2017
Technical Connection
Spring Budget Report

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The contents of this Budget Report are based on the proposals put forward by the Chancellor in his Budget speech. These need to be approached with caution as the details may change during the passage of the Finance Bill through Parliament.

INTRODUCTION AND WELCOME

The backdrop to this year's Budget was the better than expected economic growth to date but with measured concern for the future – given the uncertainty over what our post Brexit world will look like.

Given the movement this year to an Autumn Budget followed by a Spring Statement (focused on responding to the forecast from the OBR) most commentators expected there to be little change to personal and corporate tax or pensions in this last Spring Budget. Consideration of these sorts of changed would be deferred to the first Autumn Budget later this year.

And they were largely right – but there were some (notable) exceptions:-

- The reduction of the tax free dividend allowance from £5,000 to £2,000 from 6 April 2018
- Fundamental changes to QROPS
- Confirmation that the reduction to the Money Purchase Annual Allowance will be implemented from 6 April 2017
- More activity to combat aggressive tax avoidance
- Confirmation that corporation tax will reduce to 17% from 1 April 2020

This year's TC Budget report focusses on changes and consultations announced in the Budget speech and supporting papers and what they mean for financial planners and their clients. We supplement this with two Appendices

- ***Appendix 1: Tax rates and allowances***
- ***Appendix 2: A brief summary of tax change and consultation announced before the Budget but taking effect in/progressing through the 2017/18 tax year***

As in previous years we will be issuing follow-up bulletins on Techlink Professional to keep you informed as the Finance Bill passes through Parliament.

YOUR GUIDE TO THE BUDGET REPORT

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Main Report

1. INCOME TAX

Budget announcements

Tax rates and allowances

Tax rates and allowances remain as announced at the Autumn Statement and can be found in Appendix 1. In particular the personal allowance is £11,500 and the higher rate threshold £45,000, giving a basic rate limit of £33,500.

In Scotland it is likely that for non-savings and non-dividend income – that is mainly earnings, pensions, and income from property – the higher rate tax threshold will be fixed at £43,000. With a personal allowance of £11,500 this will give a basic rate limit of £31,500. Other income will have a £33,500 basic rate limit as for the remainder of the UK. See the next paragraph for more information.

In Finance Bill 2017 which is to be published on 20 March 2017, the 'main rates' of tax will be split as set down in the Finance Act 2016. The split will be as follows:-

- the 'main rates', which will apply to 'non-savings, non-dividend' income of taxpayers in England, Wales and Northern Ireland
- the 'savings rates', which will apply to savings income of all UK taxpayers
- the 'default rates', which will apply to a very limited category of income taxpayers that will not fall within the above 2 groups, made-up primarily of trustees and non-residents

In addition, from April 2017 the income tax rates and thresholds on non-savings, non-dividend income for Scottish taxpayers will be set by the Scottish Parliament.

Dividend allowance

The tax-free dividend allowance will reduce from £5,000 to £2,000 from 6 April 2018. This will reduce the tax differential between the self-employed and employed, and those working through a company. Even at its reduced £2,000 level 80% of general investors pay no tax on dividends. For more information please see our section on Dividend taxation for investors.

Rent-a-room relief

The Government will consult on proposals to redesign rent-a-room relief to ensure it is better targeted to support long-term lodgings. Consultation will start in the Summer. The previously announced consultation on employer-provided accommodation, employee business expenses and the taxation of benefits in kind will begin on 20 March 2017.

Disguised remuneration

Consultation on tackling disguised remuneration avoidance schemes will start later in 2017.

Planning

For all couples, as a bare minimum, both personal allowances, starting/basic rate tax bands and the dividend and personal savings allowances should be used to the full. This is particularly beneficial where income can be legitimately shifted from a higher or additional rate taxpaying spouse to a non, starting or basic rate taxpaying spouse. For those with cash and investments this will usually be facilitated by an unconditional transfer of income-producing assets from the higher tax paying spouse to the other.

Any such transfers would usually be CGT and IHT neutral as transfers between spouses living together are treated as transfers on a no gain/ no loss basis for CGT purposes and transfers between UK domiciled spouses (living together or not) are exempt from IHT without limit.

Those able to control the amount of dividend income they receive, such as shareholding directors of private companies, should consider paying themselves up to £5,000 in dividends in tax year 2017/18.

If they have not already done so, landlords who are existing higher/additional rate tax paying buy-to-let investors paying mortgage interest should consider their position as regards the gradual phasing out of tax relief at the higher/additional rates from 6 April 2017.

2. NATIONAL INSURANCE CONTRIBUTIONS

Budget announcements

The main rate of Class 4 National Insurance contributions paid by the self-employed will increase by 1% to 10% from April 2018, and by a further 1% to 11% from April 2019. This change will reduce the gap in rates paid by the self-employed and employees, and recognises the fact that the self-employed will have the same access to the new State Pension. Coupled with the abolition of Class 2 contributions from April 2018, this means only the self-employed with profits above £16,250 will have to pay more NICs.

HMRC is monitoring National Insurance Employment Allowance compliance as some businesses are using avoidance schemes to avoid paying the correct amount of NICs.

Planning

No planning opportunities have arisen from the announcements made in the Budget.

3. CAPITAL GAINS TAX

Budget announcements

Capital gains tax exemption

The annual capital gains tax exemption will increase from £11,100 to £11,300 from 6 April 2017.

The annual exemption available to trustees will increase from £5,550 to £5,650 from 6 April 2017 – although this limit is diluted where the settlor has created more than one trust subject to a minimum of £1,130 per trust.

The rates of capital gains remain unchanged.

Non-resident companies chargeable to Income Tax and Capital Gains Tax

In the 2016 autumn statement, the government announced that it will consult on the options for bringing non-UK resident companies, who are currently chargeable to income tax on their UK taxable income, and capital gains tax on certain gains, within the scope of corporation tax. This would broadly mean that these companies would then be subject to the rules which apply generally for the purposes of corporation tax, including the limitation to corporate interest expense deductibility and loss relief rules. This consultation will begin on 20 March 2017.

Planning

Making use of the annual exemption

The annual exemption is given on a 'use it or lose it' basis. So if individuals are relying on certain investments for additional income, re-balancing asset allocation within their investment portfolio could provide the opportunity to use their annual exemption.

In some cases considering a phased sale of shares over two tax years can prove to be beneficial as it is possible to benefit from use of two annual exemptions.

Maximising the use of losses

Despite the recovery in some asset values, some longer-term holdings could still be standing at a loss and as such, those who either make a capital loss or have carried forward losses need to understand how these can be used.

If a taxpayer realised a gain and a loss in the same tax year:

- *The loss will be set off against the gain, even if the gain is within the taxpayer's annual exemption. Some or all of the exemption may therefore be wasted.*

However, if the taxpayer carried forward a loss from a previous tax year:

- *The carried forward loss is only used up to the extent that it reduces their overall gains to the level of the annual exemption.*

- *The loss is therefore only partly used when necessary with the balance carried forward to set off against gains in later tax years.*

Care should always be taken before realising gains and the losses together in a single tax year and in particular, the annual CGT exemption should not be wasted.

Use of EIS

Where investors decide with their Financial Planners to crystallise their portfolios any arising Capital Gains Tax gain be deferred in an EIS on gains arising 36 months before allotment of shares or 12 months after. The arising gain on exit will be chargeable at the prevailing CGT rate. For non-property gains which were chargeable at 28% / 18% this would result in a current prevailing rate of 20% / 10%.

4. INHERITANCE TAX

Budget announcements

There were no new announcements in the Spring Budget 2017 relating to inheritance tax. Information on previously announced measures is included in Appendix 2.

Planning

No planning opportunities have arisen from the announcements made in the Budget.

5. TRUST TAXATION

Budget announcements

There were no announcements in the Spring Budget 2017 in relation to trusts. Information on previously announced measures in relation to offshore trusts is included in Appendix 2.

However, the changes to the CGT rates affect trustees.

When trustees pay CGT, currently the rate is 20% except for carried interest and for chargeable gains on residential property (other than that occupied by a beneficiary where the principal residence relief may be available) when 28% rate applies. The 28% rate will also remain for ATED related chargeable gains.

The annual CGT exemption available to trustees will increase from £5,550 to £5,650 from 6 April 2017 – although this limit will be diluted according to the number of trusts created by the same settlor but will never be less than £1,130.

Planning

Trusts offer an investor a number of tax advantages and one of those will be as a means of obtaining an additional one half CGT annual exemption – even in cases where the settlor's spouse and/or minor children are beneficiaries under the trust. In the case of a bare trust, it is possible to use the individual beneficiary's full £11,300 annual exemption. Collective investments geared towards capital growth will frequently be a good way to utilise the trustee's (or individual beneficiary's) annual exemption in future years.

6. DOMICILE AND RESIDENCE

Budget announcements

There were no new announcements in the Spring Budget 2017 relating to Domicile and Residence. Information on previously announced measures is included in Appendix 2.

Planning

No planning opportunities have arisen from the announcements made in the Budget.

7. DIVIDEND TAXATION FOR INVESTORS

Budget announcements

Overview

The importance of dividends (and especially reinvested dividends) as a contributor to investment returns is undeniable. So the taxation of dividends from investments is of considerable interest to investors, advisers and investment managers.

The introduction of the £5,000 dividend allowance from 6 April 2016, with an increase of 7.5% to the rate of tax applying to dividends above the allowance (together with the abolition of the need to ‘gross-up’), represented a significant change to investment taxation – along with the changes to the taxation of savings income and capital gains.

The dividend allowance 2018/19

It has been announced that from 2018/19 the dividend allowance will reduce from £5,000 to £2,000. The stated “driver” for this change was the desire to reduce the attraction (and resulting tax loss generated) of incorporation and the taking of income by way of dividends as opposed to salary by owner managers. See our section on Taxation of Shareholding Directors.

However, the proposed reduction is not solely targeted at shareholding directors – it applies to all dividends.

Planning

From 6 April 2018 the reduced dividend allowance will reduce the size of portfolios that can deliver tax free income and reduce the threshold above which investment bonds should be considered for their tax-deferring qualities.

