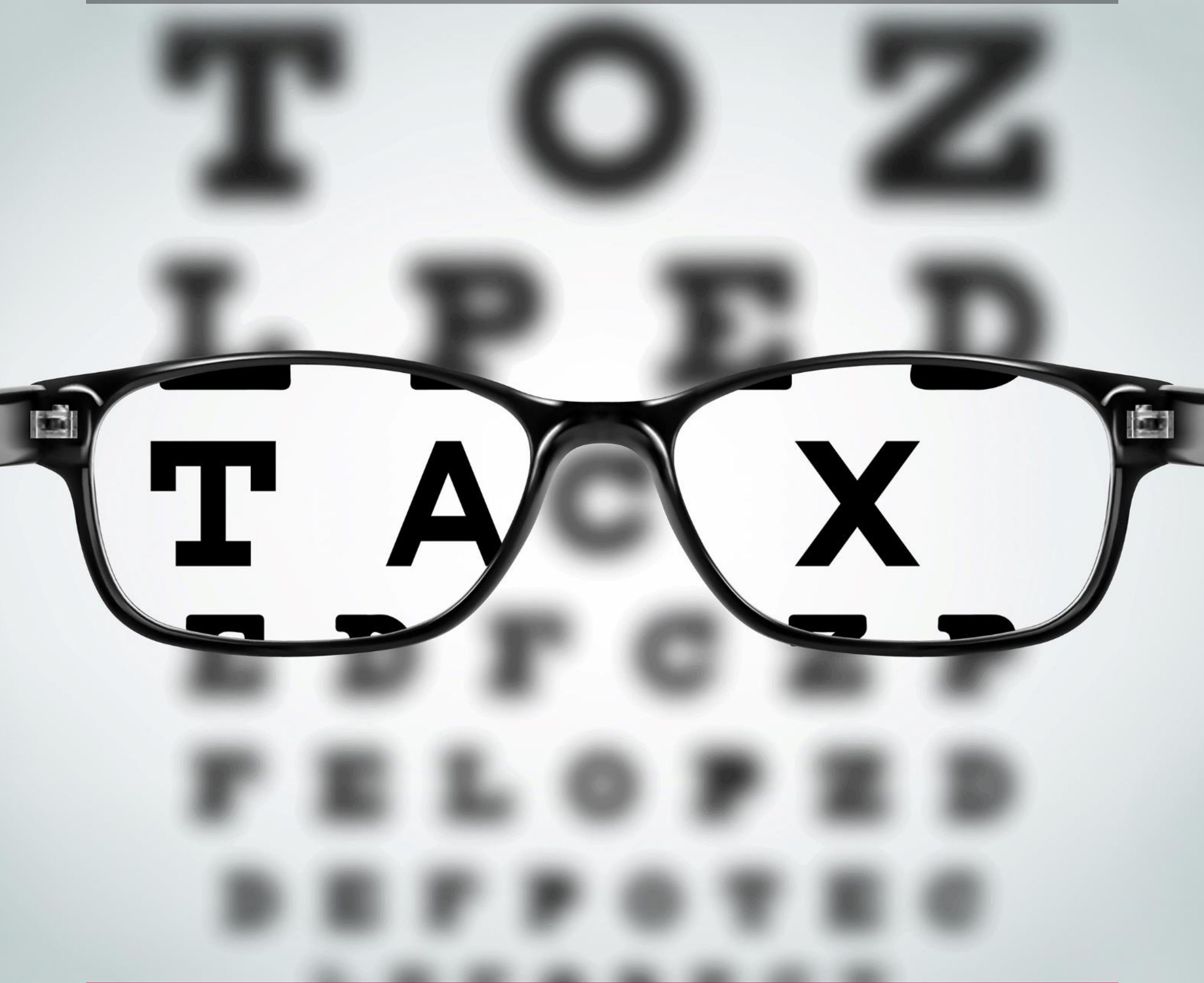
Autumn Budget 2017

November 2017

BRINGING TAX INTO FOCUS



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DRIVING LIFELONG PROSPERITY

Contents

Introduction - Chancellor Phils the housing gap

In the Chancellor's first Autumn Budget, the gloomy downgrading of the UK's growth forecasts was offset, during his speech, by some positive announcements about increased spending for education, housing, the NHS and to improve productivity. However, with a distinct lack of tax raising measures, you have to question where the money is going to come from.

