PKF Littlejohn LLP

PKF

Accountants & business advisers

Tax Insights

Spring Budget 2017

What it means for you.

We've reviewed and analysed today's Budget so you don't have to. Here are our thoughts on the announcements and how they might affect you.

www.pkf-littlejohn.com

Spring
Budget
2017

Key points

PERSONAL ALLOWANCE
Increases to
£11,500 in 2017,
to £12,500 by 2020

INCOME TAX RATES
Higher rate band
to £50,000 by 2020

CORPORATION TAX
Falls to 19% from
April 2017 and
17% from 2020

SALARY SACRIFICE
Tax and NI
advantages to be
removed

NON-DOMS
Tighter rules
will apply from
April 2017

DIVIDEND TAX FREE ALLOWANCE
Reduced from
£5,000 to £2,000
from April 2018

SELF EMPLOYED
National insurance
contributions
increase by 1%
from April 2018

POLICY DROPPED

INSURANCE PREMIUM TAX
Increases by
2% to 12%
from June 2017

Spring
Budget
2017

We didn't think it was going to be exciting.

Let me give you an insight into how we normally prepare our Budget Day reports.
The Chancellor stands up at 12:30. Once he has finished running through the growth forecasts and moves onto taxation announcements, we frantically scribble down the new measures, pass notes between ourselves to clarify our understanding, tweet as much as we possibly can, and hope we don't miss anything. At 1:30 he sits down, the Budget documents and 'Red Book' are released, and we desperately try to cram as many announcements as possible into a readable report before our publication deadlines.

Today we've heard about an increase in the rate of National insurance for self-employed individuals, a reduction in the year old tax free dividend allowance from £5,000 to £2,000, and a welcome one year delay (to 2019) to the introduction of Making Tax Digital for unincorporated businesses and landlords with income below the VAT registration threshold. To fill a report with those three measures and other more minor announcements has proved a challenge.

Therefore, as there is little new to report, we also have space to refresh previously announced changes that will take effect from April 2017.

On the bright side, we should all welcome a stable and predictable tax system. We certainly have that at present.

This guide has been updated to reflect the decision by the chancellor on 15 March not to proceed with the increase in the rate of National Insurance for self employed individuals.

Chris Riley, Head of Tax
PKF Littlejohn LLP
t: +44 (0)20 7516 2427
e: criley@pkf-littlejohn.com

1. Your money

Key contacts

Global Mobility
Joseph Brown
t: +44 (0)20 7516 2252
e: jbrown@pkf-littlejohn.com

US/UK Expatriate Taxation
Jonathan Boyfield
t: +44 (0)20 7516 2255
e: jboyfield@pkf-littlejohn.com

Private Clients
Karen Ozen
t: +44 (0)20 7516 2273
e: kozen@pkf-littlejohn.com

Private Clients
Diana Lancaster
t: +44 (0)20 7516 2278
e: dlancaster@pkf-littlejohn.com

Today it was announced that:

- The Dividend Allowance introduced by the Government from 6 April 2016 will reduce from £5,000 to £2,000 from 6 April 2018.
- The Government will consult on proposals to redesign rent-a-room relief, to ensure it is better targeted to support longer-term lettings. This will align the relief more closely with its intended purpose of increasing the supply of affordable long-term lodgings.
- The use of the cash basis for reporting business profits is to be extended to unincorporated landlords. The Government will also increase the turnover entry threshold to £150,000 and the exit threshold to £300,000. The rules for distinguishing between capital and revenue expenditure will be simplified, to make it easier for businesses using the cash basis to work out whether their expenditure is deductible for tax.
- The abolition of Class 2 National Insurance Contributions (NICs) for the self-employed from 6 April 2018 has been confirmed and the Government had planned to increase the rate of Class 4 NICs paid by the self-employed and members of partnerships at the same time. However the Chancellor has since abandoned plans to increase the main rate of Class 4 NICs. He is expected to use the Autumn Budget to recover lost revenue from the NIC changes.
- The Government plans to require businesses and landlords to report their income and expenses to HMRC on a quarterly basis through a digital medium, known as 'Making Tax Digital'. The first tranche of taxpayers to file on this basis are due to start from 6 April 2018. Against a background of opposition from within the industry, the Government has now announced that businesses and landlords with turnover below the VAT threshold (£85,000 for 2017/18) will have their mandated implementation date delayed by one year to 6 April 2019.
- Some employers make payments to their employees for image rights under a separate contract outside of their employment contract. The Government will publish guidelines for employers who undertake such payments to improve the clarity of the existing rules.

