Autumn Budget 2017

Commentary

November 2017

Contents

1. Introduction 4

2. Income tax and administration 5
   2.1 Increases to personal allowance and higher rate threshold 5
   2.2 Marriage allowance claims allowed for deceased spouse 5
   2.3 Call for evidence on use of rent-a-room relief 5
   2.4 Mileage rates for landlords 6
   2.5 Changes to gift aid donor benefit rules 6
   2.6 Consultation: preventing avoidance via profit fragmentation 6
   2.7 The certificate of tax deposit scheme to close 7
   2.8 Late payment interest and late submission penalties 7
   2.9 Self assessment debts to be collected through PAYE 8

3. Capital taxes and trusts 9
   3.1 Capital gains tax: annual exempt amount 9
   3.2 Taxing gains on immovable property of non-residents 9
   3.3 30-day CGT payment window on residential property deferred 9
   3.4 Taxation of carried interest 10
   3.5 Entrepreneurs' relief after dilution of holding 10
   3.6 Trust registration service clarification 10
   3.7 Anti- avoidance rules for offshore trusts from 6 April 2018 11
   3.8 Consultation on simplifying the taxation of trusts 11

4. Pensions, investment and savings 12
   4.1 Lifetime allowance for pension savings 12
   4.2 ISA limits 12
   4.3 Starting rate for savings income 12
   4.4 Review of tax relief for employer paid premiums 12

5. Payroll and employee incentives 13
   5.1 One-year delay until 6 April 2019 in NIC policy changes 13
   5.2 Discussion paper responding to the Taylor report 13
   5.3 Off-payroll working in the private sector 13
   5.4 Preventing abuse of the NIC employment allowance 14
   5.5 Benefit in kind for electric vehicles, fuel and van benefit charges 14
   5.6 Taxation of employee business expenses 14
   5.7 SAYE pause for employees on maternity and parental leave 15
   5.8 Disguised remuneration 15

6. Business taxes 16
   6.1 Corporate tax and the digital economy 16
   6.2 1% increase in the rate of the R&D expenditure credit 16

6.3 Corporate indexation allowance frozen from 1 January 2018 17
6.4 Withholding taxes on royalty payments to be expanded 17
6.5 Intangible fixed asset regime consultation 17
6.6 Taxation of intangible fixed asset transactions 17
6.7 Substantial shareholding exemption and share reconstruction 18
6.8 Disincorporation relief will not be available after 31 March 2018 18
6.9 Proposal to increase the rates of Class 4 NIC withdrawn 19
6.10 Taxation of partnerships to be clarified 19
6.11 Update to the energy-saving technology list 19
6.12 Zero-emission goods vehicles and gas refuelling equipment 20
6.13 Capital gains depreciatory transactions 20
6.14 Update to tax legislation for the new IFRS 16 accounting standard 20
6.15 Corporate interest restriction amendments 20
6.16 Profits of UK property business of a non-resident company 21
6.17 Postponement of tax on branch assets transferred on incorporation 21
6.18 Scope of Bank Levy to change for UK headquartered banks 21
6.19 Double tax relief for overseas branch losses 22
6.20 Amendment to hybrid mismatch rules 22

7. Venture capital 23
7.1 Venture capital schemes changes and clarifications 23

8. VAT and indirect taxes 24
8.1 VAT registration threshold 24
8.2 Making tax digital (MTD) and VAT registered organisations 24
8.3 Extending the VAT liability for online marketplaces 24
8.4 VAT and vouchers 25
8.5 VAT fraud in the construction sector 25
8.6 Stamp duty land tax (SDLT) abolished for first time buyers 25
8.7 SDLT on additional residential properties 26
8.8 SDLT: 14 day payment and filing window 26
8.9 Annual tax on enveloped dwellings - chargeable amounts 26
8.10 Stamp taxes on resolution of failing financial institutions 26
8.11 No reapplication of stamp duty on share issues after Brexit 27

9. Tax avoidance, non compliance and evasion 28
9.1 Further action on those abusing the insolvency regime 28
9.2 Requirement to notify HMRC of offshore structures 28
9.3 Extension of the four and six year assessment time limits 28
9.4 Investing in HMRC 29

10. Appendix: Rates and allowances 30

11. Glossary of terms 41

1. Introduction

The Chancellor Philip Hammond declared that he was presenting a Budget that would prepare Britain for growth and for a future outside of the European Union. His announcements on stamp duty land tax (SDLT) abolition for first-time buyers, job creation and tech investment were hymns from the same sheet.

Behind the Clarkson and cough drop jokes however, the Budget was lacking in game-changing substance. There were sighs of relief where some areas were left untouched but the big announcements were lacking in detail, particularly, on how they would be funded and on how they might address decreasing growth forecasts.

Many of the changes have been well trailed, such as the new anti-avoidance rules relating to the taxation of trusts for which draft legislation had been previously published.

Alongside the headline-grabbing announcement of the abolition, or possibly reduced sum, of SDLT for many first-time buyers, were amendments to exclude the additional residential property surcharge in cases such as those relating to divorce.

One other new significant announcement was the plan to tax gains on non-resident disposals of all UK property from April 2019. The Government will also consult on extending the off-payroll working reform to the private sector, although given the many teething problems the public sector has encountered, this may not be welcome news.

A key element in the Government's drive to support the economy is supporting research and development (R&D). This was demonstrated by a welcome 1% increase in the R&D expenditure tax credit rate and promise of £2.3bn additional funding.

The importance of supporting scale-up businesses remains on the Government's agenda with an action plan announced to unlock £20bn of investment. Scale-up supporting policies included a doubling of EIS and VCT scheme limits for investments in knowledge-intensive companies.

In a move to increase the tax base, a freezing of corporate indexation allowances from 1 January 2018 was announced. Forecast to raise an additional £1.7bn of tax over the next five years, this quiet move could have a potentially significant impact on businesses disposing of property assets.

It was a Budget that promised much; whether or not it delivers a Britain ready to 'run towards change' remains to be seen.

Andrew Wilkes
Head of Business Tax Services
Andrew.Wilkes@smithandwilliamson.com
T: 020 7131 4321

Geoff Everett
Head of Private Client Tax Services
Geoff.Everett@smithandwilliamson.com
T: 020 7131 8370

2. Income tax and administration

The Budget announced increases to the personal allowance and higher rate threshold. The Government will also reform the penalty system for late or missing tax returns and will close the certificate of tax deposit scheme for new certificates.

2.1 Increases to personal allowance and higher rate threshold

The personal allowance and higher rate threshold will increase from 6 April 2018, bringing them nearer to the levels promised in the 2015 Conservative manifesto.

The Government is maintaining its commitments to raise the income tax personal allowance to £12,500, and the 40% income tax threshold to £50,000, by 2020. Accordingly, the personal allowance for 2018/19 will increase to £11,850 (up from £11,500 in the current tax year) and the higher rate threshold will rise from £45,000 to £46,350. These changes are in line with the consumer prices index (CPI).

These increases will be welcomed by many taxpayers.

The Government's analysis states that the combined effect of the increases to the personal allowance and higher rate threshold will mean that in 2018/19, a typical taxpayer will pay at least £1,075 less tax than in 2010/11.

However, not all taxpayers benefit from the increases to the personal allowance. Many on low incomes will not fully benefit from the increase, where their income is less than the personal allowance, or where the increase in after tax pay results in a reduction in means tested benefits.

In addition, those with incomes above £100,000 will generally continue to see the personal allowance restricted by £1 for every £2 of income above this threshold. This leads to an effective 60% marginal tax rate, subsequently dropping back to 40% (or 70% dropping back to 50% where they also lose some of their pension annual allowance).

Fiscal drag, as a result of inflation and the £100,000 income limit not having changed since its introduction in 2010/11, will bring more people into this category.

2.2 Marriage allowance claims allowed for deceased spouse

Claims for marriage allowance will now be allowed in cases where a spouse or civil partner died before the claim was made and can also be backdated up to four years.

The marriage allowance took effect from 6 April 2015 and allows taxpayers to elect to transfer up to 10% of their tax-free personal allowance to their spouse or civil partner, provided the recipient of the transfer is not liable to income tax above the basic rate.

While the announcement is clearly a positive change for those affected, the current benefit of the relief is small (the maximum benefit available for 2017/18 amounts to only £230) and will only benefit couples where one is a non-taxpayer and the other is a basic-rate taxpayer.

The allowance must be claimed via a standalone online application, which may be the reason it has been largely ignored by the general public, with two million couples thought to have failed to claim the relief due to them. It is also the cause of a marginal tax rate of approximately 23,000% for an individual moving into the higher-rate band by £1.

2.3 Call for evidence on use of rent-a-room relief

A call for evidence is to be published in December 2017 to establish how rent-a-room relief is used and to ensure it is targeted at longer-term lettings.

The 'rent-a-room' scheme allows owner occupiers and tenants to receive tax-free rental income if they provide furnished accommodation in their only or main home.

The annual rent-a-room limit for 2017/2018 is £7,500 which reduces to £3,750 if the property is jointly owned. The relief is automatic for those with income below the limit. Those above can either claim the allowance or claim the expenses incurred in the letting business.

The Government announced at the Spring Budget 2017 that it will consider whether the scheme in its existing form meets the scheme aim, which the Government has stated is relief for income from longer-term lettings.

As we mentioned at the Spring Budget, it remains unclear what the Government has in mind and what aspects of the relief it feels may not be fit for purpose. Expectations remain that the target may be short-term letting via digital platforms - a growing sector. However, the concern remains that this will simply increase the administrative burden on these landlords for a relatively small increase in the tax yield.

2.4 Mileage rates for landlords

The Government will extend the option to use mileage rates to landlords

Until 2013, HMRC operated a concession, which allowed landlords of unincorporated property businesses to deduct fixed mileage rates when calculating their rental profits. Since this concession was withdrawn, landlords were required to deduct actual motoring expenses incurred for the purpose of the business and claim capital allowances for the cost of the vehicle.