The size of a portfolio that will deliver a tax free income with the dividend allowance will, of course, depend on the yield.

Consider the following:-

Portfolio size	*Yield*	*Tax free dividend*
£100,000	*2%*	*£2,000*
£80,000	*2.5%*	*£2,000*
£66,666	*3%*	*£2,000*
£57,142	*3.5%*	*£2,000*

…You get the picture

It's worth reminding that as long as a fund does not have more than 60% of its investments in fixed interest stock the emerging income payment (even though it may be contributed to by interest) for the investor will be taxed as a dividend.

With the reduction of the tax free dividend allowance to £2,000 comes the reduction of the portfolio threshold above which it may be worth considering an investment bond for its tax deferment qualities.

Of course, the choice of a bond (UK or offshore) or collective is not a binary one but tax is undoubtedly the most important factor.

And although the taxation of capital gains cannot be ignored it is probably hard to make a tax case for considering investment bonds until the value of the fund that produces a dividend that is tax free is exceeded.

"Wrapper allocation" to maximise relief and flexibility – especially given future tax uncertainty - remains a strategy well worth considering.

8. VCT, EIS, SEIS, SITR AND BR INVESTMENTS

Budget announcements

Venture Capital Trusts (VCT), Enterprise Investment Schemes (EIS), Seed Enterprise Investment Schemes (SEIS), Social Impact Tax Relief (SITR) and Business Relief for Inheritance Tax (BR - formerly known as Business Property Relief)

The Budget did not specifically cover measures that directly impacted VCT, EIS and SEIS although in the finer detail they have announced a Patient Capital Review (Section 3.13 Red Book). They have confirmed to the EIS Association that this review will commence May 2017 and include EIS.

"The review aims to ensure that high growth businesses can access the long-term capital that they need to fund productivity enhancing investment. Alongside identifying barriers to institutional investment in long-term finance, the review will also consider existing tax reliefs aimed at encouraging investment and entrepreneurship to make sure that they are effective, well targeted, and provide value for money."

The outcome of the review will be announced in the Autumn Budget 2017.

The Budget confirms that the announcements made in the Autumn Statement on Venture Capital Investments and Social Impact Tax Relief (see Appendix 2) will be implemented with effect from the dates stated.

Business Relief for Inheritance Tax

There were no announcement relating to Business Relief (BR).

Planning

The proposed National Insurance changes to the taxation of the self-employed and reduction in the dividend allowance with effect from April 2018 will increase the attractiveness of Venture Capital Schemes (VCT, EIS and SEIS) for suitable investors who will be able to obtain up to 30% Income Tax Relief on VCT and EIS and 50% for SEIS.

HM Treasury estimates that dividends for a typical portfolio up to £50,000 will still be within the £2,000 dividend allowance.

One attraction of VCTs is their ability to pay tax free dividends which can supplement the proposed £2,000 (2018/2019) dividend allowance irrespective of tax rates. This can form part of a tax efficient income stream.

Where investors decide with their Financial Planners to crystallise their equity portfolios, in advance of the reduction in dividend allowance, any arising Capital Gains Tax gain be deferred in an EIS or eliminated in a SEIS.

Finally, where Business owners decide to sell their business this will result in the loss of BR and a potential Capital Gain which may be covered by Entrepreneur's Relief. Reinvesting all or part of the proceeds in a qualifying BR solution will regain the respective BR once the company is trading.

9. ISAS

Budget announcements

There were no new announcements in the Spring Budget 2017 relating to individual savings accounts or child trust funds. Information on previously announced measures is included in Appendix 2.

Planning

ISAs

The annual subscription limit for a general ISA will increase to £20,000 and given the added flexibility of being able to access funds from a tax free environment, it is particularly attractive to higher rate taxpayers and/or additional rate taxpayers. A couple between them can currently save up to £30,480 which will increase to £40,000 from 6 April 2017.

The Junior ISA and Child Trust Fund limit will also increase from £4,080 to £4,128 from 6 April 2017 and provides a good opportunity for parents to save for their children and grandchildren.

Lifetime ISA

The Lifetime ISA will be introduced in April 2017 and is designed for people aged under 40 to set up an account to use the money for a first home purchase or to use the money in retirement - after age 60. Funds saved in a Lifetime ISA will benefit from a government bonus however, investors will need to be careful if they intend to make early withdrawals. With this in mind, using the product as a means to assist home purchase currently seems far more attractive than for saving for retirement. However, that is not to say it won't be suitable for certain individuals and as always advice will be essential.

10. LIFE POLICY TAXATION

Budget announcements

As announced at Autumn Statement 2016 and confirmed at Spring Budget 2017, the government will legislate in Finance Bill 2017 to change the current tax rules for part surrenders and part assignments of life insurance policies to allow policyholders who have generated a wholly disproportionate gain to apply to HMRC to have the gain recalculated on a just and reasonable basis.

Following consultation, the legislation has been revised to clarify who can apply, when and how the recalculation is given effect. These changes will have effect from Royal Assent of Finance Bill 2017 and not 6 April 2017 as announced in the Autumn Statement.

Planning

No planning opportunities have arisen from the announcements made in the Budget.

11. TAXATION OF SHAREHOLDING DIRECTORS

Budget announcements

The following announcements made in the Budget 2016 will affect the taxation of shareholder directors.

Corporation tax

The rate of corporation tax will reduce to 19% for financial year 2017. The government has announced that this will reduce still further to 17% in 2020.

Personal allowance and income tax rates

The income tax personal allowance will increase from £11,000 in 2016/17 to £11,500 in 2017/18.
The higher rate threshold will increase from £43,000 in 2016/17 to £45,000 in 2017/18. The NICs Upper Earnings Limit will also increase to remain aligned with the higher rate threshold.

Dividend tax allowance

This will remain at £5,000 in 2017/18 but reduce to £2,000 in 2018/19. This is intended to reduce the tax differential between the employed and self-employed on the one hand and those working through a company on the other make the position fairer. This appears to be part of a wider initiative aimed at reducing the difference in tax and NIC between the employed, self-employed and 'ownership-managers' running their businesses through a company.

The UK has one of the most competitive corporate tax regimes in the G7 but the Government have emphasised the need to protect the tax base against 'tax motivated' incorporations which are apparently forecast to carry an annual cost to the exchequer of £3.5bn by 2021.

The Chancellor particularly identified that the size of tax and NIC gap between an employed worker and one who set up their own company is significant and, in his view, unfair and unaffordable.

The change to the dividend tax allowance is targeted at reducing this unfairness.

Planning

The confirmation of an even lower rate of corporation tax on company profits in 2020 means that there will be even more tax incentive for individuals to run a small business as a corporate vehicle.

Having chosen the corporate route (which many do under even the current corporation tax rate of 20%) – reducing to 19% in 2017/18, director/shareholders will need to decide how much they need to draw and, in what form. Given that the individual's circumstances will

change and we know that the dividend tax allowance will reduce to £2,000 in 2018/19, this choice is one that needs to be made each year and has been made by SME owner/managers with their advisers for many years.

Some detail and commenting on planning on these choices can be found in Appendix 2.

The scheduled changes to the rates of national insurance contributions that the self-employed pay (see Section 2) will also have an impact on whether an individual will wish to run a business as a self-employed person or via a company.

12. CORPORATION AND BUSINESS TAX

Budget announcements

There were no significant changes to corporate and business tax announcements in the Budget.

Subject to this important caveat, here are what we consider to be the main changes proposed to corporation and business tax.

Corporation tax will fall to 17% in 2020

The government has confirmed that the corporation tax rate will reduce to 19% on 1 April 2017 and will reduce further to 17% for the Financial Year commencing 1 April 2020.

This means that the UK's corporate tax rate is the lowest in the G20.

Research and development (R&D) tax review

The Industrial Strategy green paper sets out the government's ambition to drive up the level of private investment in science, research and innovation across the economy. The review of the R&D tax regime has found that the UK's R&D tax credits regime is an effective and internationally competitive element of the government's support for innovation. To further support investment, the government will make administrative changes to the Research and Development Expenditure Credit to increase the certainty and simplicity around claims and will take action to improve awareness of R&D tax credits among SMEs. The government will continue to keep the competitiveness of the UK environment for R&D under review to ensure that the UK is profoundly pro-innovation.

Patient capital review

The review aims to ensure that high growth businesses can access the long-term capital that they need to fund productivity enhancing investment. Alongside identifying barriers to institutional investment in long-term finance, the review will also consider existing tax reliefs aimed at encouraging investment and entrepreneurship to make sure that they are effective, well targeted, and provide value for money.

Withholding tax on interest

In order to encourage investment in the UK and make it easier for businesses to raise finance, the government will:

- renew and extend the administrative simplifications of the Double Taxation Treaty Passport scheme to assist foreign lenders and UK borrowers. This scheme simplifies access to reduced withholding tax rates on interest that are available within the UK's tax treaties with other countries

- introduce 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. The government will consult in spring 2017 on implementation of the exemption

Tax treatment of appropriations of trading stock

As announced at Spring Budget 2017, the government will legislate in Finance Bill 2017 to remove the ability of businesses with loss-making capital assets to obtain an unfair tax advantage by converting those losses into more flexible trading losses. The changes will take immediate effect from Budget on 8 March 2017.

The Corporation Tax and Income Tax: Tax treatment of appropriations to trading stock TIIN was published on 8 March 2017.

Planning

Overall, the tax regime for SMEs (in particular) in the UK remains relatively appealing. The lowering corporation tax rates combined with continuing NIC freedom for dividends (despite the increased tax rates on dividends above the current £5,000 allowance – but reducing to £2,000 in 2018/19) makes trading through a company a continuing attractive choice for many running a reasonably profitable business in the UK.

Advice on effective extraction and investment of company generated income will remain an area of high demand.