The Red Book suggests that the tax and spending decisions will cost the UK Government £24.755 billion over the next five years and yet the Chancellor is predicting a reduction in debt over the same period, although when you look at the numbers in more detail, it is at a much slower rate than was predicted in the March Budget.

On top of the £3.5 billion previously scheduled increase in funding for the NHS, Mr Hammond announced an additional, exceptional £2.8 billion, with £350 million available immediately to help improve A&E waiting times.

In an attempt to assist the next generation with the new digital economy, investment is to be made into education or, more specifically, maths. This aims to provide £27 million to put the Teaching for Mastery maths programme into a further 3,000 schools. Schools and colleges who support their students to study Maths will be rewarded by giving them £600 for every extra pupil who decides to take Maths or Further Maths A Levels, or Core Maths, with £80 million available initially.

It was widely predicted that housing would be at the heart of this Budget and the Chancellor didn't disappoint with wide ranging plans aimed at achieving 300,000 new homes per year, but only by the mid 2020's. He plans to achieve this through such measures as a 100% premium on council tax for empty homes, compulsory purchases of land with planning permission that is not being built on for commercial, but not technical, reasons. Furthermore, he proposed five new garden towns and funding for training and for small and medium builders struggling to access the financing they need.

One of his major tax announcements also related to the housing market, where first time buyers of houses worth up to £300,000 will be exempt from Stamp Duty Land Tax. Those acquiring higher valued properties of up to £500,000 will receive a nil rate band on the first £300,000, the aim being to assist 95% of first time buyers and help turn the dream of home ownership into a reality.

The Chancellor announced that there is to be an increase in the tax free personal allowance in 2018/19 to £11,850 and for the higher rate band to £46,350.

Those investing in Enterprise Investment Schemes had positive and negative news, with Mr Hammond announcing that the relief will not apply on "safe, capital preservation" companies, but that the £1 million investment limit will be doubled for those investing in knowledge intensive companies.

Companies took a hit with the announcement that 'indexation allowance' will be frozen from 1 January 2018, meaning companies will no longer benefit from relief for inflationary rises when selling chargeable assets, which individuals lost back in 2008. On the more positive side, there was an increase in the main rate for R&D tax relief to 12%, for those carrying out qualifying research and development.

There was relief that the VAT threshold was not reduced, as had been talked about in advance of the Budget, although the registration threshold of £85,000 is to be frozen for the next two years.

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Tobacco duty continues to rise at 2% above inflation, but alcohol (with the exception of white cider) and fuel duties were both frozen.

Anti-avoidance, as always, was mentioned, with a new income tax charge being brought in for royalties paid to a tax haven. This is similar to the rules already in existence for non-resident companies owning UK land and property.

It is perhaps of no surprise that there were no controversial measures announced from the Chancellor of a minority Government. The last thing they need at the moment is a Finance Bill that is not passed by the House.

It remains to be seen as to whether the measures announced appeal to the youth that appear to have deserted the Conservatives in droves. Regardless, the Government appears to be committed to giving them every opportunity of watching the next election from their own home.

Company cars and vehicles changes from 6 April 2018

The Chancellor continued with his promise to improve the environment by attacking diesel cars and vans and by encouraging electric vehicles. As well as giving further grants for electric charging points, it was announced that there will be no benefit in kind if employees are allowed to charge their cars at work.

Diesel car users will see an increase in their taxable benefits, as the 3% supplement (the amount they already pay over and above non-diesel users) increases to 4% if the vehicle is not certified to Real Driving Emissions 2 (RDE2) standard. Combined with this will be higher road tax, as all diesel cars acquired after 1 April 2018 will be treated as one band higher when calculating Vehicle Excise Duty if the RDE2 is not satisfied.

Not all diesel users will suffer however as those who drive a car that is certified to RDE2 standard will see the diesel supplement removed altogether.

There are no big changes to the van or fuel benefit charge, which will increase in line with the retail price index as anticipated.

Users of zero emissions goods vehicles will be pleased to see the 100% First Year Allowance being extended by a further three years ending 2021. The same applies to gas refuelling equipment. This means that businesses acquiring qualifying vehicles or equipment may write off the whole cost against their taxable profits in the year of purchase.

Venture capital schemes

RISK TO CAPITAL CONDITION

A new condition is to be introduced to the EIS, SEIS and VCT rules to restrict the relief to companies with the objective to grow and develop and where there is a significant risk of loss of capital.