As part of the 2016 consultation on this sector of the rental market, the point was made that a legisative reintroduction of fixed mileage rates would simplify the tax compliance process for landlords.

The Government has agreed with the option now available to landlords from 6 April 2017.

This is a welcome simplification, which further aligns taxation for landlords with other unincorporated traders who are already able to claim fixed mileage rates. While the tax difference is expected to be negligible in most cases, the reduction in the administrative burden will be gratefully received.

2.5 Changes to gift aid donor benefit rules

The Government will legislate to simplify the gift aid donor benefit rules for charities, with effect from 6 April 2019.

Charities have to consider monetary and percentage thresholds when determining the value of the benefit they can give their donors for a donation on which gift aid tax relief can be claimed.

From 6 April 2019, the thresholds will be replaced by two percentage thresholds:

- the benefit threshold for the first £100 of the donation will remain at 25% of the amount of the donation; and
- for any amounts above £100, the charity will be able to offer an additional benefit up to 5% of the amount above £100.

In addition, the four existing extra statutory concessions will be made law.

The total value of any benefit that a donor can receive will remain at the current level of £2,500.

Any simplification in the rules and administrative processes charities face is always a welcome change.

2.6 Consultation: preventing avoidance via profit fragmentation

The Government will consult in 2018 on methods of preventing tax avoidance by fragmenting UK trading income between unrelated entities.

The Government has raised concerns over the avoidance of UK tax by UK traders and professionals who fragment their UK income between unrelated entities including entities offshore; for example, by arranging for the payment of fees to an associated service provider not subject to UK tax. A consultation will be undertaken in 2018 on the best way to prevent this avoidance.

Anti-fragmentation legislation already exists in relation to dealing in or developing land. As such, one would expect that similar rules will be introduced for all traders and professionals to combat this perceived avoidance.

Consideration will, however, need to be given to targeting these rules correctly to ensure that they do only affect those seeking to avoid tax through fragmenting income.

2.7 The certificate of tax deposit scheme to close

From 23 November 2017, taxpayers will no longer be able to acquire new certificates of tax deposit. Existing certificates will continue to be honoured for 6 years.

The certificate of tax deposit (CTD) scheme allowed individuals to deposit money with HMRC and use it later to pay certain tax liabilities. CTDs could also earn daily interest for up to 6 years.

The government has announced that no new CTDs can be purchased with effect from 23 November 2017. Existing CTDs will continue to be honoured for six years. Any certificates remaining after this date will be refunded, where possible.

CTDs were often held against tax liabilities that were under investigation by HMRC. Holding the CTD stopped late payment interest accruing on the amount while it was under investigation but also allowed more flexibility on repayment than is often available under self-assessment.

However, interest paid on CTDs had fallen to a relatively low rate and was only available on deposits above £100,000. Also, with accelerated payment notices now allowing HMRC to demand payment of tax in advance of conclusion of an enquiry in many circumstances, the usefulness of the CTD was declining.

It is still somewhat disappointing to see this fall away completely, particularly given the flexibility a CTD could offer. For individuals subject to an investigation, a payment on account of the disputed liability via self-assessment now seems to be the only way to mitigate any late payment interest that may ultimately be due.

Those holding CTDs should be aware of the deadline of 23 November 2023 by which time action will need to have been taken.

2.8 Late payment interest and late submission penalties

The Government will consult further on possible changes to the current system for late payment and late submission of tax returns.

The Government is intending to reform the penalty system for late filing of tax returns by introducing a points-based approach. Consideration is also to be given to simplifying and harmonising the current system in place for late payment interest and penalties.

The Government has stated that the ultimate aim of the consultation will be to ensure that the system is fair, simple and effective across the different taxes.

Final decisions will be made following the conclusion of the further consultation.

The current regime across the many different taxes is complex but, while any simplification of the regime is to be welcomed, what affect this will have on different tax payers remains to be seen.

A points-based approach is an interesting idea. As always with the penalty regime, however, safeguards and consistency in approach is key. The consultation process will be important in ensuring the fairness, simplicity and effectiveness that is required. It is surprising to note that HMRC and the Government favour a points based system, whereas a number of respondents to the penalties consultation earlier this year favoured a system of suspension, which would incentivise good compliance.

2.9 Self assessment debts to be collected through PAYE

From 6 April 2019, HMRC plans to use new technology to collect self assessment debts in real-time by adjusting individuals' PAYE tax codes.

This administrative change should help the Government in its goal to make it easier for them to recover outstanding self assessment debts. In practice, there are concerns over this change given the issues with HMRC's existing real-time PAYE systems, which have resulted in some incorrect adjustments being issued to taxpayers, apparently resulting in excessive PAYE be collected by employers from their employees' monthly salaries. As such, it will be important that appropriate safeguards are introduced as part of these plans.

3. Capital taxes and trusts

There were limited new announcements relating to CGT, IHT and trusts. One significant change is that gains arising on the disposal of all UK property by non-residents will be taxed from April 2019. The Government will also consult on making the taxation of trusts, in its words, simpler, fairer and more transparent.

3.1 Capital gains tax: annual exempt amount

The capital gains tax annual exempt amount for the 2017/18 tax year will be £11,700 for individuals and personal representatives and £5,850 for most trustees of a settlement.

The capital gains tax annual exempt amount will increase in line with CPI from £11,300 for individuals and personal representatives and £5,650 for most trustees of a settlement, to £11,700 and £5,850 respectively.

This measure is as expected and will be welcome news for many taxpayers.

3.2 Taxing gains on immovable property of non-residents

The Government will legislate to ensure any capital gains on immovable UK property will be subject to UK tax from April 2019.

Non-residents have been subject to tax on capital gains on UK residential property since 2015.

This measure aims to broaden the UK's tax base to include any gains on the disposal of UK commercial property and also indirect sales such as some holdings in companies where more than 75% of the value is attributable to UK property. It will seek to bring all individuals, companies, various funds and collectives including life assurance property portfolios into charge, subject to reliefs and exemptions yet to be determined.

This will apply to any gain which accrues on or after 1 April 2019 for companies and 6 April 2019 for individuals but with the possibility of rebasing to eliminate any gain accrued earlier. An anti-forestalling measure will take effect from 22 November 2017 and there will be a targeted anti-avoidance rule.

The consultation document contains some welcome statements about the potential simplification of complications where existing taxes overlap.

Lobbying can be anticipated from those representing widely-held property funds given the wide scope of the initial proposals.

We will have to wait and see what targeted exemptions are included within the legislation to understand the full impact of this proposal.

3.3 30-day CGT payment window on residential property deferred

The proposed introduction of a 30-day payment window between a capital gain arising on a residential property and payment of tax is to be deferred until April 2020.

Autumn Statement 2015 announced that from April 2019 a payment on account of any CGT due on the disposal of a residential property will be required to be made within 30 days of the completion of the disposal.

CGT is currently payable on the 31 January following the end of the tax year in which the disposal takes place. This results in tax being payable between 10 and 22 months after the actual disposal.

The introduction of this payment window is now to be postponed until April 2020.

After the original announcement in 2015, concerns were raised around the workability of these rules and the need to ensure fairness. Specifically, rates of tax to be paid, the interaction of capital losses and the annual exemption and circumstances where valuations were required would all need clarification.

A consultation was expected on this in 2016. As this has not yet arrived, it is perhaps not surprising that the introduction of this payment window has been pushed back; particularly given the concerns that do need to be addressed.

3.4 Taxation of carried interest

Transitional provisions that were introduced as part of the July 2015 changes to the taxation of carried interest are to be removed with immediate effect.

In July 2015, changes to the taxation of carried interest were introduced. Although complex, broadly these changes resulted in carried interest paid to investment managers being taxed in full at 28% on those investment managers. Transitional provisions excluded sums of carried interest from these rules where the sums arose after 8 July 2015 but in connection with the disposal of an asset before that date.

The Government is concerned about manipulation of these provisions and so has taken the decision to remove them.

> *As carried interest tends to be paid by funds shortly after the gain is realised within that fund, the transitional provisions were always likely to have limited effect. Clearly however the Government is concerned around abuse of these rules and so has taken action accordingly*

3.5 Entrepreneurs' relief after dilution of holding

There is to be consultation in spring 2018 on the proposed continuing availability of entrepreneurs' relief where the entrepreneur's qualifying 5% holding is diluted following commercial fund raising.

Entrepreneurs' relief reduces the CGT rate on a qualifying gain from 20% to 10%. It is available where certain conditions are met, one of which is the need to hold 5% of the share capital in a company at sale.

Concerns have been raised that entrepreneurs, whose holdings are reduced below the 5% qualifying level because of issuing new shares as part of a commercial fund raising, lose the benefit of entrepreneurs' relief on their remaining shares. This risks entrepreneurs choosing either to cease their involvement in the business or to avoid dilution by not undertaking the necessary fund raising.

> *Any method of ensuring the entrepreneur community remains involved with businesses as they look to scale up is vital, particularly, given one of the main elements of the Chancellor's Budget speech was improving productivity in the UK economy. We await the consultation in spring 2018, at which time we can review the specifics to ensure that they do provide sufficient assistance in this area.*

3.6 Trust registration service clarification

HMRC has further clarified how the trust register will need to be completed for 2016/17 and is to revise its guidance to reflect some helpful changes.

Following further informal representations made by Smith & Williamson and some other representatives shortly before the Budget, HMRC has announced some helpful clarifications around the completion of the trust register and access to the trust registration service (TRS). HMRC guidance is to be updated shortly.

The key change relates to reporting details of potential beneficiaries. It has been confirmed that where a beneficiary is named, the trustee, or their agent, will still need to provide the relevant details. Where a beneficiary is un-named, being part of a class of persons, a trustee will only need to identify them when they receive a financial or non-financial benefit from the trust AFTER 26 June 2017.

