8th MARCH 2017 SPRING BUDGET PROPOSALS

And changes for 2017/18 previously announced
(Subject to details in the Finance Bill)

INCOME TAX RATES AND RELIEFS FOR 2017/18

The basic rate remains at 20%.

The higher rate remains at 40%. The threshold, including the personal allowance of £11,500, for the forthcoming year will be £45,000 from 6 April 2017. The additional rate of 45% for taxable income above £150,000 remains unchanged.

As for the previous year there will be a personal saving allowance so that the first £1,000 of savings income for basic rate taxpayers and the first £500 for higher rate taxpayers will not be taxable. There is no personal savings allowance for additional rate tax payers.

The tax rate for investment income (other than dividends) will therefore be either 0%, 20%, 40%, or 45% of gross income.

For 2017/18, the dividend allowance enables the first £5,000 of dividend income to be received tax free. Any dividends above that figure, will be taxed as follows:

within basic rate band £33,500	7.5%
higher rate band £33,501-£150,000	32.5%
additional rate band over £150,000	38.1%

From the 6 April 2018 the dividend allowance will be reduced to £2,000 per annum.

Allowances receiving relief at top rate of tax:	**2017/18** **£**	**Increase** £	2016/17 £
Personal Allowance	**11,500**	500	11,000
Age 65-74: Single	**11,500**	500	11,000
Age 75+: Single	**11,500**	500	11,000
Blind person	**2,320**	30	2,290
Allowances receiving relief at 10%			
Married Couple's Allowance (including civil partnerships), where one partner is born before 6th April 1935:	**8,445**	90	8,355
Minimum allowance	**3,260**	40	3,220

.

- The Age and Married Couple's Allowances abate by £1 for every £2 of income over £28,000 until they are reduced to the Personal Allowance.
- In addition, the Personal Allowance for individuals will be reduced by £1 for every £2 above an adjusted income of £100,000. The Personal Allowance will therefore be reduced to £nil for incomes of £123,000 and above from April 2017.

New tax allowance for money earned from the sharing economy

From April 2017 there will be two further allowances, namely:-

a) Where an individual has occasional jobs in regard to selling goods, or providing services or,
b) If an individual rents a driveway or loft storage for example,

The first £1,000 of income will be tax free.

Car and fuel benefits

The system of car and fuel benefits based on the level of carbon dioxide emissions continues. From 2017/18, the 37% maximum percentage of the list price of a car when new is reached at 175g/km for diesel and 190g/km for petrol vehicles.

Cars propelled solely by electricity continue to attract a 9% benefit in 2017/18.

The figure used as the basis for calculating the benefit of private fuel received for a company car is increased to £22,600 from April 2017.

Van benefits

As before, there is no benefit charge for employer provided vans that have insignificant or no private use.

The benefit charge for unrestricted private use of employer provided vans remains at £3,230 with an additional £610 if the employer also provides fuel for private use.

Where a company provides a van that does not emit CO_2, the charge is limited to 20% of the charge for a conventional van for 2017/18 and will then increase on a tapered basis to 5 April 2022.

Authorised Mileage Rates

The authorised mileage rates for all vehicles for business use of employees' own vehicles remains at 45p for the first 10,000 miles and 25p thereafter for cars, 24p for all miles for motorcycles and 20p for bicycles.

Limits on Income Tax Reliefs

The annual cap on income tax reliefs is still the greater of £50,000 or 25% of income.

Tax changes for Residential Property

- For residential lettings, relief will be restricted on any higher rate tax relief claimed in regard to loan interest costs. The relief will be removed over 4 years from 2017/18 to 2020/21 and thereafter only a basic rate tax deduction from an individual’s income tax liability will be available.
- Any Non-Residents disposing of UK Residential property are subject to capital gains tax after April 2015 (the new rules do not apply to gains relating to periods before 5 April 2015). The rate of capital gains tax chargeable is 18% or 28% and a notification must be made to HM Revenue & Customs within 30 days of conveyance to advice of the disposal, otherwise penalties similar to those raised for late tax returns will be issued.

NATIONAL INSURANCE CONTRIBUTIONS

Revised contributions take effect from 6th April 2017.

Class 1 Contributions

Employees earning over £8,164 (was £8,060) per annum will pay 12% on the excess up to earnings of £866 per week, plus an additional 2% on the excess over £45,000 with no upper limit.

Employers will pay 13.8% on all earnings over £8,164 per annum.