13. EMPLOYEE BENEFITS AND TAXABLE BENEFITS IN KIND

Budget announcements

The government is considering how the tax treatment of the various forms of employee remuneration could be made fairer and more coherent, including the taxation of benefits in kind and employee expenses. In addition to the measures previously announced and due to be introduced from this and next year (see Appendix) the following consultations were announced in the Budget:

- **Taxation of benefits in kind**

The government will publish a call for evidence on exemptions and valuation methodology for the income tax and employer NICs treatment of benefits in kind, in order to better understand whether their use in the tax system can be made fairer and more consistent.

- **Accommodation benefits**

The government will publish a consultation with proposals to bring the tax treatment of employer-provided accommodation and board and lodgings up to date. This will include proposals for when accommodation should be exempt from tax and to support taxpayers during any transition.

- **Employee expenses**

The government will publish a call for evidence to better understand the use of the income tax relief for employees' expenses, including those that are not reimbursed by their employer.

Planning

No planning opportunities have arisen from the announcements made in the Budget.

14. CAPITAL ALLOWANCES

Budget announcements

Plant and machinery leasing – response to lease accounting changes

The government announced that it will consult in summer 2017 on the legislative changes required following the announcement of the International Accounting Board's new leasing standard – IFRS16, which comes into effect on 1 January 2019. The tax treatment of a lease is predominantly determined by its treatment in the accounts. Following the discussion document which was published in summer 2016, the government intends to maintain the current system of lease taxation by making legislative changes which enable the rules to continue to work as intended.

Planning

No planning opportunities have arisen from the announcements made in the Budget.

15. Pensions

Budget announcements

MPAA £4,000 6th April 2017

The Chancellor confirmed that the government has seen no grounds to change its view on reducing the MPAA from £10,000 to £4,000. A government response to the consultation will be published on 20 March 2017. The level of the MPAA will therefore be set at £4,000 with effect from 6th April 2017.

Overseas transfer charge

Some significant changes to the QROPS regime were announced in the 2016 Autumn Statement so today's announcement has come as a complete surprise. Although the changes announced today do have wide reaching implications, it's fair to say that the government has actually changed the focus of QROPS transfers to that which was originally intended – individuals leaving the UK permanently and taking their pension savings with them.

The new overseas transfer charge of 25% will apply to transfers from a UK registered pension scheme to QROPS or QROPS to QROPS transfers requested (a substantive request to transfer to X not just a casual enquiry) on or after 9th March 2017.

The overseas transfer charge will not apply if:

- The QROPS and the individual are resident in the same country
- The individual and the QROPS are both resident within the EEA/EU (not necessarily in the same country)*
- The QROPS is an occupational pension scheme and the individual is an employee of a sponsoring employer under the scheme
- the QROPS is an overseas public service scheme and the individual is employed by an employer that participates in that scheme
- the QROPS is a pension scheme of an international organisation and the individual is employed by that international organisation

How the overseas transfer charge works

The transfer payment made to a QROPS is still a Benefit Crystallisation Event No 8 (BCE8). This has the function of testing the transfer against the standard lifetime allowance or the individual's higher lifetime allowance if, for example, they have elected for transitional protection. The BCE8 will subject the excess over the lifetime allowance to a lifetime allowance excess charge of 25%.

The overseas transfer charge of 25% is then applied to the residual fund.

Example

- Fred successfully elected for Fixed Protection 2014 so has a lifetime allowance of £1.5m.

- He has a pension fund valued at £1.7m.
- He is UK resident but wants to transfer his fund to a QROPS in the Isle of Man which is not within the EEA/EU.
- The BCE 8 means £200,000 over the lifetime allowance will be subject to a tax charge of £50,000.
- The overseas transfer charge will be made on £1.65m @25% = £412,500. Funds to transfer £1,237,500.
- Total tax charge to transfer is £462,500

****Countries within the EEA/EU (including Gibraltar)***

EEA: Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Gibraltar, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the UK

EU: Norway, Lichtenstein, Iceland.

If the charge applies, the scheme administrator and individual are jointly and severally liable.
The transfer charge applies to all pension rights including pension credit rights, beneficiary's scheme pension/drawdown/flexi-access drawdown which will include nominees and successor's rights. Although these funds do not suffer a BCE8 test, if the overseas transfer charge applies, a flat rate charge of 25% will be deducted from these funds on transfer.
There is also now a 5 year rule – this means that although the overseas transfer charge may not have been due on the original transfer, any change - for example change of residence - means that the charge becomes due for up to 5 full tax years (known as the relevant period) after the date of transfer. In addition, should an exemption apply within the five full tax years following the transfer a refund of the charge can be made.

All QROPS scheme managers as at 8th March 2017 must decide if they want their scheme to operate the overseas transfer charge and, if so, must submit a revised undertaking to HMRC by 13th April 2017. Any QROPS who fail to submit the undertaking will automatically cease being a QROPS from 14th April 2017. Therefore, from 14 April 2017 HMRC will suspend the ROPS notifications list and publish an updated list on 18 April 2017.

The last ROPS list contained 1308 schemes – as at today's announcement, removing all non- EEA schemes means that there are currently 314 ROPs within the EEA/EU.

Planning

The MPAA reduction takes effect from 6th April 2017. Once the MPAA is triggered the ability to carry forward any unused relief is lost so although there is no direct action to take in relation to the reduction, you should use up the £10,000 allowance, or lose it!

The QROPS changes have an immediate impact. For those clients that had been deliberating the merits of transferring to a QROPS and were undecided, well today's changes have, in some cases, made the decision for them. Transfers to QROPS are still a viable proposition for those who can rely on the EEA/EU exemption from the overseas transfer charge. The EEA/EU definition in this case specifically includes Gibraltar. If a transfer to a QROPS is

used for their original intended purpose, which is for those that move permanently abroad and want to take the pension savings with them, then there should be no concerns about the viability of the transfer. For clients that reside in non-EEA/EU countries and have transferred their pension savings to a QROPS, if they subsequently move country they will need to remember to take their pensions savings with them to avoid the overseas transfer charge kicking in within 5 years of the original transfer.

16. PROPERTY TAX

Budget announcements

Offshore property developers – The government will amend legislation to ensure that all profits realised by offshore property developers developing land in the UK, including those on pre-existing contracts, are subject to tax, with effect from 8 March 2017.

Rent-a-room relief – The government will consult on proposals to redesign rent-a-room relief, to ensure it is better targeted to support longer-term lettings. The aim of the consultation is to align the relief more closely with its intended purpose which is to increase the supply of affordable long-term lodgings.

Stamp Duty Land Tax – As a result of consultation, the government will delay the reduction in the Stamp Duty Land Tax filing and payment window (from 30 days to 14 days), until after April 2018.

Making Tax Digital - The government has announced a one-year deferral (until April 2019) from the mandating of Making Tax Digital for Business (MTDfB) for unincorporated businesses and landlords with turnovers below the VAT threshold. This means that only those businesses, self-employed people and landlords with turnovers in excess of the VAT threshold with profits chargeable to income tax and that pay Class 4 NICs will be required to start using the new digital service from April 2018. Landlords with turnovers under £10,000 are exempt from these requirements.

Tax simplification – Following consultation, the government will increase the cash basis entry threshold to £150,000, and exit threshold to £300,000, and will extend the use of the cash basis to unincorporated landlords. The government will also simplify the rules on capital and revenue expenditure within the cash basis, to make it easier for businesses to work out whether their expenditure is deductible for tax

Planning

No planning opportunities have arisen from the announcements made in the Budget.

17. TAX AVOIDANCE

Budget announcements

Overview

If you were looking for an area of taxation that has given rise to the longest run of relentless legislation it's Tax Avoidance.

HMRC's campaign against what it sees as aggressive and unacceptable tax avoidance has been (and continues to be) multi-faceted and hugely successful - and the General Anti-Abuse Rule hasn't ever been deployed yet.

Through the 'Red Book' we are reminded that the government has announced that it will legislate for over 35 measures to tackle avoidance, evasion and aggressive tax planning and that in the last Parliament over 40 loophole closing reforms were introduced.

It seems that over £140 billion of additional tax revenue has been generated since 2010 through this action. Apparently, the UK's tax gap remains one of the lowest in the world.

Promoters of Tax Avoidance Schemes (POTAS): associated and successor entities rules.

Apparently some promoters of tax avoidance schemes have been seeking to circumvent the POTAS regime by re-organising their business by sharing control of a promoting business or putting a pension between them and the promoting business.

Changes to the POTAS legislation were introduced in Finance Act 2015 to ensure promoters cannot use associated and successor entities to circumvent the legislation. This measure will ensure these associated and successor entities rules function as intended.

Legislation will be introduced in Finance Bill 2017 to amend the control definitions in paragraph 13A of Schedule 34 to Finance Act 2014. These amendments introduce the term 'significant influence' to ensure promoters cannot reorganise their business so that they put a person or persons between themselves and the promoting business. The amendment also ensures that the control definitions apply where 2 or more persons together have control or significant influence over a business.

Strengthening tax avoidance sanctions and deterrents

As announced at Autumn Statement 2016, the government will introduce a new penalty for a person who has enabled another person or business to use a tax avoidance arrangement that is later defeated by HMRC. This new regime reflects an extensive consultation and input from stakeholders. The government will also remove the defence of having relied on non-independent advice as taking 'reasonable care' when considering penalties for a person or business that uses such arrangements.

Tax treatment of appropriations to trading stock

The government will remove the ability for businesses to convert capital losses into trading losses from 8 March 2017. This will eliminate an unfairness in the tax code which is being exploited by certain businesses.

Qualifying recognised overseas pension schemes (QROPS): introduction of transfer charge

The government will introduce a 25% charge on transfers to QROPS. This charge is targeted at those seeking to reduce the tax payable by moving their pension wealth to another jurisdiction. Exceptions will apply to the charge allowing transfers to be made tax-free where people have a genuine need to transfer their pension, including when the individual and the pension are both located within the European Economic Area.

This important subject is covered in more detail in the Pensions section.

VAT: Use and enjoyment provisions for business to consumer mobile phone services

The government will remove the VAT use and enjoyment provisions for business to consumer mobile phone services to individuals. This will resolve the inconsistency where UK VAT is applied to mobile phone use by UK residents when in the EU, but not when outside the EU. It will also ensure mobile phone companies cannot use the inconsistency to avoid UK VAT. This will bring UK VAT rules into line with the internationally agreed approach.