In addition, named beneficiaries whose benefit is contingent on an event occurring do not need to be reported until the contingent event occurs.

HMRC has also made some changes to the functionality of the TRS, including the ability to save the submission after sending, to provide proof of the data submitted, and the possibility of using dummy information where certain data could not be ascertained, such as the NI number of a deceased settlor.

The guidance is being updated to include some examples and to confirm when an offence will not be committed by a trustee. HMRC has also simplified the way agents can register a trust. The TRS can now be accessed directly without having to wait for HMRC approval by email to gain access to Agent Services in order to commence the trust registration process.

> *Given the short timescale for completion, and some ambiguities in the original guidance which did not seem to tie in with the intention of the legislation, we felt that further changes might be feasible. We were pleased to find that HMRC was willing to work with those making representations to agree some pragmatic changes that should make the completion of the register possible for a*

much larger proportion of cases by the 31 January 2018 deadline. Other concerns remain, although we gather that HMRC is addressing these, with a view to improving the TRS for the next cycle.

While welcoming these developments, the 31 January will still be a difficult deadline to meet and HMRC have indicated they currently have no intention of moving this although it will be kept under review.

3.7 Anti- avoidance rules for offshore trusts from 6 April 2018

Measures will be included in Finance Bill 2017-18 to counteract perceived avoidance surrounding payments from offshore trusts to UK resident individuals that are made via non-resident or non-domiciled beneficiaries

Where a payment is made from an offshore trust to a non-UK resident beneficiary or to a non-domiciled individual claiming the remittance basis and then passed on to a UK resident beneficiary, the UK resident beneficiary is not believed to be subject to tax on trust income and gains matched with the payment.

From 6 April 2018, the UK resident beneficiary will be subject to tax in these circumstances where there is an expectation that an onward payment will be made.

Changes are also being brought in to deem payments made to close family members (broadly the spouse or minor children) of a UK resident settlor as having been received by the settlor. The rule applies both for income and capital gains but, with income tax, only to the extent that the close family member has not already been subject to income tax on the distribution.

The new rules do not take effect until 6 April 2018, which gives a window of opportunity to take any necessary action to be ready for the change.

These rules are part of a wider package of measures introduced within the past year affecting non-UK domiciled individuals and non-resident trustees and, given the complications of this area of taxation, we recommend that you speak with one of our specialists before taking any action.

3.8 Consultation on simplifying the taxation of trusts

The Government will consult in 2018 on the taxation of trusts

The Government will consult in 2018 on making the taxation of trusts, in its words, 'simpler, fairer and more transparent.

At this stage, the announcement provides little detail and so it remains to be seen whether the consultation will be targeted at specific areas or will ask for general comments on all areas of trust taxation. There is also a question mark over whether the consultation could result in further tax increases for trustees who have already seen significant changes in recent years.

Given the increased administrative burden recently created for trustees by the difficulties in implementation of the Trust Register, it is hoped that the Government will listen closely to feedback provided as part of the consultation.

4. Pensions, investment and savings

There has been little movement in rates and limits, with no changes to the starting rate for savings or the main ISA annual subscription limits. The lifetime pension allowance has seen an increase in line with CPI, rising to £1,030,000 from April 2018.

4.1 Lifetime allowance for pension savings

The lifetime allowance for pension savings will increase from £1,000,000 to £1,030,000 from 6 April 2018

The lifetime allowance effectively caps the value that individuals can accumulate tax efficiently within their pension plans. It has been reduced on a number of occasions in recent years; the allowance was £1.8m in 2011 and was reduced most recently from £1.25m to £1m from 6 April 2016.

After several reductions in the lifetime allowance in recent years, those with pension funds approaching £1m will be pleased to note that the Government has now decided to increase the allowance in line with the CPI measure of inflation. If continued, this policy should protect most individuals from having their pension savings exceed the allowance.

Protections are available for those concerned about exceeding the allowance in future or whose pension savings exceeded £1m at 6 April 2016. The availability is dependent on an individual's particular circumstances and those who have not already done so should seek help to review their position as soon as possible.

4.2 ISA limits

The ISA annual subscription limit remains unchanged at £20,000 for 2018-19. The annual subscription limits for Junior ISAs and Child Trust Funds will increase to £4,260 for 2018-19, in line with CPI.

It is not a surprise that the ISA subscription limit has remained unchanged given the large increase in 2017/18. Although small, the increase in the subscription limits for tax-free savings for children is welcome.

4.3 Starting rate for savings income

The band of savings income subject to the 0% starting rate will remain unchanged at £5,000 for 2018/19.

The 0% starting rate for savings income has applied since 6 April 2015 to the first £5,000 of savings income, and is broadly available to individuals who have less than £16,850 (2018/19) of other income. Any other income that exceeds the personal allowance (£11,850 for 2018/19) reduces the starting rate band for savings income by an equivalent amount.

It is not a surprise that there has not been an inflationary increase to this band, as it did not increase for 2017/18 either.

4.4 Review of tax relief for employer paid premiums

Tax relief for employer premiums paid into life assurance products or some overseas pension schemes will be 'modernised'.

From April 2019, changes will be made to tax relief for employer premiums paid into life assurance products or some overseas pension schemes for their employees. This will be modernised to cover policies when an employee nominates an individual or registered charity to be their beneficiary, to receive the benefits of the life policy or pension fund on the employees' death.

We are unclear as to what is meant by 'modernise', but would hope to the see consistency on tax relief for pension schemes and life assurance products.

5. Payroll and employee incentives

The taxation of off-payroll workers and the link between employment status and tax continue to be the subject of review with a discussion paper and consultation announced.

The Budget confirmed that the previously announced reforms to the National Insurance contributions (NIC) system have been delayed for a year. The NIC rates remain unchanged.

5.1 One-year delay until 6 April 2019 in NIC policy changes

The Government has confirmed its previously announced changes to Class 2 NICs and the NICs treatment of termination payments and sporting testimonials.

As previously announced, there will be a delay in implementing these changes for a year. This is to allow time to involve relevant parties in the details of the changes and then to implement the changes. The changes will see the abolition of Class 2 NICs paid by self-employed individuals. They will also align the NICs treatment of termination payments with the tax treatment, which will result in a greater liability on payments in excess of £30,000. The change relating to sporting testimonials will result in a maximum one-off payment of £100,000 being NICs free.

The changes are aimed at simplifying NICs legislation. The changes relating to termination payments and sporting testimonials will ultimately bring the NICs position in line with the tax treatment. The delay to the Class 2 NIC withdrawal will allow time to consult on the impact on those on low incomes who could otherwise lose benefit entitlement where they do not earn enough to pay Class 4 NIC.

5.2 Discussion paper responding to the Taylor report

The Government will publish a discussion paper as part of the response to Matthew Taylor's review of employment practices in the modern economy.

The discussion paper will consider the options for longer-term reform to make the employment status tests for both employment rights and tax clearer. The Government recognises that this is an important and complex issue, and has stated it will work with stakeholders to consider potential changes carefully.

This is a very welcome step for employers and individuals seeking employment status clarification for the increasing number of individuals involved in the gig economy. The discussion paper is timely, coming off the back of some recent high profile employment status tax cases.

5.3 Off-payroll working in the private sector

The Government is to consult on reforms to the rules on the engagement of workers via personal service companies in the private sector. Research is being commissioned that is due to be published in 2018. This follows major changes introduced for public sector engagements in April 2017.

The tax treatment of workers who provide their services via their personal service companies has come under close scrutiny from HMRC in recent years. HMRC's concern is that specific legislation relating to such arrangements is not being complied with. The 2018 consultation will be to address how HMRC tackle non-compliance in the private sector.

The 2015 Budget announced proposals to review the 'intermediaries legislation' (commonly known as IR35). From 6 April 2017 new legislation was introduced in the public sector; the key impact being that the responsibility for determining the tax and NIC treatment moved to the public sector body or paying agency. The Treasury says that early results indicate increased compliance since the change and it is now considering similar reforms in the private sector.

Following the change in April 2017 the announcement of a consultation is not surprising.

Any change in the private sector is likely to increase costs. Engagers are likely to review their current use of contractors and consider their viability going forward if the rules for private and public sector are aligned.

5.4 Preventing abuse of the NIC employment allowance

The Government has found evidence of some employers abusing the employment allowance so measures will apply from 6 April 2018 to counteract this.

The abuse of the employment allowance is often done by using offshore arrangements. From 6 April 2018, upfront security will be required from those employers with a history of doing this. This measure is only expected to raise up to £15 million a year.

Taking security upfront from those employers who have a history of abusing the employment allowance demonstrates a continued intention by HMRC to crack down on tax avoidance.

5.5 Benefit in kind for electric vehicles, fuel and van benefit charges

From 6 April 2018, there will be no taxable benefit in kind for employer provided electricity for charging employee vehicles.

There will also be RPI increases in the fuel benefit and van benefit charges from 6 April 2018.

Currently, employer-provided electricity for employees to charge their personal cars is a taxable benefit in kind. From 6 April 2018, there will be no benefit in kind charge for electricity provided in workplace charging points for electric or hybrid cars owned by employees. From April 2018, the scale charges applied to van benefits and to van and car fuel benefits will be increased in line with the September 2017 retail price index figures.

As usual, the benefits are increasing slightly. The change to the tax treatment of the provision of electricity for employee vehicles is welcome as the present calculation may cause confusion and increased administration.

5.6 Taxation of employee business expenses

From April 2019 employers will no longer need to check receipts when employees claim benchmark scale rates. HMRC will work to improve guidance on employee expenses, with a focus on travel and subsistence, and the process of claiming tax relief when employer has not reimbursed expenses. There will be consultation on extending the tax relief for work-related training costs for employees and the self-employed.