Class 2 Contributions

The Class 2 rate for the self-employed is increased to £2.85 per week. The small earnings exception is increased to £6,025 per annum. Please note that the Class 2 rate is to be abolished entirely from 6 April 2018.

Class 4 Contributions

The Class 4 rate of 9% will be charged on profits between £8,164 and £45,000 plus an additional 2% on all profits above £45,000. Class 4 national insurance contributions will be increased from 9% to 10% from 6 April 2018 and to 11% from 6 April 2019.

Most taxable benefits provided by employers will be liable to Class 1A national insurance at 13.8%.

Employers are entitled to claim the Employer Contributions Allowance up to a maximum of £3,000. The allowance is not available where the only employee is a director.

From April 2018 employers will pay Employers national insurance contributions on termination payments above £30,000 where income tax is also due.

CAPITAL GAINS TAX

Capital gains for non-business assets are assessed as the top slice of an individual’s income.

From April 2016, capital gains that fell below the higher rate threshold for income tax for individuals, trusts and personal representatives are charged at 10% and capital gains falling above the higher rate threshold are taxed at 20%.

The above capital gains tax rates do not apply to gains arising from residential property, the ATED regime and carried interest paid to asset managers or gains qualifying for Entrepreneurs Relief or Investors relief, which are still subject to a capital gains tax charge based on the rates of 18%, 28% or 10%.

Trusts are charged 20% on all capital gains above the trust’s annual exemption. (Except in relation to chargeable gains from the disposal of residential property when the Capital Gains Tax rate is 28%).

For 2017/18 the annual exemption increases to £11,300 for individuals and £5,650 for most trusts.

Substantial shareholder exemption – this exempts the disposal of certain shares in subsidiaries from corporation tax on any capital gain. The rules are to be simplified to remove the investing company requirement and provide exemption for companies owned by institutional investors.

VAT

The standard rate remains unchanged at 20%.

The annual registration limit is increased to £85,000 from 1st April 2017.

The de-registration limit is increased to £83,000 from 1st April 2017.

The annual turnover limit below which businesses can start to use both the VAT cash accounting scheme and the VAT annual accounting scheme remains at £1,350,000.

Flat rate scheme change - From 1 April 2017 a new 16.5% flat rate is being introduced for businesses with limited costs to be known as limited cost traders who have VAT inclusive expenditure on goods which are :

- Exclusively used for the business
- Less than 2% of their VAT inclusive turnover in a prescribed accounting period
- Or greater than 2% of their VAT inclusive turnover, but less than £1,000 per annum (if the accounting period is less than a year the £1,000 limit is apportioned accordingly).

CORPORATION TAX

The rates of Corporation Tax are as follows:

Year commencing	Small companies rate	Mainstream rate
1st April 2015	20%	20%
1st April 2016	20%	20%
1st April 2017	19%	19%
1st April 2018	19%	19%

- The Corporation tax rate will be cut again to 17% by 2020

Corporation Tax Loans to participators charge

Tax provisions are designed to prevent participators (usually shareholders and/or directors) in close companies enjoying tax free loans. Where a director's loan account is overdrawn, a tax charge on the company arises at currently 32.5% of the loan outstanding.

Corporation Tax: Loss Relief

For losses incurred on or after 1 April 2017 businesses will be able to use carried forward losses against profits from other income streams or from other companies within a group.

From 1 April 2017 there will be a restriction of 50% relating to the amount of profit that can be offset through losses carried forward. The restriction will only apply to profits in excess of £5 million.

Corporation Tax for Museums and galleries

From 1 April 2017 a new tax relief for museums and galleries will be available where new exhibitions are developed. Tax relief will be available of 25% for touring exhibitions and 20% for non-touring exhibitions.

Corporation tax deduction for contributions to grassroots sport - From 1 April 2017 the tax treatment will be extended to a sport governing body and its 100% subsidiaries.

Corporation Tax: Patent Box – cost sharing arrangements - From 1 April 2017 the tax deductions for interest expenses will be limited. Each group's net deductions for interest will be limited to 30% of the earnings before interest, tax, depreciation and amortisation.

Tax treatment of appropriations to trading stock – from 8 March 2017 the ability of businesses with loss making capital assets to obtain an unfair tax advantage by converting trading stock into trading losses will be curtailed.

BUSINESSES

Off payroll working in the public sector - from April 2017 the responsibility for deciding if the off-payroll rules for engagements in the public sector apply will rest with the relevant public sector body, agency or third party.