We already knew that:

- The Personal Allowance for individuals will increase from 6 April 2017 to £11,500, rising again in 2018/19, until it reaches £12,500 by the end of this Parliament. The threshold for higher rate tax will also increase next month to £45,000, and is set to reach £50,000 by the end of this Parliament.
- The tax and national insurance advantages of salary sacrifice arrangements will be removed from 6 April 2017, with the exception of arrangements relating to pensions, childcare, cycle to work and ultra-low emission cars. However, any arrangements already in place before 6 April 2017 will be protected until 5 April 2018, with further protection until 5 April 2021 for arrangements for cars, accommodation and school fees. The Government has announced that it will publish a Consultation Document to review the tax treatment of employer-provided accommodation and board and lodgings.
- The Government plans to legislate in the Finance Bill 2017 to tighten and clarify the tax treatment of payments made on the termination of employment. This will include making all contractual and non-contractual payments in lieu of notice taxable as earnings and requiring employers to tax the equivalent of an employee's basic pay if notice is not worked. Other changes will include charging national insurance on the excess over £30,000 and the abolition of the foreign-service relief. The changes are intended to take effect from 6 April 2018.

2. Your capital

Key contacts

Trusts and Capital Taxes
Barry Luscombe
t: +44 (0)20 7516 2204
e: bluscombe@pkf-littlejohn.com

Wealth Management
Mark Quaye
t: +44 (0)20 7516 2220
e: mquaye@pkf-littlejohn.com

Property Taxes
Jonathon Collins
t: +44 (0)20 7516 2226
e: jcollins@pkf-littlejohn.com

Today it was announced that:

- An NS&I Investment Bond will be available for 12 months from April 2017. The Bond will offer a rate of 2.2% over a term of 3 years. Those aged 16 and over may invest between £100 and £3,000.
- The Government will introduce a 25% charge on transfers to Qualifying Recognised Overseas Pension Schemes (QROPS). The charge is targeted at those looking to reduce the tax payable by moving their pension fund to another jurisdiction. Exceptions will apply where there is a genuine need to transfer overseas, including when the individual and the pension are both located within the European Economic Area.

We already knew that:

- The Inheritance Tax (IHT) nil-rate band will remain frozen at £325,000.
- An additional IHT nil-rate band is to be introduced from 6 April 2017 where a residence is passed on death to direct descendants. For 2017/18, the band is £100,000. The additional nil-rate band will be gradually withdrawn where the estate is valued at more than £2 million.
- From 6 April 2017, Inheritance Tax will be charged on UK residential property interests held indirectly by a non-domiciled individual through an offshore structure such as a company or trust.
- From 6 April 2017, individuals who have been in the UK for 15 of the past 20 years will be treated as domiciled in the UK for Income Tax, Capital Gains Tax and Inheritance Tax purposes. Transitional arrangements will allow those who become UK domiciled to rebase their overseas assets for Capital Gains Tax.
- All non-domiciles claiming the remittance basis will be given a two-year window to rearrange their offshore bank accounts to separate capital from foreign income and gains.
- From 6 April 2017, the annual limit for subscription to an ISA will increase to £20,000 from £15,240. The annual limit for Junior ISAs and Child Trust Funds will be increased to £4,128.
- From 6 April 2017, a Lifetime ISA will be available for those under the age of 40 to save up to £4,000 each year with a Government bonus of 25% on contributions, which can be withdrawn tax-free to buy a first home or at age 60.
- The limit for recycling a tax-free lump sum from one pension scheme into another will be reduced from £10,000 to £4,000 from 6 April 2017.
- The annual charges for the Annual Tax on Enveloped Dwellings (ATED) will rise in line with CPI inflation for the year ending 31 March 2018.
- A new penalty will be introduced for any person who has enabled another person or business to use a tax avoidance arrangement that is later defeated by HMRC.