Currently, even when employers reimburse employees for subsistence using benchmark scale rates they are still required to check receipts. From April 2019, this requirement will be removed. In addition, legislation will be introduced to replace the current concessionary scale rates that apply to accommodation and subsistence for overseas business trips. HMRC will improve its current guidance on employee expense, with a focus on travel and subsistence and the process by which employees can claim tax relief on expenses not reimbursed by their employer. The Government will also consult in 2018 and on the extent to which employees and the self-employed can claim tax relief on self-funded training costs

Removing the requirement to check receipts when reimbursing benchmark scale rates will remove a substantial administrative burden for employers. It now leaves it up to employers to decide if they wish receipts to substantiate expense claims when paying benchmark scale rates rather than imposed by HMRC. The legislating of the current concession on overseas expenses will give certainty to employers in respect of those costs.

Employers will also welcome clearer guidance on expenses, especially in relation to travel and subsistence costs which is a complex area if international travel is involved.

The process for employees to claim tax relief on expenses not reimbursed by their employer is not well known and many employees will be missing out on the relief.

The consultation on the tax relief for self-funded training will be closely watched by both employers and employees.

5.7 SAYE pause for employees on maternity and parental leave

Employees on maternity and parental leave will be able to take up to a 12 month pause from saving into their save as you earn (SAYE) scheme, increased from the current 6 months.

Under SAYE plan rules, monthly contributions should normally be made through deductions from pay. There is an exception for employees on maternity or parental leave, whereby they may currently pause contributions for up to six months without cancelling their membership from the scheme. This pause period will be extended to twelve months effective from 6 April 2018.

> *This will be a welcome change for those employees on maternity and parental leave as it will allow continued membership of an often highly-valued savings scheme.*

5.8 Disguised remuneration

The Government has moved to clarify when the disguised remuneration rules apply in the context of close companies. It is also refining the previously announced loan charge rules to assist with the efficient collection of taxes due under those rules.

The Government is taking steps to set out a more precise set of circumstances of when the disguised remuneration rules do and do not apply in the context of close companies.

Close companies, being those with five or fewer participators who have a material interest in it, will be subject to a specific 'gateway' test in determining whether the disguised remuneration rules apply to them. The close companies' gateway will prevent unfair disguised remuneration charges applying where it has been unclear in the past.

Secondly, the new loan charge rules (which will be introduced on 6 April 2019) are being refined to ensure taxes are collected from an appropriate employee where the employer is located offshore. In addition, individuals will need to provide information to HMRC about their loans subject to these new rules by 1 October 2019.

> *These measures will come as a welcome clarification by taxpayers. They also demonstrate the Government's continued focus on collecting the taxes due under the loan charges rules, even where employers are outside the scope of existing withholding tax regimes. It also shows a continuing trend in requiring disclosure to be made to HMRC.*

6. Business taxes

Tax reliefs encouraging investment in growing business and research and development activities have been increased, while relief for corporate chargeable gains has been capped.

Alongside the Budget, the Government has published a paper on corporation tax and the digital economy, to consider the issue of multinational groups and the amount of profit that should be taxed in the UK. An initial measure has been announced with the extension of withholding tax to royalties paid to low tax jurisdictions.

6.1 Corporate tax and the digital economy

The Government has published a position paper setting out their view on the challenges posed by the digital economy in establishing the amount of profit that should be taxed in the UK. The paper also sets out proposals to address those challenges.

The international tax framework was developed before the advent of the digital economy. Rules such as transfer pricing and permanent establishments seek to allocate profits to the countries that carry out the value generating activities. The Government paper considers if these measures are still appropriate in relation to how some digital businesses operate.

The report builds on the discussions as part of the base erosion and profit shifting (BEPS) and highlights the weaknesses the Government believes remain in the framework.

The Government states that long term reform is still needed and that a more radical approach may need to be considered. In the meantime, they wish to consider interim measures including a suggestion to have a tax on revenues that a business generates from digital services provided to the UK market, rather than the current profit based approach. The paper highlights a need to ensure that the international framework is responsive to the changing nature of the economy in the digital age and to be able to accommodate new digital businesses that operate and create values in different ways.

The paper is realistic that any significant changes will need long term, multilateral reform. Its proposal for interim measures need to be fully considered, particularly for their impact on the UK's competitiveness if, as suggested, the Government is ready to implement unilateral measures if necessary.

6.2 1% increase in the rate of the R&D expenditure credit

From 1 January 2018, the R&D expenditure credit will increase from 11% to 12%. There will also be a new Advanced Clearance Service introduced for R&D expenditure credit claims.

The R&D expenditure credit is available for large companies, and in certain circumstances, some small and medium sized companies. Because of the way in which the relief operates, companies claiming the R&D expenditure credit will also see an increase to the credit brought into account for the purposes of calculating profits. There are also plans to introduce a new Advanced Clearance Service for R&D expenditure credit claims.

The increase in the credit is a welcome change, as it should result in further support to companies undertaking qualifying research and development activities.

The new Advanced Clearance Service should provide companies with comfort that their R&D claim under the R&D expenditure credit scheme will be successful. There has, however, been an advanced assurance procedure available for companies claiming R&D relief under the SME scheme for a number of years, which has had a limited uptake to date.

It remains to be seen whether or not the new Advanced Clearance Service for R&D expenditure credit claims will be better utilised.

6.3 Corporate indexation allowance frozen from 1 January 2018

From 1 January 2018, HMRC has frozen the indexation allowance available to companies disposing of a capital asset that gave rise to a chargeable gain. This means that the indexation allowance is only calculated to 31 December 2017 for capital disposals made after this date.

The changes will result in companies no longer benefiting from inflation accruing on capital disposals after 1 January 2018. For disposals made after this date, any indexation allowance, if applicable, will be calculated using the Retail Price Index Factor for December 2017, regardless of when the asset was sold.

The proposed change aligns the UK with other major economies who do not offer relief for inflation. The changes will also bring the corporate capital gains rules in line with that of individuals and non-incorporated business, which have not had the benefit of indexation allowance since 2008.

> *Since 2008, companies have continued to benefit from indexation allowance where individuals and non-incorporated business have not. While the disparity may have prompted HMRC to address this position, the measure is forecast to raise over £1.5bn in the next 5 years and will have a significant impact for companies with investment assets set to increase in value.*

6.4 Withholding taxes on royalty payments to be expanded

The Government will publish a consultation on 1 December 2017 to consult on expanding the range of circumstances that withholding taxes will need to be deducted from royalty payments, and payments for certain rights, to non-UK persons located in nil or low tax jurisdictions.

When a company makes a royalty payment to an overseas jurisdiction, there is an existing obligation for the company to withhold tax on the payments made overseas.

The government has announced that it will publish a consultation on 1 December 2017 to discuss expanding the range of circumstances in which a withholding tax obligation should arise, particularly in relation to sales where the royalty or similar payments accrue to low or nil tax jurisdictions.

Following the consultations, the legislative changes will be enacted in Finance Bill 2018-19, with effect from April 2019.

> *The announcement to increase the range of circumstances in which a withholding tax obligation should arise in the UK comes as no surprise, in association with the BEPS project's recent focus on treaty abuse relating to royalty withholding tax payments. The difficulty is how to identify the relevant amount that will be subject to tax when the sale takes place.*

6.5 Intangible fixed asset regime consultation

The Government plans to consult in 2018 on the tax treatment of intellectual property (the intangible fixed asset regime). This will consider whether there is an economic case for targeted changes to this regime, so that it better supports UK companies investing in intellectual property.

The Government has announced that it will consult on the intangible fixed asset regime in 2018.

The regime was introduced in 2002 and provides corporation tax relief for the amortisation of intangibles, making the UK an attractive location for holding intangible assets. The benefits of the regime, which is now 15 years old, were narrowed in 2015 to generally deny relief in relation to goodwill and other customer related intangibles.

The consultation will focus on how the regime encourages business growth and whether any targeted changes are required to encourage companies investing in intellectual property.

> *The taxation of intangible fixed assets is a key area of the ongoing Base Erosion and Profit Shifting (BEPS) programme, which is being led by the OECD. This is a further indication of the UK's willingness to adopt the principles of BEPS and to review the existing tax rules for intangible fixed assets.*

6.6 Taxation of intangible fixed asset transactions

The Government has amended, with immediate effect, the rules around the taxation of non-cash consideration received on the disposal of intangible fixed assets and introduced new rules in relation to licences between related parties so that they recognize the market value of the licence.

The legislation will provide that from 22 November 2017, for companies subject to corporation tax, the grant of a licence or other right by the company to a related party, or vice versa, is to be treated as being at market value. This will impact on the grantor and licensee.

The proposed revisions will also provide that when the non-cash consideration is received, it should be recognised at its open market value.

These measures are intended to address tax avoidance involving net book value accounting, including licensing arrangements between related parties which have resulted in an asymmetrical tax treatment of the transaction price.

> *These measures should ensure that all transactions involving non-cash consideration and related party license agreements are taxed at market value and in line with cash transactions.*
>
> *While these rules are intended to address tax avoidance involving net book value accounting and licensing arrangements between related parties, they will need to be taken into account by all companies undertaking intangible fixed asset transactions with related parties or receiving non-cash consideration, regardless of their motives.*
>
> *Companies need to be aware that these new rules apply to transactions made on or after 22 November 2017.*

6.7 Substantial shareholding exemption and share reconstruction

The substantial shareholding exemption legislation and share reconstruction rules will be amended to avoid unintended chargeable gains arising where a UK company incorporates foreign branch assets in exchange for shares in an overseas company. This will impact trading groups with overseas branches who are looking to incorporate their overseas activities.