EVASION

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

The government will consult on options to combat missing trader VAT fraud in the provision of labour in the construction sector, in particular, applying the reverse charge mechanism so the recipient accounts for VAT.

VAT: 'Split Payment' model

Some overseas traders avoid paying UK VAT, undercutting online and high street retailers and abusing the trust of UK consumers who purchase goods via online marketplaces. Building on the measures introduced in Budget 2016, the government will shortly publish a call for evidence on the case for a new VAT collection mechanism for online sales. This would harness technology to allow VAT to be extracted directly by the Exchequer from online transactions at the point of purchase. This is often referred to as a 'Split Payment' model.

This is the next step in tackling the non-payment of VAT by some overseas traders selling goods online to UK consumers.

Planning

Planning through the use of aggressive tax avoidance schemes that seek to defeat the intention of Parliament is to be (as it usually is these days) avoided. In other words, "Avoidance of Tax Avoidance" is the recommended strategy.

As we have said for some time now at Technical Connection, "Boring is the new exciting" and there is plenty of "boring stuff" for advisers to use to help their clients to minimise tax that is specifically permitted by legislation – like pensions, ISAs, VCTs, EISs, to name a few.

18. TAX SIMPLIFICATION AND ADMINISTRATION

Budget announcements

Overview

The importance of the Government's 'making Tax Digital' initiative cannot be underestimated. There are some important objectives underpinning this initiative:

- simplifying the 'tax return' process will signal the end of the annual tax return process for millions

- making it easier for individuals and businesses to get their tax right and to keep on top of their affairs

and, inevitably

- increasing compliance and cash flow for HMRC.

Digital administration

The government will provide an extra year, until April 2019, before Making Tax Digital is mandated for unincorporated businesses and landlords with turnover below the VAT threshold. This will provide them with more time to prepare for digital record keeping and quarterly updates. The government will also consult on the design aspects of the tax administration system, including interest and penalties, with the aim of adopting a consistent approach across taxes. This will simplify the system for taxpayers.

Tax simplification

Following consultation, the government will increase the cash basis entry threshold to £150,000, and exit threshold to £300,000, and will extend the use of the cash basis to unincorporated landlords. The government will also simplify the rules on capital and revenue expenditure within the cash basis, to make it easier for businesses to work out whether their expenditure is deductible for tax.

HMRC large business risk review

HMRC will work constructively with businesses and interested parties to consult over the Summer on its process for risk profiling large businesses and promoting stronger compliance.

Planning

No planning opportunities have arisen from the announcements made in the Budget.

19. CHILDCARE

Budget announcements

There were no new announcements in the Spring Budget 2017 relating to childcare.

Planning

No planning opportunities have arisen from the announcements made in the Budget.

Appendix 1

Tax Facts and Figures and NICs

MAIN INCOME TAX ALLOWANCES AND RELIEFS

	2016/17	2017/18
	£	£
Personal allowance – standard	11,000	11,500
Personal allowance reduced if total income exceeds ∞	100,000	100,000
Transferable tax allowance (marriage allowance)§	1,100	1,150
Married couple's allowance* – minimum amount	3,220	3,260
– maximum amount	8,355	8,445
Maintenance to former spouse *	3,220	3,260
Married couple's allowance reduced if total income exceeds ¶	27,700	28,000
Employment termination lump sum limit	30,000	30,000

∞ For 2016/17 and 2017/18 the reduction is £1 for every £2 additional income over £100,000. As a result there is no personal allowance if total income exceeds £123,000 (£122,000 for 2016/17).

§ Available to spouses and civil partners born after 5 April 1935, provided neither party pays tax at above basic rate.

* Relief at 10%. Available only if at least one of the couple was born before 6 April 1935.

¶ For 2016/17 and 2017/18 the reduction is £1 for every £2 additional income over the total income threshold. Standard allowance(s) **only** are available if total income exceeds:-

	2016/17	**2017/18**
	£	**£**
Taxpayer born before 6 April 1935 [married couple's allowance]	37,970	38,370

INCOME TAX RATES

	2016/17	2017/18
	£	£
Starting rate	0%	0%
Starting rate on savings income	1-5,000	1-5,000
Personal savings allowance (for savings income)		
- Basic rate taxpayers	1,000	1,000
- Higher rate taxpayers	500	500
- Additional rate taxpayers	Nil	Nil
Basic rate	20%	20%
Maximum tax at basic rate+	6,400	6,700+
Higher rate - 40%	32,001-150,000	33,501-150,000+
Tax on first £150,000+	53,600	53,300+
Additional rate on income over £150,000	45%	45%
Discretionary and accumulation trusts (except dividends)	45%	45%
Discretionary and accumulation trusts (dividends) °	38.1%	38.1%
Tax credit attaching to dividends	N/A	N/A
Dividend nil rate band (dividend allowance)	1-5,000	1-5,000
Basic rate on dividends	7.5%	7.5%
Higher rate on dividends	32.5%	32.5%
Additional rate on dividends	38.1%	38.1%
High income child benefit charge	1% of benefit per £100 of income between £50,000 and £60,000	

\+ Assumes starting rate band not available and personal savings allowance is ignored. £6,700 on first £33,500 (£6,400 on first £32,000 in 2016/17) and £52,300 (£52,600 in 2016/17) on first £150,000 if full starting rate band is available.

In Scotland the basic rate tax band for 2017/18, which covers non-dividend, non-savings income, will be £31,500, leaving the higher rate threshold unchanged at £43,000.

° Up to the first £1,000 of gross income is generally taxed at the standard rate, ie. 20% or 7.5% as appropriate.

CAR BENEFITS

The charge is based on a percentage of the car's "price". "Price" for this purpose is the list price at the time the car was first registered plus the price of extras.

For cars first registered after 31 December 1997 the charge, based on the car's "price", is graduated according to the level of the car's approved CO_2 emissions.

For petrol cars with an approved CO_2 emission figure.

CO2 g/km[1]	% of price subject to tax[2]		CO2 g/km	% of price subject to tax[2]		CO2 g/km	% of price subject to tax[2]	
	16-17	**17-18**		**16-17**	**17-18**		**16-17**	**17-18**
50 or less	7	9	125–9	22	24	170–4	31	33
51–75	11	13	130–4	23	25	175–9	32	34
76–94	15	17	135–9	24	26	180–4	33	35
95–99	16	18	140–4	25	27	185–9	34	36
100–4	17	19	145–9	26	28	190–4	35	37
105–9	18	20	150–4	27	29	195–9	36	37
110–4	19	21	155–9	28	30	200 and over	37	37
115–9	20	22	160–4	29	31			
120–4	21	23	165–9	30	32			

Notes

1. The exact CO_2 emissions figure should be rounded down to the nearest 5 g/km for levels of 95g/km or more.
2. For all diesels add 3%, subject to maximum charge of 37%.

CAR FUEL BENEFITS

For cars with an approved CO_2 emission figure, the benefit is based on a flat amount of £22,600 (£22,200 for 2016/17). To calculate the amount of the benefit the percentage figure in the above car benefits table (that is from 7% to 37%) is multiplied by £22,600. The percentage figures allow for a diesel fuel surcharge. For example, in 2017/18 a petrol car emitting 132 g/km would give rise to a fuel benefit of 25% of £22,600 = £5,650.

INHERITANCE TAX

	Cumulative chargeable transfers [gross]		tax rate on death %	tax rate in lifetime* %
	2016/17 £	**2017/18 £**		
Nil rate band+	325,000	325,000	0	0
Residence nil rate band¶	N/A	100,000	0	N/A
Residence nil rate band reduced if estate exceeds°	N/A	£2,000,000	N/A	N/A
Excess above available nil rate band(s)	No limit	No limit	40∞	20

* Chargeable lifetime transfers only.
+ On the death of a surviving spouse on or after 9 October 2007, their personal representatives have two years to claim up to 100% of any unused proportion of the nil rate band of the first spouse to die (regardless of their date of death).
¶ On the death of a surviving spouse on or after 6 April 2017, their personal representatives have two years to claim up to 100% of any residence nil rate band of the first spouse to die (regardless of their date of death, but subject to the tapered reduction).

º For all tax years the reduction is £1 for every £2 additional estate over £2,000,000. As a result, there is no residence nil rate band available in 2017/18 if the total estate exceeds £2,200,000 (£2,400,000 on second death if the full band is inherited).
∞ 36% where at least 10% of net estate before deducting the charitable legacy is left to charity.

CAPITAL GAINS TAX

Main exemptions and reliefs

	2016/17 £	2017/18 £
Annual exemption	11,100*	11,300*
Principal private residence exemption	No limit	No limit
Chattels exemption	£6,000	£6,000
Entrepreneurs' relief	Lifetime cumulative limit £10,000,000. Gains taxed at 10%	Lifetime cumulative limit £10,000,000. Gains taxed at 10%

* Reduced by at least 50% for most trusts.

