SPRING
BUDGET 2017

Tax on savings income

Savings income is income such as bank and building society interest.

The Savings Allowance (SA) was first introduced for the 2016/17 tax year and applies to savings income. The available SA in a tax year depends on the individual's marginal rate of income tax. Broadly, individuals taxed at up to the basic rate of tax have an SA of £1,000. For higher rate taxpayers, the SA is £500 whilst no SA is due to additional rate taxpayers.

Individual Savings Accounts (ISAs)

The overall ISA savings limit is £15,240 for 2016/17 but will jump to £20,000 in 2017/18.

Lifetime ISA

A new Lifetime ISA will be available from April 2017 for adults under the age of 40. Individuals will be able to contribute up to £4,000 per year, between ages 18 and 50, and receive a 25% bonus from the government. Funds, including the government bonus, can be used to buy a first home at any time from 12 months after opening the account, and can be withdrawn from age 60 completely tax free.

Comment

The increase in the overall ISA limit to £20,000 for 2017/18 is partly due to the introduction of the Lifetime ISA. There will therefore be four types of ISAs for many adults from April 2017 - cash ISAs, stocks and shares ISAs, Innovative Finance ISAs (allowing investment into peer to peer loans) and the Lifetime ISA. Money can be placed into one of each kind of ISA each tax year.

There is a fifth type of ISA – a Help to Buy ISA. Help to Buy ISAs are a type of cash ISA and potentially provide a bonus to savers if the funds are used to help to buy a first home.

Money Purchase Annual Allowance

The Money Purchase Annual Allowance (MPAA) will be reduced from £10,000 to £4,000 from 6 April 2017.

The MPAA counters an individual using the flexibilities around accessing a money purchase pension arrangement as a means to avoid tax on their current earnings, by diverting their salary into their pension scheme, gaining tax relief, and then effectively withdrawing 25% tax free. It also restricts the extent to which individuals can gain a second round of tax relief by withdrawing savings and reinvesting them into their pension. The MPAA is currently £10,000 and applies to individuals who have flexibly accessed their money purchase pension savings.

Comment

The 'annual allowance' sets the maximum amount of tax efficient pension contributions. The normal annual allowance is £40,000. The Money Purchase Annual Allowance was introduced in 2015, to restrict the annual allowance to £10,000 when an individual has taken income from a pension scheme.

Business Tax

Making Tax Digital for Business (MTDfB)

Extensive changes to how taxpayers record and report income to HMRC are being introduced under a project entitled Making Tax Digital for Business.

The government has decided how the general principles of MTDfB will operate. Draft legislation has been issued on some aspects and more will be published in Finance Bill 2017.

Under MTDfB, businesses, self-employed people and landlords will be required to:

- maintain their records digitally, through software or apps
- report summary information to HMRC quarterly through their 'digital tax accounts' (DTAs)
- make an 'End of Year' declaration through their DTAs.

DTAs are like online bank accounts - secure areas where a business can see all of its tax details in one place and interact with HMRC digitally.

Comment

The End of Year declaration will be similar to the online submission of a self assessment tax return but may be required to be submitted earlier than a tax return. Businesses will have 10 months from the end of their period of account (or 31 January following the tax year – the due date for a self assessment tax return - if sooner).

Exemptions

Businesses, self-employed people and landlords with turnovers under £10,000 are exempt from these requirements.

Changes announced in the Budget

The government has now announced a one year deferral from the mandating of MTDfB for unincorporated businesses and unincorporated landlords with turnovers below the VAT threshold. For those that have turnovers in excess of the VAT threshold the commencement date will be from the start of accounting periods which begin after 5 April 2018.

Cash basis for unincorporated landlords

As part of the wider proposals for Making Tax Digital, the government has decided that, from April 2017, many unincorporated property businesses will compute taxable profits for the purposes of income tax on a cash basis rather than the usual accruals basis.

The cash basis means a business will account for income and expenses when the income is received and expenses are paid. The accruals basis means accounting for income over the period to which it relates and accounting for expenses in the period for which the liability is incurred.

For affected property businesses, the cash basis will first apply for the 2017/18 tax year which means that a tax return for 2017/18, which has to be submitted by 31 January 2019, will be the first one submitted on the new basis.

Class 4 National Insurance contributions (NICs)

It had already been announced in the 2016 Budget that Class 2 NICs will be abolished from April 2018. The government will now also legislate to increase the main rate of Class 4 NICs from 9% to 10% with effect from 6 April 2018 and from 10% to 11% with effect from 6 April 2019.

Comment

Both employed and self-employed earners who reached state pension age from 6 April 2016 have access to the same flat rate state pension. This means that the self-employed have gained £1,800 a year more than under the previous system. The government therefore think it is fair that the NIC differential between them is reduced as employees are paying 12%.