Under existing legislation, where the trade and assets of a UK company's foreign branch are transferred to an overseas company in exchange for shares, there is a postponement of the tax charge until the disposal of the shares. The postponement is temporary and only comes into charge when the UK company sells the shares in the overseas company. Where, however, a corporate reconstruction takes place which falls within the substantial shareholding exemption, the postponed tax charge becomes payable, even though the group still owns the shares of the overseas company. This is an unintended anomaly and the Government will legislate in Finance Bill 2017-18 to correct this. The provisions will come into effect at Royal Assent.

> *These provisions will be welcomed by international groups looking to reorganise their trading activities. However must be taken to ensure the overseas tax aspects are also taken into account when carrying out a reorganisation.*

6.8 Disincorporation relief will not be available after 31 March 2018

Disincorporation relief applies to companies in particular circumstances where trade and assets are transferred to their shareholders on disincorporation. The relief was introduced in FA 2013 for a 5 year period and the Government has confirmed today that the relief will not be extended beyond the current expiry date, 31 March 2018.

Disincorporation relief was introduced in the Finance Act 2013 to enable companies in some circumstances to transfer their trade and assets to their shareholders on disincorporation at the lower of cost and market value, rather than the deemed disposal taking place at market value. When it was introduced the relief was intended to be for a five year period, and is due to expire on 31 March 2018. The Government has confirmed that the relief will not be extended beyond the current expiry date of 31 March 2018.

> *Whilst expected, it is disappointing that this relief is not being extended beyond 31 March 2018, and where the conditions for the relief are met companies should consider to making use of the relief prior to this date.*

6.9 Proposal to increase the rates of Class 4 NIC withdrawn

The Government has decided not to proceed with plans, announced at the Spring Budget 2017, to increase the main rate of Class 4 National Insurance Contributions (NIC) from 9% to 10% in April 2018, and to 11% in April 2019.

Class 4 NIC is payable by the self-employed, including partners in partnerships and members of LLPs. Two rates apply with a main rate of 9% on profits between £8,424 and £46,350 and a rate of 2% on profits exceeding this. The plan to increase the main rate to 10% from April 2018, with a further increase to 11% from April 2019 proposed in the 2017 Spring Budget has now been withdrawn. The original intention was partly to counterbalance the removal of class 2 NIC and to reflect the alignment of most state benefits between the employed and self-employed.

The decision not to increase the main rate of Class 4 NIC will be welcomed by the self-employed but it will be interesting to see if this measure is reintroduced at a later date, given that the disparity between NIC rates for the self-employed and employed will increase following the abolition of class 2 NIC from 6 April 2019.

Although the rates have not changed, the band of profits on which NIC is payable at the full rate has increased by almost 3%, due to the raising of the higher rate threshold.

6.10 Taxation of partnerships to be clarified

The proposed rules first set out in September will be revised with a stated view of being more compatible with commercial arrangements.

Following the consultation on the changes to improve partnership taxation, the legislation has been revised to be align with commercial arrangements for allocating profit and to reduce additional administration, with particular rules for nominee partners and partnerships within partnerships.

In addition, partners will not be able to challenge the allocation of profits by the partnership in their personal tax returns with a dispute resolution method introduced. Disputes over quantum as highlighted in the recent case of King and Others v HMRC will remain as they are not covered by the legislation.

The alignment of partnership taxable profits with commercial profits looks innocuous but may well generate considerable difficulties both for mixed partnerships with corporate and individual partners and for partners on a fixed interests who could see their effective tax rates rise.

6.11 Update to the energy-saving technology list

The Government will update the energy-saving technology list (ETL) to include a further three technologies that qualify for the First Year Allowance from December 2017. In addition, loss making businesses will have first year tax credits (FYTC) extended for five years until 31 March 2023.

The Government has announced that the energy-saving technology list (ETL), on which first year tax credits and first year allowances (FYA) apply, will be extended. The list has been updated to:

- include additional technologies;
- modify nine existing technologies to reflect changes in technological advances and standards; and
- remove localised rapid steam generators and biomass fired warm air heaters.

First year tax credits will also be set at two thirds of the rate of corporation tax, which is a reduction compared to the current rate of 19%, and extended for five years. This measure provides a cash payment to loss making businesses that purchase energy efficient and environmentally beneficial technology and products, encouraging investment in the most efficient plant and machinery.

These measures should further encourage businesses, including loss making companies, to invest in energy saving technology and products, thereby reducing overall energy costs and result in wider environment benefits.

6.12 Zero-emission goods vehicles and gas refuelling equipment

The Government will extend first year allowances for zero-emission goods vehicles and gas refuelling equipment.

The 100% first year allowances for businesses purchasing zero-emission goods vehicles or gas refuelling equipment will be extended for a further 3 years to March/April 2021.

The extension of the first year allowances is welcome and should assist in helping to meet environmental objectives of the Government.

6.13 Capital gains depreciatory transactions

Where a capital loss arises on the sale of shares, 'depreciatory transactions' that took place more than six years ago must now be taken into account.

A 'depreciatory transaction' is a transaction that reduces the value of a company's shares without any overall economic loss to the wider group; for example, the cancellation of intragroup debts, disposals of assets to other group members at under market value and certain dividend payments.

Under current anti-avoidance rules, a loss on the disposal of shares can be adjusted if the value of the shares has been materially reduced by depreciatory transactions in the previous six years. Broadly, the aim of these rules is to prevent capital losses from being artificially increased by depreciatory transactions.

For disposals of shares on or after 22 November 2017, this six year time limit will be removed. Depreciatory transactions during the full history of the shares must now therefore be taken into account.

The Government has stated that its intention is to prevent companies from waiting until the previous six year time limit has passed. The removal of this time limit will mean that more detailed historic analysis may need to be carried out where a capital loss may arise in the future on the disposal of shares.

6.14 Update to tax legislation for the new IFRS 16 accounting standard

Two consultations will be published on 1 December 2017 on the changes needed to the tax legislation following the introduction of the new international accounting standard for leasing, IFRS 16.

In 2016 HMRC identified that the IFRS 16 changes, which come into effect on 1 January 2019, will significantly alter the position for the lessees of plant and machinery. The Government is concerned about the wider impact of the accounting change for income and corporation tax.

Consultation documents will are to be published covering:

- how to ensure that the income and corporation tax rules for leased plant and machinery continue to work as they do currently; and
- to evaluate options for the corporation tax treatment of lease payments under the new rules which restrict interest deductions for companies.

The taxation treatment of leasing transactions is largely dependent upon the accounting treatment, which under IFRS 16 will change significantly for lessees with effect from 1 January 2019 and is likely to impact many companies.

Companies should ascertain if and to what extent IFRS 16 (and FRS101) will impact on their accounting for plant and machinery leases and, if affected, review the consultation documents and subsequent legislation closely in order to plan for the taxation consequences.

6.15 Corporate interest restriction amendments

Further technical amendments will be made to the new corporate interest restriction (CIR) rules.

The CIR rules were enacted on 16 November 2017, in Finance (No. 2) Act 2017 and effective from 1 April 2017. The rules seek to cap the corporation tax relief for finance costs in the UK for groups or stand-alone companies with net finance costs greater than £2m.

The Budget announced that further legislation will be issued to make technical amendments to the CIR rules with a view to making the rules work as intended. The revisions tackle issues identified with the practical application of the public benefit infrastructure exemption (PBIE) and to clarify the application of the rules for companies with derivative contracts hedging financial trades that are not covered by the specific rules for banking. Some definitions will also be updated impacting companies within the CIR rules also claiming R&D expenditure credits, and updating the definition of the worldwide group in relation to non-consolidated and consolidated subsidiaries to align with accounting standards.

Some of the amendments will have retrospective effect from 1 April 2017 while others will apply from 1 January 2018, however no further detail has yet been provided as to which changes will have retrospective effect.

The new corporate interest rules are complex and therefore tweaks to the detail of the rules had been expected to make their practical application work as intended given the wide range of circumstances that the rules can cover. These amendments are specific to certain areas of the CIR rules, and therefore their impact is expected to be limited.

6.16 Profits of UK property business of a non-resident company

From April 2020, non-resident companies' income from UK property will be chargeable to corporation tax rather than income tax. In addition, gains that arise to non-resident companies on the disposal of UK property will be charged to corporation tax rather than CGT.

Currently non-resident companies are chargeable to income tax on UK taxable income at 20%, and some gains are taxable to non-resident capital gains tax. The Budget confirmed that UK property income of non-UK companies would be taken out of the scope of income tax and instead subjected to corporation tax.

These companies will be subject to the general corporation tax rules, including the limitation to corporate interest expense deductibility and loss relief rules.

The change will mean an additional compliance burden for taxpayers, moving from income tax to corporation tax including adapting to the differing legislative and reporting requirements. This will probably affect smaller non-resident companies that have no experience of corporation tax and should seek advice on the transition.

The deadlines for reporting under making tax digital in respect of income tax and corporation tax may differ and so will need also careful consideration.

6.17 Postponement of tax on branch assets transferred on incorporation

The Government will legislate in Finance Bill 2017-18 to correct an anomaly. This measure will remove a postponed tax charge that may become payable earlier than intended in specific circumstances.

This anomaly may be in point when a new holding company is inserted directly above an overseas company to which a UK company has previously transferred the trade and assets of a foreign branch in return for shares.

An unintended consequence of the current rules is that if the shares exchanged during the reconstruction fall within conditions for the Substantial Shareholding Exemption (SSE) to apply, the postponed tax charge may become payable even though the group still owns the shares of the overseas company.

While this change is anticipated to have a limited impact, due to the specific nature of the proposals, it is a helpful change that reduces the risk of an unintended charge.

6.18 Scope of Bank Levy to change for UK headquartered banks

The scope of the Bank Levy for UK headquartered banks is changing from 2021 so that they are only levied on their UK balance sheet liabilities.

Further to the announcement at Summer Budget 2015 and confirmation at Autumn Statement 2016, for chargeable periods ending on and after 1 January 2021, the scope of the Bank Levy will change so that UK headquartered banks are levied only on UK balance sheet liabilities.