The measure addresses a concern that a significant subset of such investments has become focused on capital preservation, where the tax relief provides most of the return for an investment.

The new ‘risk to capital’ condition will be a principle based test, considering all relevant factors, to assess if the company is a genuine entrepreneurial company. It is key to this sector, therefore, that clearances continue to be given by HMRC before monies are invested in such schemes.

ENCOURAGING INVESTMENTS IN KNOWLEDGE-INTENSIVE COMPANIES

On the other hand, the rules are also being changed to encourage greater investment in knowledge-intensive companies. This is a company that satisfies various conditions such as; engaging in IP creation and having a certain number of skilled employees. The annual EIS limit for investment will be increased from £1m to £2m provided that anything above £1m is invested in knowledge-intensive companies.

The amount of annual EIS and VCT investments that knowledge-intensive companies can receive will be increased to £10 million.

VENTURE CAPITAL TRUST (VCTS)

Where two VCTs merge there is a problem that income tax relief can be withdrawn from the investor. The new measure limits the scope of anti-avoidance rules relating to share buy-backs by VCTs to try and solve this problem.

Various measures are to be introduced to help VCTs to continue to focus on long-term investments in higher risk companies.

Rate changes

INCOME TAX

The personal allowance will increase for 2018/19 by £350 to £11,850 and the basic rate will extend by a further £1,000 to £34,500. This means that the higher 40% (32.5% for dividends) tax rate will commence at £46,351 up £1,650 on 2017/18. The additional rate remains at £150,000, at rates of 45% and 38.1% for general income and dividends respectively.

MARRIAGE ALLOWANCE

Marriage allowance currently allows spouses to transfer 10% of their personal allowance between them provided neither are higher or additional rate taxpayers. This may be backdated for up to four years. Legislation will be introduced to allow a transfer to take place from or to a deceased spouse within the same four year window.

CAPITAL GAINS TAX

The annual exempt amount for capital gains tax will increase in line with the consumer price index from £11,300 to £11,700 for 2018/19, with the equivalent rate for trusts increasing from £5,650 to £5,850.

30 DAY CAPITAL GAINS TAX PAYMENT WINDOW DEFERRED

It was anticipated that from 6 April 2019, capital gains tax payable on the sale of all UK residential properties would be due for payment within 30 days of the sale. This could accelerate the tax payment and reporting requirement by nearly 9 months. Fortunately, this will be deferred until 6 April 2020, but there is no suggestion that plans will be shelved.

VAT

REGISTRATION AND DEREGISTRATION THRESHOLDS

In response to the Office of Tax Simplification's report "Value Added Tax: Routes to Simplification", the government will consult on the design of the registration threshold, but in the meantime will maintain it at the current level of £85,000 for two years from April 2018.

Similarly, the deregistration threshold remains at £83,000.

The Chancellor did note that, although the level of the UK threshold is the highest in the OECD, it does have the benefit of keeping the majority of small businesses out of VAT altogether, and thus he was not minded to reduce the threshold.

TACKLING VAT EVASION - FRAUD IN THE PROVISION OF LABOUR IN THE CONSTRUCTION SECTOR

Following a consultation into options for tackling fraud in construction labour supply chains, the government will introduce a VAT domestic reverse charge to prevent VAT losses. This will shift responsibility to the customer for paying VAT along the supply chain to remove the opportunity for VAT to be charged by suppliers but not paid to HMRC. Changes will have effect on and after 1 October 2019.

IMPORT VAT

Businesses currently buying goods from the EU benefit from being able to apply an "EU acquisition" process for dealing with the UK VAT due – for most businesses, this only involves making "in" and "out" entries on the same VAT return, with no cashflow impact. However when goods are imported from outside the EU, a physical payment of VAT has to be made to clear the goods through Customs, with this VAT only being reclaimed later on the VAT return.

The government will take these different treatments into account when considering potential changes following EU exit and will look at options to mitigate potential adverse cashflow impacts.

VOUCHERS

In December, the government will launch a consultation on simplifying the VAT treatment of vouchers, aiming to ensure that when customers pay with vouchers, businesses account for the same amount of VAT as when other means of payment are used, aligning the UK with similar changes being made across the rest of the EU.

VAT GROUPING CONSULTATION

On 1 December, the government will publish a summary of responses to the VAT grouping consultation document and will consider further the scope of VAT grouping, the issues raised and the impact of any potential changes.