This measure will make the public sector organisation responsible for deducting and paying over any tax or national insurance contributions to HM Revenue & Customs in respect of any individuals providing services to them via their own limited company.

Employment and Benefits in Kind – 6th July following the end of the tax year will be the date when individuals will have to 'make good' on benefits in kind received if they wish no benefit in kind charge to apply.
Optional remuneration arrangements e.g. Salary sacrifice schemes – From 6 April 2017 income tax and national insurance advantages in regard to the provision of benefits in kind will be withdrawn. A transitional rule will apply where contractual arrangements changed prior to 6 April 2017, until the earlier of a variation or renewal of the contract, or 6 April 2018 except in relation to cars with emissions above 75g CO_2 per kg, accommodation and school fees when the final date is 6 April 2021.

Reform of Termination payments
From 6th April 2018 the tax treatment of termination payments will be tightened and clarified. This will include making all contractual and non-contractual payments in lieu of notice taxable as earnings and requiring employers to tax the equivalent of an employee's basic pay if notice is not worked. Legislation will also be introduced to align tax and employer NICs treatment of termination payments so that the employer NICs will be payable on the elements of termination payment exceeding £30,000 on which Income Tax is due. (The first £30,000 of a termination payments will remain exempt from Income tax and NICs).

Disguised remuneration avoidance schemes
A new tax charge will be raised on disguised remuneration loans made after 5 April 1999 and which remain outstanding as at 5 April 2019. In addition legislation will also be introduced to prevent employers claiming a deduction when computing their taxable profits for contributions to a disguised remuneration scheme unless tax and NIC are paid within a specified period. This will have effect for contributions made on or after 1 April 2017.

The Apprenticeship levy will come into effect in April 2017 on all UK Employers with an annual salary bill of £3 million or more. The Levy will be at a rate of 0.5% of an employer's salary bill, but an employer will receive a £15,000 allowance to offset against the levy.

Simplified Cash basis- From April 2017, self-employed individuals and partnerships who have income of £150,000 or less a year will be given the choice to use the simplified cash basis where they account for income when received and expenses when paid. For Universal Credit claimants the entry threshold will be increased to £300,000. The exit threshold for all users will be £300,000.

Offshore property developers – all relevant profits, either trading or in regard to developing land in the UK, will be fully taxable on or after 8 March 2017.

Research and Development Expenditure Credit Claims - new administrative changes will be made to Research and Development Expenditure Credit claims in order to simplify the claim process.

DIGITAL TAXATION

As part of the Government's vision to modernise the tax system, it is intended that tax returns will be replaced by digital tax accounts for millions of individuals and businesses.

From April 2018 it is intended that businesses, self-employed and landlords with gross income over the VAT threshold will need to keep digital records and provide regular quarterly updates to HM Revenue & Customs.

From April 2019 businesses, self-employed and landlords with gross income under the VAT threshold will then need to comply and maintain digital records and quarterly updates (as well as those registered for VAT).

From April 2020 it is proposed that companies will enter the Digital Taxation regime.

HM Revenue have confirmed their intention to facilitate Digital Taxation by:-

- reducing the threshold for entry into the cash basis to £150,000 (confirmed in the Spring 2017 Budget);
- simplifying the tax rules between capital and revenue expenditure with the adoption of the cash basis;
- for a transitional period (of at least 12 months after Digital Taxation is introduced), to charge no penalties for late quarterly submissions;
- to allow certain exemptions from Digital Taxation e.g. in respect of those individuals that have no internet access or where gross income from self-employment or rental income falls under £10,000 per annum;
- to allow a "Pay as you go approach" for the payment of any tax due for the year;
- to provide individuals with apps and prompts to assist them to provide the correct information.

Further consultations are still being undertaken in regard to the adoption of Digital Taxation. We will write to you in due course when further information is released.

CAPITAL ALLOWANCES

An AIA (Annual Investment Allowance) of £200,000 is available for the year. This provides an annual 100% allowance for investment in plant and machinery.

Businesses whose accounting periods are not aligned to the tax year should be aware that the AIA are time apportioned. Specific advice should be sought in relation to the timing of significant capital expenditure to ensure the most appropriate relief is available as timing can be important.

100% First Year Allowance (FYA) for businesses purchasing low emission cars is extended to April 2021.

The AIA is in addition to the existing 100% Enhanced capital allowances schemes for environmentally beneficial plant and machinery.