Minor changes will also be made to its administration. The draft legislation that was published on 13 September 2017 has been amended to include a number of technical changes.

The changes will essentially reduce the scope of the levy for UK headquartered banks, from applying the Bank Levy on worldwide balance sheets of UK headquartered banks to only UK balance sheet *liabilities. This is a welcome change. The benefit of the changes will not be felt for some time, as the changes will not be effective until 2021.*

6.19 Double tax relief for overseas branch losses

There will be a restriction on claiming double tax relief where the losses of an overseas branch have already been offset against profits which are not generated by that branch.

Where relief for the losses of an overseas branch has been claimed by anyone other than that branch in the same or previous period, for example, if a group subsidiary in the same country as the branch has claimed relief for the branch losses, a company will be restricted from making a double tax relief claim in respect of that amount.

This measure applies to accounting periods starting on or after 22 November 2017. Transitional arrangements will apply where an accounting period straddles 22 November 2017.

This measure prevents tax relief from being received twice for the same branch losses. Companies will have to monitor where relief can be claimed for branch losses to ensure they are applied in the most efficient way.

6.20 Amendment to hybrid mismatch rules

Rules tackling the exploitation of differences in tax treatments between two jurisdictions will be amended to clarify how and when the rules apply, and to ensure that the rules operate as intended.

Hybrid mismatch outcomes can arise from hybrid financial instruments, hybrid entities, dual resident companies and arrangements involving permanent establishments. Finance Act 2016 brought in provisions applicable from 1 January 2017 that seek to neutralise any tax mismatch resulting in a deduction for various payments where there are either double deductions for the same expense, or deductions for an expense without the corresponding receipt being fully taxed. The regime was introduced in response to the Organisation for Economic Co-operation and Development (OECD) Base Erosion and Profit Shifting (BEPS) recommendations.

Finance (No. 2) Act 2017 made two minor changes to ensure the legislation operated as intended, and the Finance Bill 2017-18 will now introduce eight further changes for the same reason; all but one of which will have effect on and after 1 January 2017. The remaining change, in relation to disregarding taxes charged at nil rate, will have effect on and after 1 January 2018.

The rules are complex but should not impact businesses who are undertaking normal commercial transactions. The changes will only affect businesses with hybrid mismatch arrangements that arise from mismatches in international tax systems.

These technical changes have been introduced following extensive informal consultation with stakeholders. It is good to see HMRC listening and reacting where the rules might give results which are out of line with the original policy intentions, but the number of amendments illustrates the difficulty of introducing a complex piece of legislation.

7. Venture capital

High-growth potential companies struggling to gain access to finance have received a boost from the extension of existing venture capital reliefs. Income tax and capital gains relief for investment funding in knowledge-intensive companies have been extended with a doubling of Enterprise Investment Scheme and Venture Capital Trust scheme limits. The Government intends to target the reliefs at higher risk investments, with a new 'risk to capital' condition.

7.1 Venture capital schemes changes and clarifications

The main measures are around the Government proposal to increase the investment limits for enterprise investment scheme (EIS) and venture capital trust (VCT) investments in knowledge intensive companies. In addition, legislation will be changed to introduce a risk-to-capital condition in an attempt to disqualify 'capital preservation' fund-raising. There are also proposals to limit the anti-abuse rule for mergers of VCTs, define relevant investments for EIS and VCTs, and certain other reforms.

The Government has proposed various changes to the venture capital scheme rules. The proposed changes are subject to the normal state aid rules and include:

- In response to the Patient Capital Review the Government will introduce legislation to encourage further investment in knowledge-intensive companies under EIS and from VCTs. The Government will double the limit an individual may invest under EIS in a tax year (from £1m to £2m), if amounts over the £1m are invested in knowledge-intensive companies. In addition, the annual investment limit for knowledge-intensive companies receiving investments under the EIS and from VCTs will be increased to £10m (compared to the current limit of £5m). The changes will effect investments made on or after 6 April 2018.
- Similarly, the Government has announced that changes will be made to ensure that VCTs are focussed on companies where there is a real risk to the capital being invested. The changes will have effect for investments made on or after 6 April 2018.
- The Government has confirmed that the response to the consultation document regarding the streamlining of the advance assurance process will be published on 1 December 2017.
- In response to the Patient Capital Review, the Government will consult in 2018 on the introduction of a new knowledge intensive EIS fund structure, in which there would be flexibility to deploy capital raised over a longer period.
- The Government will legislate in Finance Bill 2017-18 to ensure all risk finance investments, whenever made, will count towards the lifetime funding limits for companies receiving investments under EIS and from VCTs. The changes will have effect for investments made on or after 1 December 2017.
- The Government will also legislate in Finance Bill 2017-18 to limit the application of an anti-abuse rule relating to mergers of certain VCTs. The change will have effect for VCT subscriptions made on or after 6 April 2014.
- In response to the Patient Capital Review, the government will legislate in Finance Bill 2017-18 to move VCTs towards higher risk investments.

> *The changes to double the amount individuals can invest into knowledge intensive companies and the amounts such companies can raise is a welcome and positive step to encourage further investment under EIS and for VCTs.*

8. VAT and indirect taxes

8.1 VAT registration threshold

The VAT registration and deregistration thresholds will remain the same for the two years from 1 April 2018.

The current registration threshold at £85,000 is the highest in the EU, where the average is £20,000. A recent report published by the Office of Tax Simplification identified that while the high registration threshold avoids 3 million businesses having to register for VAT, there is evidence it distorts competition between businesses that need to charge VAT and those who don't. The Government will take forward the main recommendation of the report to examine and consult on the future design of the threshold.

This is a departure from the past where the threshold used to increase each year by one or two thousand pounds in line with inflation. Although a high threshold can benefit smaller business who do not need to register for VAT, it is seen as creating a 'cliff-edge' and a bunching effect of businesses choosing to remain below the threshold, which limits their growth. Any reduction to the threshold will need to ensure that it does not simply shift the cliff-edge effect to a lower level and inhibit business growth. The review will also need to take into account the effect on businesses that exceed the threshold and will be required to comply with 'Making Tax Digital', which comes into force from April 2019.

8.2 Making tax digital (MTD) and VAT registered organisations

Plans for MTD have not changed since the announcements made in July, which were largely legislated for in the recent Finance (No.2) Act 2017.

Under the current timetable, only VAT registered organisations with turnover over the VAT threshold will be mandated into the quarterly reporting under MTD from April 2019. This will be to meet VAT obligations only, by keeping digital records linked to the quarterly VAT updates to HMRC. Various exemptions will apply, such as to non-trading charities and those exempt from digital reporting due to infirmity, religion or lack of internet connection. An updated statement of impacts will be published on 1 December 2017.

HMRC anticipates that most businesses will eventually be required to report digitally for all the main taxes. The technology is currently being developed, with uncertainty as to when the necessary software will become available, including that for VAT.

It is not therefore yet clear when HMRC's vision to expand MTD recording and reporting to other taxes will become a reality. It will not be before 2020, and HMRC has confirmed that the system will need to be shown to work before the scope of MTD is widened. It is estimated that the costs of delays will amount to £585m a year by 2022/23.

8.3 Extending the VAT liability for online marketplaces

New measures are being introduced to extend the powers to make for online marketplaces' jointly and severally (JSL) for traders' unpaid VAT.

These new measures will mean that online marketplaces will be JSL for UK VAT payable by all businesses (UK and non-UK) using their platforms to sell good in the UK.

The extended powers will also hold online marketplaces liable for any VAT that non-UK businesses selling goods on their platform fail to account for, where the marketplace knows or should have known that the overseas business should have been registered for UK VAT.

Online marketplaces will also be required to display a valid VAT number (when provided with one) for sellers using their platform, and to ensure that VAT numbers displayed on their website are valid.

These changes will come into force on Royal Assent of Finance Bill 2017-18 in the spring.

Also, as announced in the Spring Budget, the Government is intending to introduce a 'split payment' model to reduce online VAT fraud, which would allow VAT to be collected directly by HMRC from online transactions at the point of purchase. The Government will publish further information in December.

With the ever expanding volume of business conducted online, it is clear that new technology is needed to combat fraud and ensure that businesses are no longer able to operate via online marketplaces without appropriately accounting for VAT. The split payment model of collecting VAT directly at the point of sale is a departure from the traditional method and could be adopted more widely in order to improve the collection of VAT. It was originally proposed as a method for collecting PAYE/NIC from employee's pay under RTI, but has never been implemented.

8.4 VAT and vouchers

The Government is to consult on the VAT implications of vouchers

The Government is to consult on proposals to bring in revised VAT rules around the use of vouchers. The aim is to ensure that, irrespective of whether customers pay with vouchers or other means of payment, businesses account for the same amount of VAT. This will then align the UK with changes being made across the EU from 2019.

Several recent tax cases have illustrated the complexities of the VAT rules around vouchers. Clarification and simplification of this area should be encouraged.

8.5 VAT fraud in the construction sector

The Government plans to introduce a domestic VAT 'reverse charge' from 1 October 2019, following a consultation on tackling fraud in construction industry labour supply chains.

The reverse charge will shift responsibility for paying VAT along the supply chain. The aim is to prevent VAT losses. The measure will effectively mean that the business recipient of the labour supplies will become liable to account for the VAT under the reverse charge arrangements. The long lead in before being introduced is to give businesses time to prepare for the change.

The reverse charge will shift responsibility for paying VAT along the supply chain. The aim is to prevent VAT losses. The measure will effectively mean that the business recipient of the labour supplies will become liable to account for the VAT under the reverse charge arrangements. The long lead in before being introduced is to give businesses time to prepare for the change.

8.6 Stamp duty land tax (SDLT) abolished for first time buyers

From 22 November 2017, first-time buyers will benefit from relief from paying SDLT where they pay less than £300,000 for a new residential property. Where a new property costs between £300,000 and £500,000 SDLT will only be payable on the purchase price in excess of £300,000.