'MAKING TAX DIGITAL' (MTD) IMPLEMENTATION

As announced in July and legislated for in the Finance (No. 2) Act 2017, no business will be mandated to use MTD until April 2019. Only those with turnover above the VAT threshold will be mandated at that point, and then only for VAT obligations. The scope of MTD will not be widened before the system has been shown to work well, and not before April 2020 at the earliest.

Business rates

The Chancellor announced that due to the rise in inflation he would be bringing forward the planned switch from RPI to CPI from 1 April 2018 in relation to calculating the 'business rates multipliers'.

Business rates are calculated by multiplying the "rateable value" of the property by the 'business rates multiplier'. The multipliers are increasing in 2018/19 to 49.3p and 48.0p for the England standard multiplier and England small business multiplier respectively.

In addition, the government will introduce retrospective legislation to deal with the 'staircase tax' issue, where businesses operating from several floors within one property had been sent demands for each occupied floor. Businesses that have been affected by the 'staircase tax' will be able to approach the Valuation Office Agency (VOA) to recalculate valuations.

More good news for pubs as Mr Hammond announced that he would continue the £1,000 discount where the rateable value is up to £100,000.

The Chancellor acknowledged that the five year valuation periods can result in large jumps to the rates paid by businesses. It was, therefore, announced that the frequency of VOA revaluations would move to every three years following the next revaluation in 2022. Further consultation is scheduled in Spring 2018.

Taxing gains on UK property sold by non-residents

Prior to 6 April 2015, it was possible for a non-resident person to escape tax on sale of property in the United Kingdom. This meant that those who do not live here could profit from the extremely buoyant property market without contributing to the exchequer. In reaction to this, the rules were changed from 6 April 2015 so that the sale of a residential property would be chargeable to CGT on its increase in value from that date. There are several methods allowed as to how the gain may be calculated.

A consultation on the taxation of all immovable property was announced on Budget day to consider the extension of the taxation of residential property for non-residents to all properties. It will be effective for 2019/20 and include a rebasing provision for non-residential property to 1 April 2019 for companies and 6 April 2019 for other persons. However, the options to calculate the gain are proposed to be more restrictive than for residential property.

Further wide ranging proposals will mean that, if enacted as proposed, most, if not all, UK immovable property will be subject to capital gains tax even when held by offshore individuals, companies or otherwise.

Consultation regarding an extension of Entrepreneurs' Relief

In what may be welcome news to owners of smaller holdings in trading companies, Mr Hammond announced that there will be a consultation in Spring 2018 on how access to the relief might be given to shareholders whose holding has reduced below 5% due to the company raising funds through share issues. No detail is available yet on how this may work.

Measures relevant to innovative companies

Today's Budget introduces a number of measures that could affect innovative and 'IP-rich' companies.

A summary of the key points:

- An increase in the rate of the Research and Development Expenditure Credit from 11% to 12% of qualifying expenditure from 1 January 2018, with a view to stimulating increased productivity and growth; and
- Changes to Enterprise Investment Scheme ('EIS') and Venture Capital Trusts ('VCTs') from 6 April 2018 to encourage further investment in knowledge-intensive companies (see Venture capital schemes section).

The Budget also announced some consultations which could lead to further changes and reforms:

- A consultation is to be published on 1 December 2017 with a view to applying a UK withholding tax to royalties paid to persons not resident in the UK, with legislated changes taking effect from April 2019. This is part of a review of 'Corporate Tax & the digital economy', in which the Government has set out its intention to apply withholding tax to royalties in connection with UK sales, regardless of whether the recipient of the royalty has a taxable presence in the UK under current rules. The changes are intended to 'level the playing field' for international tax by preventing multinationals from gaining an unfair advantage by locating their intellectual property in low or no tax jurisdictions;
- The announcement of a consultation in 2018 on a new knowledge-intensive EIS fund structure, with a view to increasing the flexibility to allow deployment of the capital raised over a longer period; and
- The announcement of a consultation in 2018 on the tax treatment of intellectual property, to consider targeted changes to the current 'Intangible Fixed Assets' regime with a view to better supporting UK companies investing in intellectual property.