INHERITANCE TAX

The starting point for Inheritance Tax, the "nil rate band," remains at £325,000 and will do so until the end of 2020/21.

For married couples and civil partners, when the second death occurs, up to two nil rate bands, both at the amount applying on the date of the second death, are available to the estate.

The single rate on death of 40% is unchanged.

From 6 April 2017 an Inheritance Tax Main Residence nil rate band allowance has been introduced to be used against a home (or an interest in a home) provided the property is left to a direct descendant which includes a step child, adopted child or foster child of the deceased and their lineal descendants.

Any unused allowance will be transferrable between spouses or civil partners if it is unused on the first death. In 2017/18 the allowance will be £100,000, rising incrementally to reach £175,000 by 2020/21.

Deemed Domicile
From 5 April 2017 an individual will become deemed domiciled in the UK for IHT if they have been resident in at least fifteen of the previous twenty tax years. Additionally individuals who were born in the UK but have acquired a domicile of choice will be deemed to be domiciled while they are UK resident. Individuals who become deemed domiciled will be able to rebase their non UK asset values at that date (if the remittance basis charge had previously been paid)

TRUSTS

From April 2017 the trust tax rate is at 45% and the dividend trust rate at 38.1%.

The Capital Gains Tax rate for all trusts is 20%, except in relation to chargeable gains from the disposal of residential property where the Capital Gains Tax rate is 28%.

Income distributions are received with the benefit of a tax deduction of 45%. Any difference between each beneficiary's top rate and 45% is recoverable.

The standard rate band applying to the first £1,000 of income for all trusts liable to the trust tax rate remains the same.

PERSONAL PENSION REFORM

The maximum level of gross contributions into a pension scheme, which attracts tax relief, remains at £40,000 per annum.

From 2017/18 the Money Purchase Annual Allowance will be reduced from £10,000 to £4,000.

OTHER TAXABLE PROPOSALS

ISAs

The ISA allowance for 2017/18 will be £20,000.

Help-to-Buy ISA

A Help to Buy ISA scheme is currently available to 30 November 2019 for every first time buyer that saves. For every £200 that a first time buyer saves, the Government will top this up with £50 (up to a maximum of £3,000 on £12,000 worth of savings). The bonus is only available for those using the money to purchase a home for a value up to £450,000 in London and up to £250,000 elsewhere.

Lifetime ISA

From April 2017 any adult over 18 and under 40 will be able to open a Lifetime ISA saving up to £4,000 a year, which will receive a 25% bonus from the government (the Lifetime limit being £128,000) up to the age of 50. An individual can continue to save until they are over 60, using the money for their retirement or to buy their first home (subject to a maximum value of a property being £450,000 nationally). If the money is withdrawn before 60 the government bonus will be lost and a 25% charge will be raised unless the fund goes towards a deposit on your first property.

Savers will be able to save into both a Help to Buy ISA and a Lifetime ISA, but will only be able to use the government bonus from one of their accounts to buy their first home.

The total amount that an individual can save each year into all ISAs will be increased to £20,000 from April 2017.

A three-year NS&I Investment Bond with a market-leading interest rate of 2.2% will be available for 12 months from April 2017. It is available to everyone aged 16 and over with the flexibility to save between £100 and £3,000 over three years.

Life Insurance Policies – part surrenders and part assignments
Policyholders who have generated a wholly disproportionate gain will be able to apply to HMRC to have the gain recalculated.

Foreign Pensions -From 6 April 2017 the tax treatment of foreign pensions will be aligned to the UK pension regime. For Defined Benefit Pension Schemes in respect of those employed abroad, all lump sums paid out of funds built up before 6 April 2017 will be now subject to tax.

Qualifying recognised overseas pension schemes (QROPS) – A 25% tax charge will be made where pension transfers are made to a QROPS (although there are certain exceptions).

Abolishing tax returns

HMRC will automatically upload income and tax data into new digital tax accounts to enable some individuals and small businesses to be removed from their obligation to complete an annual return. This is to be brought in from April 2018 or 2019 depending on an individual's circumstances. (Please see above).

Tax Avoidance

HMRC will introduce measures from 8 March 2017 to counteract promotors of tax avoidance schemes.

The Government will also be introducing a new penalty on those individuals or entities who enable the use of tax avoidance arrangements.

Offshore evasion

A new legal requirement will be introduced for those who have failed to declare UK tax on offshore interests as at 5 April 2017.