First time buyers, individuals who have not bought a residential property previously anywhere in the world, will benefit from an abolition of SDLT on their first purchase for less than £300,000. There is also a benefit for first time buyers where their new property costs between £300,000 and £500,000 as they will only pay SDLT at a rate of 5% on the amount of the purchase price that exceeds £300,000.

The change is structured as a relief, which must be claimed in a SDLT return.

These rules will apply to purchases from 22 November in England, Wales and Northern Ireland. Although with SDLT ceasing to apply in Wales from 1 April 2018, when their new land transaction tax takes effect, the impact of this provision will only be temporary in Wales.

This rule will be welcomed by first time buyers as it potentially enables them to get onto the housing ladder in a shorter timeframe. It may also put them at a commercial advantage over property investors with more than one property, with a differential stamp duty land tax cost of up to £14,000 between a first time buyer and a buy-to-let investor for a property valued at £300,000.

For the relief to be available every purchaser of a property must qualify as a first time buyer. The relief might not be available where, for example, a mortgage provider requires a guarantor to be a joint purchaser and they already own their own home or another residential property.

It remains to be seen whether the Scottish and Welsh governments will follow suit with similar provisions for their devolved land transfer taxes, but if they do not there will be disparity in the treatment of first time buyers across the country.

8.7 SDLT on additional residential properties

The rules for the 3% surcharge for additional residential properties have been amended to make them fairer for divorcing couples, married couples and civil partners transferring property between each other. In addition, the rules are to be amended to prevent abuse by requiring purchasers to sell the whole of the former main residence and to do so to someone who is not their civil partner or spouse.

Higher SDLT rates are applicable for purchases of additional residential property in particular circumstances. These rules were introduced in April 2016 and are commonly referred to as the 3% surcharge.

Minor changes have been made to these rules with immediate effect so that relief is available from the 3% surcharge in the following cases:

- where a divorce related court order prevents someone from disposing of their interest in a main residence;
- where a spouse or civil partner buys property from another spouse or civil partner;
- where a deputy buys property for a child subject to the Court of Protection; and
- where a purchaser adds to his interest in his current main residence.

In addition, a loophole that enabled a relief to be claimed while still retaining an interest in an existing main residence, has been closed. The amendments require a purchaser to sell the whole of their former main residence to someone who is not their civil partner or spouse if they wish to obtain the relief.

The original rules were implemented in a short timeframe with little chance for proper consultation. During the first 18 months of their operation certain anomalies and unintended consequences have been highlighted in the ways that the rules operate, including an opportunity to create a way out of the 3% surcharge that cannot have been intended. These changes are welcome to tidy up the operation of the rules in these specific areas, although other anomalies still exist in the rules, so perhaps the changes have not gone far enough.

8.8 SDLT: 14 day payment and filing window

The Government has confirmed that the shortened 14 day filing and payment window for the SDLT return will apply to land transactions with an effective date on or after 1 March 2019.

It was announced in the Spring Budget 2017 that the reduction in the SDLT return filing and payment window from 30 days to 14 days would be delayed until after April 2018. The Government has now confirmed that the shortened window will apply to land transactions with an effective date on or after 1 March 2019. The Government has also announced plans to improve the SDLT return in order to make it easier to comply with the new time limit.

The shortening of the filing window has caused some consternation among agents responsible for filing returns so pushing back the implementation is welcome, as is the commitment to improve the return that we hope will simplify the process.

8.9 Annual tax on enveloped dwellings - chargeable amounts

The Government has announced the chargeable amounts applicable to the 2018/19 ATED chargeable period.

The chargeable amounts will increase by 3%, in line with the September 2017 CPI. These increased charges will take effect from 1 April 2018.

These increases are as expected.

8.10 Stamp taxes on resolution of failing financial institutions

The Government will legislate in Finance Bill 2018-19 to ensure that stamp duty, stamp duty reserve tax and stamp duty land tax are not chargeable on the exercise of resolution powers under the UK special resolution regime for managing failing financial institutions.

To help the process of resolving a failed financial institution, the Government will legislate to exempt particular transactions from stamp taxes. The exemption is in relation to the temporary transfer of shares or land to a bridge entity, and the transfer of shares in exchange for temporary certificates issued to creditors that identify their entitlement to the shares. This is intended to simplify and strengthen the process of resolving a failed financial institution and to help to ensure that the 'no creditor worse off' principle is upheld. The exemption will have effect on and after Royal Assent of Finance Bill 2018-19.

This measure should relieve some of the transaction costs associated with rescuing financial institutions.

8.11 No reapplication of stamp duty on share issues after Brexit

The Government has announced that it will not seek to reapply the stamp duty (SD) and stamp duty reserve tax (SDRT) 1.5% charge on the issue of shares, and transfers integral to capital raising, into overseas clearance services and depositary receipt issuers following the UK's exit from the European Union.

Following a Court of Justice of the European Union (CJEU) judgement in 2009 and a subsequent First-tier Tribunal judgement in 2012, HMRC accepted that the UK's 1.5% charge to SD and SDRT was incompatible with the Capital Duty Directive. Consequently, a 1.5% SD and SDRT charge could not be applied on the issue of shares (and transfers integral to capital raising) into overseas clearance services and depositary receipt issuers. This was further backed up by the recent case of *Air Berlin V HMRC* heard by the CJEU.

This announcement is welcome to confirm that the status quo will continue even after the UK ceases to be bound by the Capital Duty Directive.

9. Tax avoidance, non compliance and evasion

9.1 Further action on those abusing the insolvency regime

A discussion document will be published in 2018 to explore further methods of preventing perceived abuse of the insolvency regime to evade or avoid tax liabilities, including through the use of phoenixism.

Finance Act 2016 introduced a new targeted anti-avoidance rule (TAAR) to prevent 'phoenixism'. This is where solvent companies are liquidated so that shareholders dispose of their shares to realise a capital gain, potentially subject to a capital gains tax (CGT) charge rather than paying income tax on the profits that would otherwise be distributed. A similar business is then set up to continue the previous trade.

As part of the 2017 Autumn Budget, it has been announced that further discussions will take place in 2018 to ensure that the insolvency regime is not being used to either avoid or evade tax that is due.

The Government is clearly concerned that people are circumventing the TAAR and benefiting from the disparity between CGT and income tax rates through the insolvency regime. We can therefore expect to see further rules announced following this period of discussion to tackle this perceived abuse.

9.2 Requirement to notify HMRC of offshore structures

The Government has announced that it will publish a response to the consultation on its proposal to require notification to HMRC of some offshore structures. Under this proposal, intermediaries creating or promoting certain complex offshore financial arrangements will be required to notify HMRC of their creation. The response will be published on 1 December 2017.

In early 2017, the Government consulted on a legal requirement for intermediaries to notify HMRC of various defined types of complex offshore arrangements and the related lists of clients using them. The Government has now announced its intention to publish a response to the consultation. As the OECD and EU are also considering similar measures, the Government will feed the responses to the consultation into the work carried out internationally.

As we have commented previously, the proposals can be seen as part of the gradual tightening of tax anti-avoidance rules, together with increased sharing of financial information between governments, under the common reporting standards.

We await further details of the proposals, including the specific hallmarks by which an arrangement would need to be notified. These remain the subject of a future consultation.

9.3 Extension of the four and six year assessment time limits

The Government announced that it will extend the current four or six year time limits for HMRC to assess offshore tax non-compliance to at least 12 years. This extended limit will apply where the behaviour is not deliberate. There will be a consultation on this in Spring 2018.

Where non-compliant behaviour is involved, HMRC will have at least 12 years to assess all offshore cases. No detail is provided on what constitutes an offshore case. This allows for the fact that it can take HMRC much longer to establish the facts where offshore non-compliance is involved.

No commencement date has been announced, but there will be a consultation on this in spring 2018.

Where the behaviour is considered deliberate the current 20 year time limit will still apply.

This is a significant extension to the current time limit for non-deliberate behaviour of four years, or six years where the behaviour is found to be careless.

This change will mean that taxpayers will in the future have much less certainty over historic offshore tax matters, and where genuine mistakes have been made this could come back to bite at a much later date.

9.4 Investing in HMRC

The Government has announced that it will invest a further £155 million in new technology and further resources for HMRC.

It is envisaged that this investment will enable HMRC to further tackle the hidden economy, marketed tax avoidance schemes, enablers of tax fraud and non-compliance among wealthy individuals and mid-size businesses. A new taskforce will also be set up to tackle tax debts that are more than nine months old. The Government estimated that this will help bring in additional tax revenues of £2.3bn.

HMRC has confirmed its commitment to crack down on tax avoidance and evasion, the latter being a significant part of the tax gap. This additional investment will help provide the tools to enable it to do this.

10. Appendix: Rates and allowances

Income tax, personal and age-related allowances (£ per year)

	2017/18	Change	2018/19
Personal allowance (1)	11,500	(+350)	11,850
Income limit for full age-related allowances (2)	28,000	(+900)	28,900
Married couple's allowance (3)	8,445	(+250)	8,695
Married couple's allowance (3) – minimum amount	3,260	(+100)	3,360
Transferable tax allowance (4)	1,150	(+35)	1,185
Blind person's allowance	2,320	(+70)	2,390

(1) *The basic personal allowance is reduced by £1 for every £2 of 'adjusted net income' above £100,000. This is irrespective of age.*

(2) *Where 'adjusted net income' is above the income limit, the age-related allowance is reduced by £1 for every £2 of excess income, until it is reduced to the basic level. The reduction where 'adjusted net income' exceeds £100,000 applies as for the basic personal allowance.*

(3) *Available for those born before 6 April 1935. Tax relief is given at the rate of 10%.*

(4) *Amount of personal allowance spouses/civil partners born after 5 April 1935 can transfer to basic-rate tax paying spouse/civil partner.*

Income tax rates (£)

	2017/18	Change	2018/19
Starting savings rate 0% (1)	0 - 5,000	(-)	0 - 5,000
Basic rate 20% (2)	0 – 33,500	(+1,000)	0 – 34,500
Higher rate 40% (3)	33,501 - 150,000	(-1,000)	34,501 - 150,000
Additional higher rate 45% (4)	150,000+	(-)	150,000+

Rate of income tax for discretionary trusts and accumulation and maintenance trusts:
38.1% for dividend income and 45% for non-dividend income.