The EIS and VCT changes form part of the Government's 'Financing growth in innovative firms' strategy, whose principal aim is to assist promising innovative companies to access the capital that they need to turn cutting-edge research and new technologies into potentially market-ready products and services. This strategy also involves the establishment of new funds and initiatives to be administered by the British Business Bank as well as measures aimed at unlocking the 'patient capital' potential of pension funds. Subject to state aid rules, the changes to EIS and VCT will take effect from 6 April 2018 and will further extend the modifications of these schemes for investment into knowledge-intensive companies.

The 'financing growth' strategy also includes changes to the qualifying rules for Entrepreneurs Relief to remove the disincentive to take on external investment. The aim is to ensure that Entrepreneurs Relief continues to encourage long-term investment.

Stamp Duty Land Tax (SDLT)

It isn't often that SDLT gets an entire section in one of our Budget booklets but it has been tinkered with more and more in recent years as the Government tied its own hands in respect of other taxes.

The cut of SDLT for first time buyers was the Chancellor's 'rabbit out of the hat' of this Budget. Hidden in the detail was also some welcome news for those who may have been unwittingly subject to the additional 3% charge in certain circumstances.

SDLT RELIEF FOR FIRST-TIME BUYERS

With effect from 22 November 2017 first-time buyers paying £500,000 or less for their home will pay less SDLT.

Those paying less than £300,000 will pay no SDLT at all, and for properties worth up to £500,000 first-time buyers will pay 5% on the excess over £300,000 only. The maximum saving to be had is £5,000, achievable where the purchase price is between £300,000 and £500,000.

First-time buyers paying over £500,000 will not see any reduction compared to current rates.

To qualify as a first-time buyer the purchaser must have never held a freehold or major leasehold interest in a dwelling anywhere in the world. Where property is being purchased jointly, all of the buyers will need to be first-time buyers to qualify for the relief.

CHANGES TO THE HIGHER RATE OF SDLT

There have been numerous issues highlighted with respect to the additional 3% SDLT charge, also known as the 'second homes tax'. The policy was designed to apply to those who were purchasing investment property, second homes or holiday accommodation. Unfortunately, the writing of the legislation led to the charge arising on transactions not within the spirit of the legislation.

The new measures introduced in the Autumn Budget grant relief in certain circumstances, including where there is a Court Order in relation to a divorce and when the taxpayer is prevented from disposing of their interest in the marital home.

Other circumstances covered by the new reliefs include where an individual buys property from their spouse or civil partner, or someone increases their interest in their existing main residence.

While tinkering with the higher rate to insert these reliefs the legislation will be amended to prevent abuse of the 'replacement of main residence' exemption by requiring the entire former residence to be disposed of to a person other than the vendor's spouse.

Annual Tax on Enveloped Dwellings (ATED)

ATED is a fixed charge levied on companies that hold residential properties worth over £500,000. Various exemptions apply, for example in relation to corporate landlords etc. If you are unsure about whether or not ATED might affect your company, get in touch.

It has been announced that charges for 2018/19 will be increased by CPI. The new charges will be as follows:

	2017/18	2018/19
£500,001 to £1,000,000	£3,500	£3,600
£1,000,001 to £2,000,000	£7,050	£7,250
£2,000,001 to £5,000,000	£23,550	£24,250
£5,000,001 to £10,000,000	£54,950	£56,550
£10,000,001 to £20,000,000	£110,100	£113,400
£20,000,001+	£220,350	£226,950

Impact on companies

REMOVAL OF CAPITAL GAINS INDEXATION ALLOWANCE

Companies currently benefit from an inflationary allowance on qualifying assets they sell, which is known as indexation. For all other taxpayers indexation was abolished in 2008.

From 1 January 2018 companies are to be brought more in line with other taxpayers as indexation to that date will be frozen for companies.

The rate for capital gains made by companies, however, is already 19% as compared to 20% for higher rate taxpayers (for non-residential assets). This will fall further to 17% in 2020 for companies so this should compensate to some degree.

INTEREST RULES FOR LARGE COMPANIES

For companies that incur interest and other financing costs of more than £2m per annum there are some technical amendments to the Corporate Interest Restriction (CIR) rules. These are intended to ensure that the rules operate as intended, which suggests the initial drafting may well not have been perfect!

ANTI-AVOIDANCE MEASURES

There are a couple of measures specifically targeted at tax avoidance by corporates. One is to prevent tax relief in the UK for losses of an overseas permanent establishment (PE) when those losses have already been relieved in that overseas country. The others step-up avoidance for intangible assets by ensuring non-cash disposals and related party licensing arrangements are taxed in line with cash transactions

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