Cutting business rates for small businesses

From April 2017, small businesses that occupy property with a rateable value of £12,000, or less will pay no business rates. There will be a tapered rate of relief on properties with a rateable value up to £15,000.

From April 2017, pubs with a rateable value up to £100,000 will be able to claim a £1,000 business rates discount for one year.

National Living Wage

The National Living Wage rises in April 2017 to £7.50 per hour for workers aged 25 or above. The National Minimum Wage for workers aged 21 to 24 remains at £6.95.

The Annual Tax on Enveloped Dwellings (ATED)

The ATED charge was extended to apply to properties worth £500,000 from 1 April 2016. From 6 April 2015 the annual charge was levied on residential properties worth between £1 and £2 million. Please note that a property needs to be revalued every five years; the first revaluation date is 1 April 2017.

Enterprise Investment Scheme (EIS)

The annual investment limit for EIS remains at £1 million for individuals with the income tax relief remaining at 30%. The annual investment limit for qualifying EIS companies remains at £5 million. Capital gains can be deferred if an investment in EIS shares is made one year before and three years after the gain.

Seed Enterprise Investment Scheme (SEIS) – Reinvestment Relief

An individual is still able to make an SEIS subscription of up to £100,000 in shares in a qualifying SEIS company and receive income tax relief of 50% of the total investment. A capital gain arising in the same year of the investment can also receive reinvestment relief and become exempt from capital gains tax.

Veterans will be able to keep payments from war pensions rather than using this to pay for social care

From April 2017, 4,000 Armed Forces veterans will be able to keep payments from their war pensions if they need social care.

State Pension

The state pension will change on 6 April 2017 for people who reach State Pension age on or after that date. The basic state pension is increased in 2016/17 to £159.55 per week.

Tax-Free Childcare for working parents

From April 2017, tax free childcare will provide up to £2,000 a year in childcare support for each child under 12. Parents will be able to receive up to £4,000 for disabled children up to the age of 17.
Parents of younger children will be able to apply for the scheme first, with all eligible parents able to access the scheme by the end of the year.

Working parents in England will also be able to apply for an additional 15 hours of free childcare for three and four year olds, bringing the total to 30 hours a week.

STAMP DUTY LAND TAX

For residential property transactions the 2% rate threshold remains at £125,000, 5% above £250,000 and 10% above £925,000 and finally 12% over £1.5 million. Purchases of a Buy to Let property or a second residence are subject to an additional 3% stamp duty surcharge.

*Please note that residential property purchased by a non UK resident person is charged a higher rate of SDLT, 15% for properties costing over £500,000 from 20 March 2014 (the threshold was originally £2m).

RESEARCH AND DEVELOPMENT

From April 2017 Small and Medium Sized Enterprises (SME) can claim Research and Development Tax Credits equivalent to an additional deduction of 130%. Non SMEs can only claim a research and expenditure credit. Qualifying expenditure will be restricted so that the costs of materials incorporated in products that are sold are not eligible for relief.

EXCISE DUTIES

New Vehicle Excise Duty bands are to be introduced from April 2017 – zero (£0), standard (£140) and premium. The Premium rate affects cars costing in excess of £40,000 where an extra £310 is added to the Standard Rate for the first 5 years.

"Classic" Cars – From 1 April 2017, vehicles constructed more than 40 years before the 1st January of that year will automatically be exempt from paying Vehicle Excise Duty. The rolling tax exemption for classic cars is set to continue for the foreseeable future.

Insurance Premium Tax will be increased from 10% to 12% with effect from 1 June 2017.

Sugar Tax – From 2018 there will be a two tier level of duty; 18p per litre on drinks with 5g of sugar per 100ml and 24p per litre on drinks with 8g per 100ml.

Fuel duty is frozen for 2017/18.

There are no changes to the previously announced planned increase in duties on alcohol and tobacco which means that with effect from 13th March 2017:-

Beer	Increase of 2p per pint
Cider	Increase of 1p
Wine	Increase of 10p a bottle
Whisky	Increase of 36p a bottle
Cigarettes	Increase of 35p for a packet of 20
Hand rolling tobacco	Increase of 42p on 30 gram packet

8 March 2017 **ELLIS ATKINS**

Please note that these proposals are subject to the detailed provisions in the Finance Bill. Specific professional advice should be sought before taking any action based upon these proposals. After this spring 2017 Budget, Budgets will now be delivered in the autumn with the first one taking place in autumn 2017.