Research and development (R&D)

There are two types of tax reliefs for eligible R&D expenditure. Under one of these, qualifying companies can claim a taxable credit of 11% in relation to eligible R&D expenditure. This is known as the Research and Development Expenditure Credit (RDEC). To further support investment, the government will make administrative changes to the RDEC to increase the certainty and simplicity around claims and will take action to improve awareness of R&D tax credits among small and medium-sized enterprises.

Appropriations to trading stock

From 8 March 2017, the government will remove the ability for businesses to convert capital losses into trading losses when appropriating a capital asset to trading stock.

Disposals of land in the UK

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. This extends legislation introduced in Finance Act 2016.

Substantial shareholding exemption (SSE) reform

Changes are proposed to some of the qualifying conditions for the SSE. The good news is that the changes remove some of the obstacles of qualifying for SSE.

- The condition that the investing company is required to be a trading company or part of a trading group is being removed.
- The condition that the investment must have been held for a continuous period, at a minimum of 12 months in the two years preceding the sale is being extended to a continuous period of 12 months in the six years preceding the sale.
- The condition that the company in which the shares are sold continues to be a qualifying company immediately after the sale, is withdrawn, unless the sale is to a connected party.
- For a class of investors defined as Qualifying Institutional Investors, the condition that the company in which the shares were sold is a trading company has also been removed. The draft legislation contains a list of Qualifying Institutional Investors.

The changes have effect for disposals on or after 1 April 2017.

Employment Taxes

Off-payroll working in the public sector

As previously announced, from 6 April 2017, new tax rules potentially affect individuals who provide their personal services via their own companies (PSCs) to an organisation which has been classified as a 'public authority'.

The effect of these rules, if they apply, will mean:

- the public authority (or an agency paying the PSC) will calculate a 'deemed payment' based on the fees the PSC has charged for the services of the individual
- the entity that pays the PSC for the services must first deduct PAYE and employee National Insurance contributions (NICs) as if the deemed payment is a salary payment to an employee
- the paying entity will have to pay to HMRC not only the PAYE and NICs deducted from the deemed payment but also employer NICs on the deemed payment
- the net amount received by the PSC can be passed onto the individual without paying any further PAYE and NICs.

Public sector organisations include government departments and their executive agencies, many companies owned or controlled by the public sector, universities, local authorities, parish councils and the National Health Service.

The new rules operate in respect of payments made on or after 6 April 2017. This means that they are relevant to contracts entered into before 6 April 2017 but where the payment for the work is made after 6 April 2017.

Comment

Where individuals are working through their PSC for private sector clients, the new rules will not apply to income from such work.

It is for the public authority to decide if the deemed payment rules apply. To help all parties determine whether these rules apply, HMRC have provided an online employment status tool. There is no formal right of appeal to HMRC or the Tax Tribunals by the individual or the PSC. If a new contract is entered into after 6 April 2017, the expectation would be that the PSC would agree the treatment within the initial contract. If it is an existing contract a discussion will need to take place with the public authority as to the reasons for its decision.

Capital Taxes

Capital gains tax (CGT) rates

The current rates of CGT are 10%, to the extent that any income tax basic rate band is available, and 20% thereafter. Higher rates of 18% and 28% apply for certain gains; mainly chargeable gains on residential properties that do not qualify for private residence relief.

The rate for disposals qualifying for Entrepreneurs' Relief is 10% with a lifetime limit of £10 million for each individual. Entrepreneurs' Relief is targeted at working directors and employees of companies who own at least 5% of the ordinary share capital in the company and the owners of unincorporated businesses. In 2016/17 a new relief, Investors' Relief, was introduced which also provides a 10% rate with a lifetime limit of £10 million for each individual. The main beneficiaries of this relief are external investors in unquoted trading companies.

CGT annual exemption

The CGT annual exemption is £11,100 for 2016/17 and will be increased to £11,300 for 2017/18.

Inheritance tax (IHT) nil rate band

The nil rate band has remained at £325,000 since April 2009 and is set to remain frozen at this amount until April 2021.

IHT residence nil rate band

Legislation has already been enacted to introduce an additional nil rate band for deaths on or after 6 April 2017, where an interest in a main residence passes to direct descendants. The amount of relief is being phased in over four years; starting at £100,000 in the first year and rising to £175,000 for 2020/21. For many married couples and civil partners the relief is effectively doubled as each individual has a main nil rate band and each will potentially benefit from the residence nil rate band.

The additional band can only be used in respect of one residential property, which does not have to be the main family home, but must at some point have been a residence of the deceased. Restrictions apply where estates are in excess of £2 million.

Where a person dies before 6 April 2017, their estate will not qualify for the relief. A surviving spouse may be entitled to an increase in the residence nil rate band if the spouse who died earlier has not used, or was not entitled to use, their full residence nil rate band. The calculations involved are potentially complex but the increase will often result in a doubling of the residence nil rate band for the surviving spouse.

Downsizing

The residence nil rate band may also be available when a person downsizes or ceases to own a home on or after 8 July 2015 where assets of an equivalent value, up to the value of the residence nil rate band, are passed on death to direct descendants.