Spring Budget 2017

3. Your business

Key contacts

Business Tax – Owner Managed
Catherine Heyes
t: +44 (0)20 7516 2237
e: cheyes@pkf-littlejohn.com

Business Tax – Employment
Ian Gadie
t: +44 (0)20 7516 2256
e: igadie@pkf-littlejohn.com

Business Tax - International
Tom Gareze
t: +44 (0)20 7516 2212
e: tgareze@pkf-littlejohn.com

Business Tax – Insurance
Mimi Chan
t: +44 (0)20 7516 2264
e: mchan@pkf-littlejohn.com

VAT and Customs Duties
Nick McChesney
t: +44 (0)20 7516 2262
e: nmcchesney@pkf-littlejohn.com

VAT and IPT
Luigi Lungarella
t: +44 (0)20 7516 2228
e: llungarella@pkf-littlejohn.com

Not for Profit
Sarah Kelsey
t: +44 (0)20 7516 2298
e: skelsey@pkf-littlejohn.com

Today it was announced that:

- The Government plans to make administrative changes to the Research and Development Expenditure Credit, which applies for large companies and groups. In addition to this, it will take action to improve awareness of R&D tax credits among SMEs to further support investment into the UK.
- A review will be undertaken to ensure that high growth businesses can access the long-term capital that they need to fund productivity enhancing investment. The review will also consider existing tax reliefs aimed at encouraging investment and entrepreneurship to make sure that they are effective and well targeted.
- Further transitional measures have been announced to ease the effect of the business rates revaluation.
- The VAT registration threshold will increase from £83,000 to £85,000 and the deregistration threshold from £81,000 to £83,000 from 1 April 2017.
- The Landfill Communities Fund will remain unchanged for 2017-18, with an increase in caps on contributions to 5.3% for landfill operators. There will also be consultation to extend the scope of Landfill Tax to illegal disposal of waste.
- The Government will remove the VAT use and enjoyment provisions for business to consumer mobile phone services to individuals. This will mean that UK VAT is applied to mobile phone use by UK residents when roaming both inside and outside the EU. Currently there is no charge to VAT where there is evidence of use of telecommunications services outside the EU.

We already knew that:

- From April 2017, rules will be introduced to limit the tax deductions that large groups can claim for their UK interest expense. These rules will potentially limit deductions where a group has net interest expense of more than £2 million.
- Legislation will restrict the amount of profit that can be offset by carried forward losses to 50% from April 2017, while allowing greater flexibility over how losses incurred after that date can be utilised. The restriction will be subject to a £5 million allowance for each group.
- Changes will be made to the Substantial Shareholding Exemption to simplify the rules to qualify for the exemption from April 2017.
- More specific provisions will be added to the Patent Box Rules to cover the situation where R&D is undertaken collaboratively by two or more companies under a 'cost sharing arrangement'. This will be effective for accounting periods commencing on or after 1 April 2017.
- The National Living Wage will be increased from £7.20 to £7.50 per hour from April 2017. There will also be further increases to the National Minimum Wage for 16 – 24 year olds and an increase in the rate for apprentices to £3.50 per hour.
- National Insurance thresholds for both Employer and Employee rates will be aligned from April 2017. This means that both will trigger at earnings above £157 per week.
- Insurance Premium Tax will increase from 10% to 12% from 1 June 2017.
- A new upper VAT flat rate of 16.5% will be introduced from 1 April 2017. This will affect businesses using the Flat Rate Scheme that have minimal VAT bearing expenditure.

Spring Budget 2017

National insurance contributions (NICs)

2017/18	Employee (primary)	Employer (secondary)
Class 1		
Payable on weekly earnings of:		
Below £113 (lower earnings limit)	Nil	–
£113 - £157 (primary threshold)	*0%	–
Up to £157 (secondary threshold)	–	Nil
Above £157	–	13.8%
£157.01 - £866 (upper earnings limit)	**12%	–
£157.01 - £866 upper secondary threshold (UST) for under 21s	12%	0%
£157.01 - £866 apprentice upper secondary threshold (AUST) for under 25s	12%	0%
Above £866	**2%	-

*No NICs are actually payable but notional Class 1 NIC is deemed to have been paid; this protects contributory benefit entitlement. **Over state pension age, the employee contribution is generally nil.