Rates of tax

Individuals:	10% on gains within UK basic rate band, 20% for gains in UK higher and additional rate bands
Trustees and personal representatives:	20%
Additional rate for residential property and carried interest gains	8%

STAMP DUTY LAND TAX, LAND AND BUILDINGS TRANSACTION TAX AND STAMP DUTY

UK excluding Scotland: SDLT

Residential (on slice of value)	Rate¶	Commercial (on slice of value)	Rate
£125,000 or less	Nil	£150,000 or less	Nil
£125,001 to £250,000	2%	£150,001 to £250,000	2%
£250,001 to £925,000*	5%	Over £250,000	5%
£925,001 to £1,500,000*	10%		
Over £1,500,000*	12%		

** 15% for purchases over £500,000 by certain non-natural persons*
¶ All rates increased by 3% for purchase of additional residential property if value is £40,000 or more

Scotland: LBTT

Residential (on slice of value)	Rate¶	Commercial (on slice of value)	Rate
£145,000 or less	Nil	£150,000 or less	Nil
£145,001 to £250,000	2%	£150,001 to £350,000	3%
£250,001 to £325,000	5%	Over £350, 000	4.5%
£325,001 to £750,000*	10%		
Over £750,000*	12%		

** 15% for purchases over £500,000 by certain non-natural persons*
¶ All rates increased by 3% for purchase of additional residential property if value is £40,000 or more

UK Stamp Duty (including SDRT)

Stocks and marketable securities:	0.5%
No stamp duty charge unless the duty exceeds £5	

CORPORATION TAX

	Year Ending 31 March	
	2017	**2018**
Main rate	20%	19%

TAX-PRIVILEGED INVESTMENTS [MAXIMUM INVESTMENT]

	2016/17 £	**2017/18 £**
ISA		
Overall per tax year:	15,240	20,000
Maximum in cash for 16 and 17 year olds	15,240	20,000
Junior ISA (additional to overall limit for 16-17 year olds)	4,080	4,128
Help to buy ISA	£1,000 initial and £200 a month	
Lifetime ISA	N/A	£4,000
ENTERPRISE INVESTMENT SCHEME (30% income tax relief)	1,000,000*	1,000,000*
Maximum carry back to previous tax year for income tax relief	1,000,000	1,000,000
SEED ENTERPRISE INVESTMENT SCHEME (50% income tax relief)	100,000¶	100,000¶
VENTURE CAPITAL TRUST (30% income tax relief)	200,000	200,000

* No limit for CGT reinvestment relief.

¶ 50% CGT reinvestment exemption in 2016/17 and 2017/18

PENSIONS

	2016/17	**2017/18**
Lifetime allowance*	£1,000,000	£1,000,000
Lifetime allowance charge: Excess drawn as cash lump sum Excess drawn as income	 55% of excess 25% of excess	
Annual allowance	£40,000 **	£40,000 **
Money purchase annual allowance	£10,000	£4,000
Annual allowance charge	20%-45% of excess	
Max. relievable personal contribution	100% relevant UK earnings *or* £3,600 gross if greater	

* May be increased under 2006, 2012, 2014 or 2016 transitional protection provisions.

** If 'Threshold income" is in excess at £110,000 the annual allowance will be reduced by £1 for every £2 the 'Adjusted income' exceeds £150,000, subject to a minimum annual allowance of £10,000.

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee				
	2016/17		2017/18	
	Employee	Employer	Employee	Employer
Main NIC rate	12%	13.8%	12%	13.8%
No NICs on first: Under 21* 21* & over	 £155 pw £155 pw	 £827 pw £156 pw	 £157 pw £157 pw	 £866 pw £157 pw
Main NIC charged up to	£827 pw	No limit	£866 pw	No limit
Additional NIC rate on earnings over	2% £827 pw	N/A	2% £866 pw	N/A
Certain married women	5.85%	13.8%	5.85%	13.8%

* 25 for apprentices

Employment Allowance		
	2016/17	2017/18
Per business*	£3,000	£3,000

* Not available if a director is the sole employee

Limits and Thresholds	2016/17		2017/18	
	Weekly £	Yearly £	Weekly £	Yearly £
Lower earnings limit	112	5,824	113	5,876
Primary earnings threshold	155	8,060	157	8,164
Secondary earnings threshold	156	8,112	157	8,164
Upper secondary threshold – U21s*	827	43,000	866	45,000
Upper earnings limit	827	43,000	866	45,000

* Under 25 for apprentices

Self-employed and non-employed	2016/17	2017/18
Class 2		
Flat rate Small profits threshold	£2.80 pw £5,965 pa	£2.85 pw £6,025 pa
Class 4 (*Unless over state pension age on 6 April)*		
On profits	£8,060 – £43,000 pa: 9% Over £43,000 pa: 2%	£8,164 – £45,000 pa: 9% Over £45,000 pa: 2%
Class 3 (Voluntary)		
Flat rate	£14.10 pw	£14.25 pw

Appendix 2

Previously announced changes for 2017/18

Listed below are what we consider to be the main changes/ proposals/ consultations of direct or indirect relevance to financial planners that were made before the Budget to take effect or be progressed (as appropriate) in the 2017/18 tax year. Where appropriate we have included links to previously published Techlink bulletins that explore the points in more detail.

1. INCOME TAX

For 2017/18 the main income tax allowances and reliefs will be as set down in Appendix 1.

Before 6 April 2017, when determining taxable income, a landlord could broadly deduct mortgage interest from rental income to arrive at their rental profits. From 2017/18 higher/additional rate tax relief will be phased out at the rate of 25% per annum over 4 years. At the same time basic rate tax relief will be given by way of a credit against any higher/additional rate tax payable.

The £1,000 each property income and trading income allowances will apply from 2017/18 and are aimed at "micro-entrepreneurs" such as those letting out property. Where an individual is in receipt of gross income of £1,000 or less in the tax year the income will not be subject to tax and will not need to be reported to HMRC. If the income exceeds £1,000 the individual can choose to take the £1,000 as a deduction against their gross income and pay tax on the excess rather than deducting allowable expenses in the normal way. The trading allowance will also apply to certain miscellaneous income from providing assets or services.

From 6 April 2017 those people who become UK deemed domiciled, excepting those who are born in the UK with a UK domicile of origin, under the new '15 out of 20 years residence' rule will be able to rebase the cost of their holdings in offshore non-reporting funds to 5 April 2017 for income tax purposes. This puts offshore income gains on the same footing as capital gains.

From 2017/18 landlords of residential and commercial properties will be allowed to use the cash basis of accounting for the first time. The types of expense that are deductible for property rental businesses remain unchanged. If the cash accounting basis is adopted there is a "cash basis" box to tick on the tax return.

From 6 April 2017 the National Living Wage for those aged 25 and over increases to £7.50 per hour. The National Minimum Wage hourly rates from 6 April 2017 will be as follows:-

	£
Age 21-24	7.05
Age 18-20	5.60
Under age 18	4.05
Apprentices under age 19	3.50

2. NATIONAL INSURANCE CONTRIBUTIONS

For 2017/18 contribution rates and thresholds will be as set down in Appendix 1.

2017/18 will see the unification of the Class 1 National Insurance thresholds for employees and employees at £157 per week.

Measures to be introduced from 2017/18 are designed to restrict cafeteria remuneration packages which enable employees to sacrifice salary for less highly taxable and NICable benefits. From 6 April 2017 most new arrangements will be subject to employers NICs at 13.8% and the benefit assessed on the employee will be based on the amount of salary given up. There are some limited exemptions, most notably for salary sacrifice schemes linked to pension contributions. Arrangements in place before April 2017 will be protected until April 2018.

3. CAPITAL GAINS TAX

Capital gains tax rates

Furthermore the 2016 autumn statement made no mention of changes to the rates of capital gains tax on capital gains which exceed the annual exemption. These will therefore continue to be at 10% (where gains fall within the investor's basic rate income tax band) and 20% (where gains fall within the investor's higher rate tax band). For gains that are related to carried interest or residential property, the equivalent rates will be 18% and 28%.

For planning opportunities around this area see: Capital Gains Tax Now Raising More Revenue Than IHT

Capital Gains Tax: reduce payment window for residential property

From April 2019 taxpayers will be required to make a payment on account of any CGT due on the disposal of UK residential property within 30 days of the completion of the disposal this is a significant reduction in the payment window from the 31st January after the end of the tax year in which the gain occurred.

A payment on account will not be due on properties which are not liable to CGT because they qualify for principal private residence relief.

4. INHERITANCE TAX

IHT nil rate band frozen

The government will continue to freeze the nil rate band at £325,000 until April 2021. See here for planning opportunities around the frozen nil rate band.

Residence nil rate band

A dedicated residence nil rate band (RNRB) will be introduced with effect from 6 April 2017. The RNRB will be available to estates where death occurs on or after 6 April 2017 and a ‘qualifying residential interest’ (broadly, their home, or a share of one which is included in their estate) is ‘closely inherited’ on death. A compensatory ‘additional nil rate band’ will be available to those who have downsized or disposed of their home on or after 8 July 2015, to compensate for RNRB lost as a result of the downsize or disposal. The RNRB initially starts at £100,000 from April 2017 and goes up by £25,000 each year until it reaches £175,000 by April 2020.

Further details of the rules can be found in the following bulletins and library documents:

The Residence Nil Rate Band

Consequences of the introduction of the New Residence Nil Rate Band

HMRC publishes detailed guidance on the Residence Nil Rate Band

Non-UK domiciled owning UK residential property

With effect from 6 April 2017, UK residential property will be subject to inheritance tax even if owned by a non-UK domiciled individual through an offshore company. Further details of this can be found in the links in the Residence and Domicile section of this Appendix.

5. TRUST TAXATION

Draft clauses included in the Finance Bill 2017 cover the new rules on taxing non-UK domiciled individuals. These are broadly covered in section 6 of this Appendix.

Linked to these changes are the new rules on tax treatment of offshore trusts set up by non-UK domiciled settlors who become deemed domiciled under the new rules, also coming into effect from 6 April 2017. From this date new inheritance tax rules will also apply to all offshore trusts holding UK sited property.

Offshore trusts – protections for existing trusts

To ensure that existing preferential income tax and capital gains tax treatment continues after the settlor has become deemed UK domiciled, the trust will need to be a “Protected Settlement”. A Protected Settlement is one that was established before a settlor became UK deemed domiciled which has not had further property added directly or indirectly by the Settlor after he/she has become UK deemed domiciled.

(i) Capital Gains Tax

Whilst it has protected status, capital gains of the offshore trust will only be taxable on the deemed domiciled UK resident settlor by reference to benefits received by that settlor or, broadly speaking, his/her non-resident “close family members” (spouse, cohabitee, children and adult grandchildren.

This applies to all offshore trusts with a living settlor whether non-domiciled, deemed domiciled or UK domiciled (and so where the UK resident settlor is a non-domiciliary, the remittance basis can be claimed).

Where this results in a charge to tax on the settlor, then he/she will be entitled to reclaim the tax paid from either the beneficiary in receipt of the capital payment, or the trustee of the trust from which the capital payment was made.