Rates and Allowances 2017/18

INCOME TAX RATES

2017/18 Band £	Rate %	2016/17 Band £	Rate %
0 - 5,000	0*	0 - 5,000	0*
0 - 33,500†	20**	0 - 32,000	20**
33,501† - 150,000	40♦	32,001 - 150,000	40♦
Over 150,000	45•	Over 150,000	45•

†For Scottish taxpayers only the limit is £31,500.

*Only applicable to savings income. The rate is not available if taxable non-savings income exceeds £5,000. £1,000 of savings income for basic rate taxpayers (£500 for higher rate) may be tax free.

**Except dividends 7.5%. ♦Except dividends 32.5%. •Except dividends 38.1%.

Other income taxed first, then savings income and finally dividends. The first £5,000 of dividends are tax free.

INCOME TAX RELIEFS

	2017/18	2016/17
Personal allowance	£11,500**	£11,000**

(Reduce personal allowance by £1 for every £2 of adjusted net income over £100,000.) **£1,150 (£1,100) may be transferable between certain spouses where neither pay tax above the basic rate.

	2017/18	2016/17
Married couple's allowance (relief at 10%)*	£8,445	£8,355
(Either partner 75 or over and born before 6 April 1935.)		
- min. amount	£3,260	£3,220
*Age allowance income limit	£28,000	£27,700

(Reduce age allowance by £1 for every £2 of adjusted net income over £28,000 (£27,700).)

	2017/18	2016/17
Blind person's allowance	£2,320	£2,290

PENSION PREMIUMS

2017/18

Tax relief available for personal contributions: higher of £3,600 (gross) or 100% of relevant earnings (max. £40,000). Any contributions in excess of £40,000, whether personal or by the employer, may be subject to income tax on the individual. The £40,000 limit may be reduced where 'adjusted income' exceeds £150,000.

The limit may be reduced to £4,000 once money purchase pensions are accessed. Where the £40,000 limit is not fully used it may be possible to carry the unused amount forward for three years.

Employers will obtain tax relief on employer contributions if they are paid and made 'wholly and exclusively'.

CAPITAL GAINS TAX

	2017/18**	2016/17**
Individuals	**£**	**£**
Exemption	11,300	11,100
Standard rate	10%	10%
Higher rate*	20%	20%
Trusts		
Exemption	5,650	5,550
Rate	20%	20%

*For higher and additional rate taxpayers.

**Higher rates (18/28%) may apply to the disposal of certain residential property and carried interest.

Entrepreneurs' Relief and Investors' Relief

The first £10m of qualifying gains are charged at 10%. Gains in excess of the limit are charged at the rates detailed above.

CAR, VAN AND FUEL BENEFITS

2017/18

CO_2 emissions (gm/km) (round down to nearest 5gm/km)	% of car's list price taxed
0-50*	9
51-75*	13
76-94*	17
95	18
100	19
105	20
110	21
115	22
120	23
125	24
130	25
135	26
140	27
145	28
150	29
155	30
160	31
165	32
170	33
175	34
180	35
185	36
190 and above	37

Company cars

For diesel cars add a 3% supplement but maximum still 37%.

For cars registered before 1 January 1998 the charge is based on engine size.

The list price includes accessories and is not subject to an upper limit.

The list price is reduced for capital contributions made by the employee up to £5,000.

Special rules may apply to cars provided for disabled employees.

*Rounding down to the nearest 5gm/km does not apply.

Car fuel benefit 2017/18

£22,600 x 'appropriate percentage'*

*Percentage used to calculate the taxable benefit of the car for which the fuel is provided.

The charge does not apply to certain environmentally friendly cars.

The charge is proportionately reduced if provision of private fuel ceases part way through the year. The fuel benefit is reduced to nil only if the employee pays for all private fuel.

Van benefit per vehicle 2017/18

Van benefit £3,230	Fuel benefit £610

The charges do not apply to vans if a 'restricted private use condition' is met throughout the year.

A reduced charge may be due if the van cannot in any circumstances emit CO_2 by being driven.

MILEAGE ALLOWANCE PAYMENTS

2017/18 and 2016/17

Cars and vans	Rate per mile
Up to 10,000 miles	45p
Over 10,000 miles	25p
Bicycles	20p
Motorcycles	24p

These rates represent the maximum tax free mileage allowances for employees using their own vehicles for business. Any excess is taxable. If the employee receives less than the statutory rate, tax relief can be claimed on the difference.

INDIVIDUAL SAVINGS ACCOUNTS

	2017/18	2016/17
Overall investment limit	£20,000	£15,240
Junior account limit	£4,128	£4,080

VALUE ADDED TAX

Standard rate	20%
Reduced rate	5%
Annual Registration Limit-from 1.4.17 (1.4.16 - 31.3.17 £83,000)	£85,000
Annual Deregistration Limit-from 1.4.17 (1.4.16 - 31.3.17 £81,000)	£83,000