Income tax and personal savings

Income Tax

	2017/18	2016/17
Basic rate band – income up to	***£33,500	***£32,000
Starting rate for savings income	*0%	*0%
Basic rate	20%	20%
Dividend ordinary rate	**7.5%	**7.5%
Higher rate – income over	***£33,500	***£32,000
Higher rate	40%	40%
Dividend upper rate	**32.5%	**32.5%
Additional rate – income over	£150,000	£150,000
Additional rate	45%	45%
Dividend additional rate	**38.1%	**38.1%
Starting rate limit (savings income)	*£5,000	*£5,000

From 6 April 2016 The Scottish Parliament has the power to set a separate rate of income tax for Scottish taxpayers. The above shows the main rates and allowances. There are some minor differences for 2017/18 if you are a Scottish tax payer. *If an individual's taxable non-savings income exceeds the starting rate limit, then the starting rate limit for savings will not be available for savings income. £1,000 of savings income for basic rate taxpayers will be tax-free. For higher rate taxpayers the limit is £500 and for additional rate there is no exemption. **The first £5,000 of dividends are charged at 0%. ***Plus personal allowance where available (see below).

Personal allowances (PA)

	2017/18	2016/17
Personal allowance	£11,500	£11,000
Married couple's allowance (MCA) (relief given at 10%) Either partner born before 6 April 1935	*£8,445	*£8,355
Transferable Tax Allowance ('Marriage Allowance') For certain married couples (relief given at 20%)	£1,150	£1,100

*Allowances are reduced by £1 for every £2 that adjusted net income exceeds £28,000 (£27,700 for 2016/17) to a minimum MCA of £3,260 (£3,220 for 2016/17).
Where adjusted net income exceeds £100,000, PA is reduced in the same way until it is nil.

Our expert team can help you understand the impact of the Budget on you and your business.

To find out more, please contact us.

Spring Budget 2017

Corporate/International Tax

Chris Riley
t: +44 (0)20 7516 2427
e: criley@pkf-littlejohn.com

Global Mobility

Joseph Brown
t: +44 (0)20 7516 2252
e: jbrown@pkf-littlejohn.com

Property Taxes

Jonathon Collins
t: +44 (0)20 7516 2226
e: jcollins@pkf-littlejohn.com

US/UK Expatriate Taxation

Jonathan Boyfield
t: +44 (0)20 7516 2255
e: plett@pkf-littlejohn.com

Trusts and Capital Taxes

Barry Luscombe
t: +44 (0)20 7516 2204
e: bluscombe@pkf-littlejohn.com

Wealth Management

Mark Quaye
t: +44 (0)20 7516 2220
e: mquaye@pkf-littlejohn.com

Not for Profit

Sarah Kelsey
t: +44 (0)20 7516 2298
e: skelsey@pkf-littlejohn.com

VAT and IPT

Luigi Lungarella
t: +44 (0)20 7516 2228
e: llungarella@pkf-littlejohn.com

Business Tax - International

Tom Gareze
t: +44 (0)20 7516 2212
e: tgareze@pkf-littlejohn.com

Business Tax - Owner Managed

Catherine Heyes
t: +44 (0)20 7516 2237
e: cheyes@pkf-littlejohn.com

Business Tax - Insurance

Mimi Chan
t: +44 (0)20 7516 2264
e: mchan@pkf-littlejohn.com

Business Tax - Employment

Ian Gadie
t: +44 (0)20 7516 2256
e: igadie@pkf-littlejohn.com

VAT and Customs Duties

Nick McChesney
t: +44 (0)20 7516 2262
e: nmcchesney@pkf-littlejohn.com

Private Clients

Karen Ozen
t: +44 (0)20 7516 2273
e: kozen@pkf-littlejohn.com

Private Clients

Diana Lancaster
t: +44 (0)20 7516 2278
e: dlancaster@pkf-littlejohn.com

PKF Littlejohn LLP, 1 Westferry Circus, Canary Wharf, London E14 4HD
Tel: +44 (0)20 7516 2200 Fax: +44 (0)20 7516 2400

www.pkf-littlejohn.com