(ii) Income Tax

Provided the trust remains a Protected Settlement (see above), from 6 April 2017 it is proposed that foreign income will only be treated as arising to the settlor if, and to the extent that he/she or a close family member receives any benefit from the trust in circumstances where it is not taxable in the hands of the beneficiary under the existing rules (ie where the close family member is non-UK resident or using the remittance basis).

For more details see our Bulletin here.

Offshore trusts holding UK residential property

As confirmed in the autumn statement in December 2016 from April 2017 inheritance tax will be charged on UK residential property when it is held indirectly by a non-domiciled individual through an offshore structure (such as a company or a trust).

6. DOMICILE AND RESIDENCE

Legislation to implement a major reform to the taxation of non-domiciled individuals is included in Finance Bill 2017 and will take effect from 6 April 2017. The main changes will be that:

- Non-UK domiciled individuals (“non-doms”) will be deemed UK domiciled for **all** tax purposes after they have been UK resident for 15 of the past 20 tax years;
- Individuals who were born in the UK and who have a UK domicile of origin will revert to their UK domiciled status for tax purposes if they are resident in the UK in the future (subject to a two-year grace period); and
- UK residential property indirectly held by a non-domicile through an offshore structure will cease to be excluded property from 6 April 2017.

Further information can be found here.

7. DIVIDEND TAXATION FOR INVESTORS

Previous to the announcements made in the Spring Budget, there had been no specific announcements made in regard to changes in dividend taxation.

8. VCT, EIS, SEIS, SITR AND BR INVESTMENTS

Venture Capital Investments

The government will include provisions in the Finance Bill 2017 to amend the requirements for the tax-advantaged venture capital schemes – the Enterprise Investment Scheme (EIS), the Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCTs) to:

- clarify the EIS and SEIS rules for share conversion rights, for shares issued on or after 5 December 2016
- provide additional flexibility for follow-on investments made by VCTs in companies with certain group structures to align with EIS provisions, for investments made on or after 6 April 2017
- introduce a power to enable VCT regulations to be made in relation to certain shares for share exchanges to provide greater certainty to VCTs

Social Impact Tax Relief

As announced at Autumn Statement 2016, the government will amend the requirements for the Social Investment Tax Relief (SITR) scheme. These amendments:

- increase the amount of investment a social investment may receive over its lifetime to £1.5 million for social enterprises that receive their initial risk finance investment no later than 7 years after their first commercial sale, the current limit will continue to apply to older social enterprises
- reduce the limit on full-time equivalent employees to below 250 employees
- exclude certain activities, including asset leasing and on-lending, to ensure the scheme is well targeted - investment in nursing homes and residential care homes will be excluded initially, however the government intends to introduce an accreditation system to allow such investment to qualify for SITR in the future
- exclude the use of money raised under the SITR to pay off existing loans
- clarify that individuals will be eligible to claim relief under the SITR only if they are independent from the social enterprise
- introduce a provision to exclude investments where arrangements are put in place with the main purpose of delivering a benefit to an individual or party connected to the social enterprise

The changes will take effect for investments made on or after 6 April 2017.

Digital Administration

In addition, a consultation into streamlining the Advance Assurance system closed on the 1st February and HMRC/HMT are now analyzing the responses.

The government have confirmed that they will not be introducing flexibility for replacement capital within the tax-advantaged venture capital schemes at this time but will review this over the longer term.

As previously announced HMRC are moving towards digitalisation which, in time, will intend to move the process of claiming SEIS / EIS relief online with a unique identifier replacing the current physical SEIS3 /EIS3 certificate. In the meantime, HMRC have introduced a PDF SEIS3 / EIS3 as a first stage in moving away from paper versions.

The PDF SEIS3 / EIS3 is now available but only in the following circumstances as outlined by HMRC.

The company will be provided with a PDF version of the SEIS3 / EIS3 form and written authority to print, sign and issue a specific number of forms to the investors named on the SEIS1 /EIS1. The underlying claims processes and the requirement for investors to have a paper form will remain in place until the digital service is introduced – there will be no authority to send the investor an unsigned electronic copy.

9. ISAs

ISA, JISA and CTF

The ISA annual subscription limit will increase from £15,240 to £20,000 from 6 April 2017.

The Junior ISA and Child Trust Fund limit will increase from £4,080 to £4,128 from 6 April 2017.

Lifetime ISA

The Lifetime ISA will be available from April 2017 and can be opened by anyone who is aged 18 or over but under 40. It will be possible to save up to £4,000 each year in a Lifetime ISA, although this limit, if used, will form part of the overall annual ISA limit. The product also benefits from a 25% government bonus on the amount saved, so a maximum of £1,000 each year, which will be paid annually in the first year and monthly thereafter.

Please see our bulletins for further information:

Lifetime ISA: A Closer Look

Overview Of A Lifetime ISA v Pension

The Lifetime ISA vs The Help To Buy ISA

10. LIFE POLICY TAXATION

The Autumn Statement confirmed that a statutory relief would be introduced in 2017 for people who make large part surrenders from a non-qualifying life assurance policy (typically a Single Premium Bond) and suffer an excessive chargeable event gain that bears no resemblance to the true economic growth under the life policy.

The background to this is that over the last few years, it has become apparent that if a person makes a large part surrender from a single premium bond (Bond), particularly in the early years, a taxable chargeable event gain can arise under the 5% rules, even though the Bond shows no or little investment growth. In effect the 5% part surrender rules mean that only unused 5% allowances are deducted from the proceeds of the partial surrender leaving the balance amount taxable. Although this problem can be avoided by the policyholder making full surrenders of individual segments/policies, and evidence suggests that more policyholders are going down this route, some are still making large part surrenders and so the legislation needs to be changed to deal with the problem.

HMRC issued a Consultative Document in the Summer of 2016 which put forward three possible ways in which the legislation could be amended to overcome the problem. Following responses to the Consultative Document, the Government announced that it would not be proceeding with any of these three proposals, but would instead introduce a provision that gives HMRC the ability to give discretionary relief to those policyholders affected by this trap.

Draft clause 13 Finance Bill 2017 introduces new sections 507A and 512A to ITTOIA 2005 which will give effect to this relief.

We analysed this is our Bulletin available here:

11. TAXATION OF SHAREHOLDING DIRECTORS

Rates of national insurance contributions

In the December 2016 Autumn Statement, the Chancellor confirmed that:-

- For 2017/18 and future years the thresholds for the payment of NICs for employer and employee will be aligned.

- As previously announced Class 2 NICs will be abolished from April 2018 and it has been confirmed that following abolition the self-employed will build up their entitlement to contributory benefits through Class 3 and 4 NICs.

Corporation tax

In the December 2016 Autumn Statement, the Chancellor reaffirmed that whilst he was committed to the downwards trajectory for corporation tax there should also be a strong commitment to maintaining the tax base.

Consequently, he confirmed that (following the fall to 19% from April 2017) there will be further reduction of the corporation tax rate to 17% in 2020.

Additional planning considerations for SME owner/managers:

Leaving funds in the business

For those business owners that have sufficient 'spendable' income, the most effective way to limit their overall tax bill is to choose to leave profits in the company rather than draw either a dividend or salary. With the top rate of income tax currently at 45%, there is an obvious argument for allowing profits to stay within the company, where the maximum tax rate (for the financial year beginning 1 April 2017) will be 19% and is scheduled to reduce to 17% in 2020.

The government is aware that the disparity in the rate of corporation tax and income tax gives rise to opportunities for tax reduction and it is material. This is particularly the case where the director leaves profits in the company, pays a low rate of corporation tax on those profits with the resulting cash then forming an asset of the company. That cash can then be accessed by the shareholder then liquidating the company and only paying CGT at 10% because of the availability of entrepreneurs' relief. This strategy has tax risks in terms of future changes to the eligibility for CGT entrepreneurs' relief and inheritance tax business property relief. Money left in the company is also money exposed to the claims of creditors, so professional advice should be sought before turning a business into a money box. Furthermore, to combat this practice, the government is looking at ways in which they can prevent this practice by imposing higher tax charges in such circumstances.

It is worth noting that excess cash can result in the loss of Business Relief as the cash is treated as an excepted asset.

Payments to a director/shareholder in 2017/18

For those who need to draw funds out of the company, the next issue that will arise is what is the most tax efficient way to withdraw profits – assuming, of course, that the director needs to withdraw the cash.

One planning point that a number of companies operate is short-term loans to director/shareholders. In this respect, the government have made short-term loans from a company to a shareholder less tax attractive by imposing a 32.5% tax charge if those loans are not repaid within 9 months of the end of the accounting period in which the loan is made. This tax can be reclaimed if and when the loan is repaid.

The more conventional method of drawing profits out of a business is by remuneration or dividends. The dynamics on whether a director/shareholder should draw remuneration from a company by way of remuneration or dividends has changed over the last couple of years because of the taxation changes on dividends.

To recap, since 2016/17 the tax charge on a dividend for a basic rate taxpayer is 7.5%, 32.5% for a higher rate taxpayer and 38.1% for a 45% taxpayer.

However, all taxpayers will be entitled to a £5,000 dividend allowance (effectively a £5,000 nil rate band). This will reduce to £2,000 in 2018/19 and so the position will then change again.

Currently, for a higher rate shareholder/director taxpayer who has their full dividend allowance available, drawing dividends will still be more financially attractive than bonuses.

For those who are looking at remuneration strategies in 2017/18, the best strategy to adopt will obviously depend on all the tax circumstances of the individual or company. But despite the increased tax rate on dividends in excess of the allowance, dividend payments will mostly remain preferable due to the NIC saving. Of course, with the reduction in the dividend allowance to £2,000 in 2017/18, the position will need to be reviewed.

