill operators will be increased from 4.2% to 5.3%. This cap will be maintained subject to consideration of landfill tax receipts, continued progress in reducing the level of unspent funds held by environmental bodies and the proportion of LCF funds spent on administration costs. A statutory instrument will be laid on 10 March 2017. The changes will take effect from 1 April 2017.

Aggregates levy

The aggregates levy rate for 2017 to 2018 will be frozen at £2 per tonne. This continues the freeze that has been in place since 2009.

Avoidance, evasion and compliance

Since the general election in May 2015 the government has announced 35 measures to tackle avoidance, evasion and aggressive tax planning. This is in addition to the 40 measures in the previous, 2010 to 2015, parliament which together, on the government's estimate, have secured £140bn of additional tax since 2010.

By comparison with the impact of these past announcements the measures in the current Budget, which are costed in the Red Book, will bring in £825m over the next five years with three quarters of that total coming in equal measure from changes to the overseas pension scheme and on VAT on phone calls outside the EU.

The enablers legislation

This legislation will apply a penalty to individuals and entities which enable the use of tax avoidance arrangements which HMRC later defeats. The Tax Faculty submitted its response to the draft legislation, published last December, in ICAEW REP 20/17.

The legislation will be revised to clarify when and how the General Anti Abuse Rule (GAAR) Advisory Panel will consider enabler cases. The enablers regime will also apply to arrangements that seek to avoid NIC, and there will be consequential changes to the Promoters of Tax Avoidance Scheme (POTAS) legislation. There will also be further details as to when enablers will be named. Finally, the 'reasonable care' defence to a penalty levied under the enablers rules will not be available if the person concerned relied on 'non-independent advice'.

The penalty on enablers will apply prospectively to enabling activity after Royal Assent.

The changes relating to the reasonable care defence also come into effect at Royal Assent but will apply to inaccuracies in documents relating to tax periods which begin on or after 6 April 2017.

There will also be other minor amendments made to the draft legislation, published in December 2016, in order to improve the targeting and clarity of the provisions.

Promoters of tax avoidance schemes

Promoters will no longer be able to circumvent the POTAS regime by reorganising their business by either sharing control of a promoting business or putting a person or persons between themselves and the promoting business.

Disclosure of indirect tax avoidance schemes

The regime for the disclosure of indirect tax avoidance schemes is to be strengthened by making scheme promoters primarily responsible for disclosing schemes to HMRC and the scope of the legislation will be extended to include all indirect taxes, including the Soft Drinks Industry Levy. Details of the tests to apply to arrangements to determine if they should be disclosed to HMRC will be contained in regulations. These measures will come into effect on 1 September 2017.

Qualifying recognised overseas pension schemes

There will be a 25% charge of transfers to QROPS with exceptions when there is a genuine reason for a tax free transfer – see above under Pensions and savings.

Tax treatment of appropriations to trading stock

From 8 March 2017 it will no longer be possible to appropriate capital assets standing at a loss to trading stock to create a trading loss.

Hidden economy

As announced at Autumn Statement 2016, the government will take further action to tackle the hidden economy. It will:

- develop further proposals on conditionality (the principle of making access to certain licences or services conditional on tax registration);
- consider the design of a stronger ‘failure to notify’ hidden economy penalty which may take account of past behaviour – this will be delivered as part of the longer term HMRC Penalties Review;
- strengthen monitoring of taxpayers found to be operating in the hidden economy, to keep them compliant.

VAT: split payment method

The government will consider how to tackle overseas businesses selling goods to UK consumers via online marketplaces without paying VAT. A call for evidence will be published on 20 March 2017. The intent will be to harness technology to allow VAT to be extracted directly from transactions at the point of purchase. This type of model is often referred to as split payment.

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

A consultation will be launched on 20 March 2017 on a range of policy options to combat supply chain fraud in supplies of labour within the construction sector. Options include a VAT reverse charge mechanism so the recipient accounts for VAT. It will also consider other changes including to the qualifying criteria for gross payment status within the Construction Industry Scheme.

VAT: penalty changes in fraud cases

A penalty is to be introduced for participating in VAT fraud. Following consultation on the draft legislation some minor changes have been made to improve the clarity of the measure and also to limit the naming of a company officer to instances where the amount of tax due exceeds £25,000. The new penalty will take effect once Finance Bill 2017 receives Royal Assent.

Administration and HMRC

Making Tax Digital

The government response to the MTD consultations, published on 31 January 2017, deferred decisions on two important issues:

- the turnover threshold below which businesses and landlords will not be required to comply with the MTD requirement to maintain electronic accounting records and to submit quarterly updates to HMRC; and
- the start date for mandatory compliance with MTD for a further tranche of non-exempt businesses and landlords.

The Spring Budget announced that MTD will not become mandatory for small businesses and landlords with turnover below the VAT threshold until April 2019.

ICAEW welcomes this deferral of a year for smaller businesses which will allow more time for the software to be tested and for the necessary communication and training to take place. It will also allow for the gathering of data on the impact, including the cost to businesses and the impact of the tax gap which the government expects to be reduced by better record-keeping under MTD.

There was no mention of the turnover threshold which was previously announced at £10,000, other than draft legislation is to be introduced to allow the level of the exemption to be introduced through regulations.

MTD timetable

The latest timetable for the start of MTD, subject to exemptions, is:

- April 2018 for income tax businesses and landlords with turnover above the VAT threshold, which is £85,000 from April 2017 (excluding some larger partnerships)
- April 2019 for income tax businesses and landlords with turnover below the VAT threshold and for VAT; and
- April 2020 for corporation tax and income tax for partnerships with turnover of more than £10m.

MTD consultations and legislation

As anticipated, a consultation document with specific proposals for late submission penalties and penalty interest for late payment will be published on 20 March 2017. A consultation document on MTD for corporation tax and larger partnerships is also expected but is not listed in the schedule of future consultations.

The draft Finance Bill 2017 legislation published on 31 January 2017 will be expanded to:

- allow income-based exemptions to be introduced by regulations;
- allow income tax businesses to provide information on chargeable gains and other non-business sources outside their end of period statement;
- replicate existing compliance powers for MTD;
- make consequential amendments to Taxes Management Act 1970; and
- amend Schedule 11 of VAT Act 1994 to extend the MTD exemptions and regulations to VAT.

In respect of the second bullet point above, we await more detail but this may provide an alternative way of reporting non-business income outside of self assessment.

Future consultations

The OOTLAR provides a list of all upcoming consultations relating to Budget measures, as follows:

Title	Start date
Employer-provided accommodation	20 March 2017
Withholding tax exemption for debt traded on a multilateral trading Facility	20 March 2017
Non-resident companies chargeable to income tax and non-resident CGT	20 March 2017
Landfill tax – extending the scope to illegal disposals	20 March 2017
Alcohol duty rates and bands	20 March 2017
Heated tobacco consultation	20 March 2017
VAT: fraud in the provision of labour in construction sector	20 March 2017
Digital tax administration	20 March 2017
Employee business expenses	20 March 2017
Taxation of benefits in kind	20 March 2017
Oil and gas – tax for late life oil and gas assets	20 March 2017
Red diesel call for evidence	20 March 2017
VAT – split payment model	20 March 2017
HGV road user levy	Spring 2017
Rent-a-Room relief	Summer 2017
Plant and machinery leasing – response to lease accounting changes	Summer 2017
HMRC Large Business Risk Review	Summer 2017
Tackling disguised remuneration avoidance schemes	Later in 2017

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