For example, let's take the case of Bill who is the controlling shareholder of a private company which has £25,000 of gross profits which he wishes to draw, either as bonus or dividend in 2017/18. Assuming the company pays corporation tax at the rate of 19% and Bill is already a higher rate taxpayer with annual income in excess of £45,000, the choice in 2017/18 can be summarised thus:

	Bonus		**Dividend**	
	£		**£**	
	40% tax	**45% tax**	**40% tax**	**45% tax**
Amount available (gross profit)	25,000	25,000	25,000	25,000
Corporation tax @ 19%	N/A	N/A	(4,750)	(4,750)
Dividend	N/A	N/A	20,250	20,250
Employer's National Insurance Contributions £21,968 @ 13.8%	(3,032)	(3,032)	N/A	N/A
Gross bonus	21,968	21,968	N/A	N/A
Director's NICs £21,968@ 2%	(439)	(439)	N/A	N/A
Income tax *	(8,787)	(9,886)	(4,950) **	(5,810) **
Net benefit to director	**12,742**	**11,643**	**15,294**	**14, 440**

** Amount available as a bonus to director is net of employer's national insurance contributions*

**Assumes full £5,000 dividend allowance is available*

Of course, in 2018/19, the dividend allowance will reduce to £2,000 and this means that the net benefit to a director taking a dividend will reduce to £14,318 (40% taxpayer) and £13,296 (45% taxpayer). Therefore the dividend route will remain preferable to a tax but with the net benefit having been somewhat reduced.

Employing the spouse

The Employment Allowance (EA) which increased to £3,000 with effect from 6 April 2016, is not available for employers with only one employee – typically the director/shareholder. In such cases it may therefore be worth the company employing the spouse. For 2017/18 it will make little sense for the spouse to be paid more than the primary threshold (£157 a

week) because above this level employee's NIC are payable. Any gain in net income has to be considered against the hassle of paying (and deducting) NICs.

In 2017/18 the employee will still be liable for NICs once their earnings exceed £157 a week, but the employer's NIC liability will be removed by the EA until their sole employee earns more than about £29,851 a year.

Where a non-taxpaying spouse can be legitimately employed in a business, income of up to £11,500 can be paid in 2017/18 without income tax liability. The payment of remuneration should be deductible for the employer provided reasonable services are provided by the employee – the deduction being based on the "wholly and exclusively" principle. Earnings would need to be restricted to £8,164 to avoid employer and employee NICs.

Such tax planning must always ensure that the spouse's level of pay can be justified. An increase from, say, £7,500 a year to £29,851 a year just to utilise the EA could well invite HMRC scrutiny. Where the employed spouse has little other income, an increase to make full use of their personal allowance is clearly now much more attractive.

If the director/shareholder was prepared to transfer shares to a spouse, it may be possible to use the spouse's £5,000 dividend allowance on any subsequent dividend declaration.

Pension Planning

Pension contributions remain an effective means of reducing tax for the small business. Last year, provisions were introduced to reduce the Annual Allowance for those with adjusted income (AI) in excess of £150,000 and threshold income in excess of £110,000. For somebody with AI of £210,000 their annual allowance reduces to the minimum of £10,000. People caught by this provision should review their level of contributions.

The carry forward rules allow any unused annual allowance to be carried forward for a maximum of three years. Thus 5 April 2017 is the last opportunity to rescue unused relief from 2013/14. With the introduction of a tapered reduction in the annual allowance for 45% taxpayers from 6 April 2016, there is even more reason for directors/shareholders to consider using the carry forward rules in the run-up to 6 April 2017.

12. CORPORATION AND BUSINESS TAX

In the December 2016 Autumn Statement, the Chancellor reaffirmed that whilst he was committed to the downwards trajectory for corporation tax there should also be a strong commitment to maintaining the tax base.

Consequently, he confirmed that (following the fall to 19% from April 2017) there will be further reduction of the corporation tax rate to 17% in 2020.

The following subjects were also addressed in the Autumn Statement or the Budget 2016 with reforms scheduled for April 2017:

Tax deductibility of corporate interest expense

As announced at Budget 2016 and following consultation, the government will introduce legislation with effect from 1 April 2017 to limit the tax deductions that companies can claim for their interest expenses. The new rules will restrict each group's net deductions for interest to 30% of the earnings before interest, tax, depreciation and amortisation (EBITDA) that is taxable in the UK. An optional group ratio rule, based on the net-interest to EBITDA ratio for the worldwide group, may permit a greater amount to be deducted in some cases.

The legislation also provides for repeal of the existing debt cap legislation and its replacement by a modified debt cap which will ensure that the net UK interest deduction doesn't exceed the total net interest expense of the worldwide group. All groups will be able to deduct up to £2 million of net interest expense per annum, so groups below this threshold will not need to apply the rules.

Following comments on the draft legislation, changes to the proposed rules will be reflected in Finance Bill 2017, to ensure the rules don't give rise to unintended consequences or impose unnecessary compliance burdens.

Reform of loss relief

As announced at Budget 2016, the government will legislate in Finance Bill 2017 to reform the rules governing corporate losses carried forward from earlier periods.

The reform will:

- give all companies more flexibility by relaxing the way in which they can use losses arising on or after 1 April 2017 when they are carried forward - these losses will be usable against profits from different types of income and profits of other group companies

- restrict the use of losses carried forward by companies so that they can't reduce their profits arising on or after 1 April 2017 by more than 50% - this restriction will apply to a company or group's profits above £5 million - carried forward losses arising at any time will be subject to the restriction

The loss relief reform will take effect from 1 April 2017.

Bringing non-resident companies' UK income into the corporation tax regime

As announced at Autumn Statement 2016, the government will consult on the case and options for bringing non-UK resident companies, who are currently chargeable to Income Tax on their UK taxable income, and to non - resident Capital Gains Tax (CGT) on certain gains, within the scope of Corporation Tax. Under such a move, these companies would then be subject to the rules which apply generally for the purposes of Corporation Tax, including the limitation to corporate interest expense deductibility and loss relief rules.

Authorised investment funds: dividend distributions to corporate investors

As announced in the Autumn Statement, the government will modernise the rules on the taxation of dividend distributions to corporate investors in a way which allows exempt investors, such as pension funds, to obtain credit for tax paid by authorised investment funds and will publish proposals in draft secondary legislation in early 2017.

Simplified cash basis for unincorporated businesses

As announced in January 2017, the government will legislate in Finance Bill 2017 to provide a simple list of disallowed expenditure in order to simplify the rules for allowable deductions within the cash basis. Following consultation, the legislation has been revised slightly to make certain that specific items are clearly excluded from the list, and to ensure the rules for moving between the cash basis and accruals accounting are robust. Minor amendments have also been made to improve clarity. These changes will have effect from April 2017, though for the 2017 to 2018 tax year trading profits can be calculated using either the new rules or the existing rules.

Simplified cash basis for unincorporated property businesses

As announced in August 2016 and confirmed at Spring Budget 2017, the government will legislate in Finance Bill 2017 to allow most unincorporated property businesses (other than Limited Liability partnerships, trusts, partnerships with corporate partners or those with receipts of more than £150,000) to calculate their taxable profits using a cash basis of accounting. Landlords will continue to be able to opt to use Generally Accepted Accounting Principles (GAAP) to prepare their profits for tax purposes.

Those with both a UK and an overseas property business will be able to choose separately whether to use the cash basis or GAAP for each. Those with a trade as well as a property business both eligible for the cash basis, will be able to decide separately for each of these, and persons other than spouses or civil partners who jointly own a rental property will be able to decide individually.

To align the treatment with those who opt to use GAAP, the initial cost of items used in a dwelling house will also not be an allowable expense under the cash basis. The existing ‘replacement of domestic items relief’ will continue to be available for the replacement of these items when the expenditure is paid. Interest expense will be treated consistently between those using the cash basis and those using GAAP.

The changes will have effect from 6 April 2017.

13. EMPLOYEE BENEFITS

Trivial benefits in kind

Following the publication by HMRC of the draft guidance on a new exemption for low value (or 'trivial') benefits in kind in February 2016, section 13 of the Finance Act 2016 added s 323A to ITEPA 2003 which provides a statutory exemption from tax for qualifying trivial benefits in kind costing £50 or less. An annual cap of £300 applies for directors and other

office holders of close companies and members of their families and households who are also employees of the company.

Termination payments

From April 2018, the government will tighten the scope of the income tax exemption for termination payments to prevent manipulation. Termination payments over £30,000 which are subject to income tax will also be subject to employer National Insurance contributions. The government undertook a technical consultation on tightening the scope of the exemption which closed on 5 October 2016.

Salary sacrifice

Following a consultation the government has announced its intention to limit the range of benefits that attract income tax and NICs advantages when provided as part of salary sacrifice schemes. However, the likes of pension contributions, childcare and health-related benefits like Cycle to Work will continue to benefit from income tax and National Insurance relief for the time being.

Disguised remuneration

Technical consultation on this ran from 10 August to 5 October 2016 and draft legislation was published for inclusion in the Finance Bill 2017 which includes a retrospective tax charge on loans to employees (including those from third parties) that remain outstanding at 5 April 2019 where the loan has not been taxed and no settlement has been agreed with HMRC.

In February 2017 HMRC issued guidance to employers who are paying staff or contractors with private annuities which confirms that HMRC consider these to be a form of disguised remuneration.

Official rate of interest

The official rate of interest' that applies to employment-related loans will be held at 3.0% for the tax year 2017/18.

Off-payroll working in the public sector

As announced at Budget 2016 and confirmed at Autumn Statement 2016, the government will legislate in Finance Bill 2017 to reform the off-payroll rules and improve compliance in the public sector. Responsibility for operating the off-payroll working rules, and deducting any tax and NICs due, will move to the public sector body, agency or other third party paying an individual’s personal service company. The change will come into effect from 6 April 2017 and apply across the UK.

As a result of feedback received during the technical consultation, it will be optional for the agency or public sector body to take account of the worker’s expenses when calculating the tax due. This change would put these workers in the same position as other employees, whose employers can choose whether or not to reimburse the expenses they incur. This will not affect the individual’s right to claim tax relief on legitimate employment expenses from HM

Revenue and Customs (HMRC). The application of the rules to Parliament and statutory auditors will also be clarified.

14. CAPITAL ALLOWANCES

The annual investment amount permanently increased to £200,000 for all qualifying investment in plant and machinery made on or after 1 January 2016.

15. PENSIONS

Money Purchase Annual Allowance

From 6 April 2017 we should see the MPAA drop from £10,000 to £4,000 as announced in the Autumn Statement, although we still await the outcome of the consultation. More information on the proposed drop can be found here.

Closure of Individual Protection 2014 applications

The deadline for applications for Individual Protection 2014 is 5th April 2017. Applications for Individual Protection 2016 and Fixed Protection 2016 remain open indefinitely. More details on transitional protections can be found here.

Removal of the 2% minimum GAD rates for capped drawdown

From 1 July 2017 (originally announced as 6th April 2017) the extended GAD tables are to be used for calculating the maximum income for those in capped drawdown. The extended tables have been extended to deal with Gilt Yields as low as zero, whereas it was previously capped at 2%.

State pension top-up deadline

The state pension national insurance top up applications will cease on the 5th April 2017. It has been available to those eligible since 12 October 2015. Applications for Class 3A national insurance contributions can be made up to and including 5th April 2017 with payment required within 30 days of HMRC sending out the payment pack. More details on the state pension top up can be found here.

Carry forward

The maximum pension contributions for those with full carry forward will reduce to £160,000 in 2017/18 from £170,000 in 2016/17. The reason being is that it's now been 3 years since the drop in the annual allowance from £50,000 to £40,000. This is the lowest the annual allowance has been to date, although for those impacted by the tapered annual allowance and/or the money purchase annual allowance they will not be entitled to the full allowance.

16. PROPERTY TAX

Property investments/rental income

Tax relief on mortgage interest is to be phased out starting from 2017/18, at the additional and higher rate, over a period of four years so that by 2020/21 tax relief will only be available at the basic rate. The phase out of higher/additional rate tax relief will be at 25% per year. From 2017/18 basic rate tax relief will be given by way of a credit for deduction against any higher/additional rate tax payable. For more information see here and here.

As announced at Budget 2016, and confirmed at Autumn Statement 2016, the government will legislate in Finance Bill 2017 to create 2 new income tax allowances of £1,000 each, for trading and property income which can be deducted from income instead of actual expenses. Following the publication of the draft legislation, revisions will be made to prevent the allowances from applying to income of a participator in a connected close company or to any income of a partner from their partnership.

Following a period of consultation, the government has announced will move ahead with the introduction of legislation which will allow most unincorporated property businesses (other than limited liability partnerships, trusts, partnerships with corporate partners or those with receipts of more than £150,000) to calculate their taxable profits using a cash basis of accounting. Legislation will be introduced in Finance Bill 2017 to take effect from April 2017. Landlords will continue to be able to opt to use Generally Accepted Accounting Principles (GAAP) to prepare their profits for tax purposes and those with both a UK and an overseas property business will be able to choose separately whether to use the cash basis or GAAP for each.

Inheritance tax

A dedicated residence nil rate band (RNRB) will be introduced with effect from 6 April 2017.

With effect from 6 April 2017, UK residential property will be subject to inheritance tax even if owned by a non-UK domiciled individual through an offshore company. Shares in an offshore company owned by an excluded property trust will also from that date be relevant property to the extent that they derive their value from UK residential property. Further details of this can be found in the links in the Residence and Domicile section of this Appendix.

Capital gains tax

From April 2019 taxpayers will be required to make a payment on account of any CGT due on the disposal of UK residential property within 30 days of the completion of the disposal. This is a significant reduction in the payment window from the 31st January after the end of the tax year in which the gain occurred.

A payment on account will not be due on properties which are not liable to CGT because they qualify for principal private residence relief.

17. TAX AVOIDANCE

Disguised remuneration schemes

Budget 2016 announced changes to tackle use of disguised remuneration schemes by employers and employees. The government will now extend the scope of these changes to tackle the use of disguised remuneration avoidance schemes by the self-employed. This will ensure that self-employed users of these schemes pay their fair share of tax and National Insurance.

Further, the government will take steps to make it less attractive for employers to use disguised remuneration avoidance schemes, by denying tax relief for an employer's contributions to disguised remuneration schemes unless tax and National Insurance are paid within a specified period.

Strengthening tax avoidance sanctions and deterrents

As signalled at Budget 2016, to provide a strong deterrent to those enabling tax avoidance, the government will introduce a new penalty for any person who has enabled another person or business to use a tax avoidance arrangement that is later defeated by HMRC. This new regime will reflect an extensive consultation and input from stakeholders and details will be published in draft legislation shortly. The government will also remove the defence of having relied on non-independent advice as taking 'reasonable care' when considering penalties for any person or business that uses such arrangements.

It is important to remember though that these sanctions are directed at (aggressive) tax avoidance schemes that are later defeated by HMRC. To be 'defeated' the scheme needs to be 'attacked' in the first place. This means that tax effective arrangements specifically permitted by legislation (eg. registered pensions, ISAs, offshore bonds, EIS and VCT schemes) or accepted as effective, such as DGTs and loan trusts. So 'enablers' of these types of arrangement are at no risk from these sanctions and deterrents.

HMRC counter avoidance

The government is investing further in HMRC to increase its activity on countering avoidance and taking cases forward for litigation, which is expected to bring forward over £450 million in revenue by 2021/22.

The taxation of different forms of remuneration (including salary sacrifice)

Employers can choose to remunerate their employees in a range of different ways in addition to a cash salary. The tax system treats these different forms of remuneration inconsistently and sometimes more generously. The government will therefore consider how the system could be made fairer between workers carrying out the same work under different arrangements and will look specifically at how the taxation of benefits in kind and expenses could be made fairer and more coherent. The government will take the following action:

Following consultation, the tax and employer National Insurance advantages of salary sacrifice schemes will be removed ***from April 2017***, except for arrangements relating to pensions (including advice), childcare, Cycle to Work and ultra-low emission cars. This will

mean that employees swapping salary for benefits will pay the same tax as the vast majority of individuals who buy them out of their post-tax income. *Arrangements in place before April 2017 will be protected until April 2018, and arrangements for cars, accommodation and school fees will be protected until April 2021.*

The exclusion of pension-related salary sacrifice arrangements from these provisions was noted in the consultation and it is reassuring that it will be carried through into legislation.

Tax and NICs rules for pay-offs

Certain forms of termination payments are exempt from employee and employer National Insurance contributions and the first £30,000 is income tax free. The rules are complex and the exemptions incentivise employers to manipulate the rules, structuring arrangements to include payments that are ordinarily taxable such as notice and bonuses to minimise the tax and National Insurance due.

From April 2018, the government will tighten the scope of the exemption to prevent manipulation and align the rules so employer National Insurance contributions are due on those payments above £30,000 that are already subject to income tax. The government will continue to support those individuals who lose their job. The first £30,000 of a termination payment will remain exempt from income tax and the full payment will be outside the scope of employee NICs.

Off-payroll engagement in the public sector

Some individuals who work through their own limited company are undertaking jobs that would ordinarily mean they are employees of the business that they are working for. In those circumstances, existing legislation on off-payroll working requires them to pay broadly the same taxes as employees. However, non-compliance with these rules is costing the taxpayer around £440 million a year – and these costs are rising.

Public sector bodies have a responsibility to taxpayers to ensure that the people working for them are paying the right tax. From April 2017, where the public sector engages an off-payroll worker through their own limited company, that body (or the recruiting agency if the public sector body engages through one) will become responsible for determining whether the rules should apply, and for paying the right tax. This strengthens the public sector's role in ensuring that the workers it engages comply with the rules.

The government also recognises that the current rules are seen as complex and can create uncertainty. It will therefore consult on a simpler set of tests and online tools that will provide a clear answer as to whether and when the rules should apply.

18. TAX SIMPLIFICATION

Recently, along with tax avoidance, HMRC has been focusing on tax simplification and has been eager to digitalise the tax system. Earlier in the year various consultations were launched on how the tax system can be transformed to move to a digital system. However, further work is still required and will be considered over the next couple of years.

Please see our earlier bulletins for more information:

Making Tax Digital Consultations

Treasury Committee Publishes Report On Making Tax Digital

Making Tax Digital: An Update

19. CHILDCARE

As announced in March 2016, Tax-Free Childcare will be rolled out from early 2017 with a view to it replacing the existing Childcare Voucher Scheme in April 2018. For eligible families, Tax-Free Childcare offers to cover 20% of childcare costs up to a maximum £2,000 per child, per year, for able-bodied children up to the age of 12; and up to £4,000 per year for disabled children up to the age of 17. To qualify, parents must be in work, earning more than £115 per week and not more than £100,000 per year. Unlike the existing scheme, tax-free childcare will also be available to self-employed parents.

From September 2017 free childcare entitlement will double from 15 hours to 30 hours a week for working families of 3 and 4 year-olds, worth up to £5,000 per child per year.

MEASURES UNCHANGED FOLLOWING CONSULTATION

The following measures were published for consultation on the draft legislation on 5 December 2016. Following these consultations there has been no significant changes to the legislation, which will appear in Finance Bill 2017.

Measure unchanged following consultation are:

- Deduction of Income Tax at source from savings income
- Starting rate of savings
- PAYE Settlement Agreements (PSA) - simplifying the process for and clarifying use
- Power to use force to gain entry to vehicles or vessels - Amendment to the Customs and Excise Management Act 1979
- Employer Provided Pensions Advice Exemption
- VAT: Zero-rate on adapted motor vehicles for wheelchair users-reform
- Partial Enquiry Closure Notices
- Assets made available to employees without transfer
- Simplification of exemptions for employee liabilities and indemnity insurance
- Abolition of Employee Shareholder Status tax reliefs
- Personal portfolio bonds – reviewing the property categories
- Authorised Contractual Schemes - Reducing tax complexity for investors
- Personal Tax - Company Car Tax for ultra-low emission cars
- Business Tax - First-year allowances for electric charging points
- Northern Ireland top-up payments
- Corporation Tax charge for financial year 2018
- Business Investment Relief
- Power to examine and take account of goods at any place - Amendment to section 24 of the Finance Act 1994
- Hidden Economy - Data from Money Service Businesses