(1) *0% starting rate for savings only where other income does not exceed the band.*

(2) *7.5% for dividend income.*

(3) *32.5% for dividend income.*

(4) *38.1% for dividend income.*

Different rates and rate bands apply to non-savings income for UK resident taxpayers meeting one of the conditions of Scottish taxpayer status.

Dividend income at the nil rate

	2017/18	Change	2018/19
Dividend allowance	5,000	(-)	5,000

Savings income at the nil rate

	2017/18	Change	2018/19
Personal savings allowance for basic rate taxpayers	1,000	(-)	1,000
Personal savings allowance for higher rate taxpayers	500	(-)	500

Remittance basis charge

	2018/19
UK resident for less than 7 of the past 9 tax years	£nil
UK resident for at least 7 of the past 9 tax years	£30,000
UK resident for at least 12 of the past 14 tax years	£60,000
UK resident for at least 15 of the past 20 tax years (1)	£nil

Those UK tax resident for at least 15 of the past 20 tax years are deemed domiciled for income tax, capital gains tax and inheritance tax and will no longer be entitled to claim remittance basis.

CGT annual exempt amount (£ unless stated)

	2017/18	Change	2018/19
Individuals	11,300	(+400)	11,700
Most trustees	5,650	(+200)	5,850
CGT rates – basic rate (1)	10%	(-)	10%
CGT rates – higher and additional rate and all trustees and personal representatives (2)	20%	(-)	20%
CGT entrepreneurs' relief	10%	(-)	10%
Lifetime limit on gains (entrepreneurs)	10 million	(-)	10million
Lifetime limit on gains (external investors)	10 million	(-)	10 million

(1) 18% rate applies for disposals of residential property.
(2) *28% rate applies for disposals of residential property.*

National insurance contributions

Item	2018/19
Lower earnings limit, primary Class 1	£116 per week
Upper earnings limit, primary Class 1	£892 per week
Primary threshold	£162 per week
Secondary threshold	£162 per week
Employees' primary Class 1 rate	12% of £162 to £892 per week 2% above £892 per week
Married women's reduced rate*	5.85% of £162 to £892 per week 2% above £892 per week
Employers' secondary Class 1 rate	13.8% above £162 per week
Employment allowance (per employer)	£3,000 per annum
Class 2 rate	£2.95 per week
Class 2 small earnings exception	£6,205 per annum
Special Class 2 rate for share fishermen	£3.60 per week
Special Class 2 rate for volunteer development workers	£5.80 per week
Class 3 rate	£14.65 per week
Class 4 lower profits limit	£8,424 per annum
Class 4 upper profits limit	£46,350 per annum
Class 4 rate	9% of £8,424 to £46,350 per annum 2% above £46,350 per annum

**For women married before 6 April 1977 who have elected to pay a reduced rate of Class 1 contributions.*

ISAs

2017/18	2018/19
£20,000	£20,000

Junior ISA and Child Trust Fund

2017/18	2018/19
£4,128	£4,260

IHT and pensions (£ unless stated)

	2017/18	2018/19
Tax rates:		
Estates	40%	40%
Reduced death rate (1)	36%	36%
Lifetime transfer rate	20%	20%
Nil rate bands:		
Nil rate band limit (2)	325,000	325,000
Residential nil rate band limit	100,000	100,000
Exempt amounts:		
Annual exemption	3,000	3,000
Small gifts exemption	250	250
Wedding gifts exemptions , where gift made by:		
- parent	5,000	5,000
- more remote ancestor	2,500	2,500
- party to marriage	2,500	2,500
- other person	1,000	1,000

(1) *For deaths occurring on or after 5 April 2012, a reduced rate of 36% applies where a deceased individual has left 10% or more on a 'component part' of their net estate to charity.*

(2) *The unused proportion of the nil rate band can be transferred to surviving spouse or civil partner.*

Pension scheme allowances (£)

	2017/18	Change	2018/19
Pension scheme lifetime allowance	1,000,000	(+30,000)	1,030,000
Pension scheme annual allowance (1)	40,000	(-)	40,000
Money purchase annual allowance	4,000	(-)	4,000

(1) *From 6 April 2016 the annual allowance is reduced by £1 for every £2 of income above £150,000 subject to a minimum allowance of £10,000.*

Child benefit and guardian allowance rates (£ per week unless stated)

	2017/18	Change	2018/19
Eldest/only child*	20.70	(-)	20.70
Other children*	13.70	(-)	13.70
Guardian's allowance*	16.70	(+0.50)	17.20

**A charge applies where either a claimant or their spouse or civil partner earns over £50,000, amounting to 1% of the benefit received for each £100 the higher earner's earnings exceed £50,000.*

State pension and pension credit (£ per week) - *2018/19 rates to be updated*

	2017/18	Change	2018-19
New State pension (individuals retiring after 5 April 2016)			
Full rate	159.55	(+4.80)	164.35
Old State pension			
Category A or B basic state pension	122.30	(+3.65)	125.95
Category B basic state pension (lower) – spouse or civil partner's insurance	73.30	(+2.20)	75.50
Category C or D – non-contributory	73.30	(+2.20)	75.50
Pension credit			
Standard minimum guarantee – single	159.35	(+3.65)	163.00
Standard minimum guarantee – couple	243.25	(+5.55)	248.80
Savings credit threshold – single	137.35	(+3.32)	140.67
Savings credit threshold – couple	218.42	(+5.40)	223.82
Savings credit maximum – single	13.20	(+0.20)	13.40
Savings credit maximum – couple	14.90	(+0.09)	14.99

Working and child tax credits (£ per year unless stated)

	2017/18	Change	2018/19
Working tax credit			
Basic element	1,960	(-)	1,960
Couple and lone parent element	2,010	(-)	2,010
30-hour element	810	(-)	810
Disabled worker element	3,000	(+90)	3,090
Severe disability element	1,290	(+40)	1,330
Childcare element of the working tax credit			
Maximum eligible cost for one child (per week)	175	(-)	175
Maximum eligible cost for two or more children (per week)	300	(-)	300
Eligible costs covered	70%	(-)	70%
Child tax credit			
Family element	545	(-)	545
Child element	2,780	(-)	2,780
Disabled child element	3,175	(+100)	3,275
Severely disabled child element	4,465	(+135)	4,600
Income thresholds and withdrawal rates			
First income threshold	6,420	(-)	6,420
First withdrawal rate	41%	(-)	41%
First threshold for those entitled to child tax credit only	16,105	(-)	16,105
Income disregard	2,500	(-)	2,500
Income fall disregard	2,500	(-)	2,500

Corporation tax on profits (£ per year unless stated)

Financial year to	31 March 2018	Change	31 March 2019
Main rate	19%	(-)	19%

Company taxes payable on profits from UK oil and gas production (%)

	Financial year to 31 March 2019
Ringfence corporation tax main rate	30
Supplementary charge	10
Petroleum revenue tax	0*

**Petroleum revenue tax is deductible in computing profits chargeable to ringfence corporation tax and supplementary charge.*

Capital allowances

	2017/18	2018/19
Plant and machinery		
– annual investment allowance*	£200,000	£200,000
– annual allowance (main rate pool)	18%	18%
– long life assets (special rate pool)	8%	8%
– integral features	8%	8%
Cars – CO2 emissions up to 75g/km	100%	100%
Cars – CO2 emissions 76 - 130g/km	18%	18%
Cars – CO2 emissions over 130g/km	8%	8%
New and unused zero-emission goods vehicles	100%	100%

**100% annual investment allowance up to stated limit for qualifying expenditure incurred on certain plant and machinery for each unlinked unincorporated business or corporate group. Expenditure over limit dealt with through standard regime.*

Research and development tax credits (%)

	2017/18	2018/19
Rates for deduction		
SME rate	230	230
Large company rate	N/A	N/A
Rates for surrender of losses		
SME rate	14.5	14.5
Large company rate (taxable)	11	12

Patent box (%)

	2017/18	2018/19
Effective corporation tax rate on profits generated from qualifying intellectual property rights*	10%	10%

**The patent box is being phased in from April 2013, with companies able to claim 70% of the benefit in 2014/15, 80% in 2015/16, 90% in 2016/17 and 100% from 2017/18*

Bank surcharge

Rates from 1 January 2017	Rates from 1 January 2018
8%	8%

Bank levy (%)

	Rates from 1 January 2017	Rates from 1 January 2018
Short-term chargeable liabilities	0.17%	0.16%
Long-term chargeable equity and liabilities	0.085%	0.08%

Business rates (per £ of a business property's rateable value)

	2017/18	2018/19
Standard multiplier	47.9p	49.3p
Small business multiplier	46.6p	48.0p

VAT

	2017/18	Change	2018/19
Standard rate	20%	(-)	20%
VAT registration threshold	85,000	(-)	85,000
VAT deregistration threshold	83,000	(-)	83,000

Stamp taxes and duties 2018/19

Stamp duty land tax (SDLT)

Transfers of land and buildings (consideration paid)

Residential		Non-residential	
Band of consideration	**Band at (1)**	**Band of consideration**	**Band at**
£0-£125,000	Zero	£0-£150,000	Zero
£125,001-£250,000	2% (2)	£150,001-£250,000	2%
£250,001-£925,000	5% (2)	Over £250,000	5%
£925,001-£1,500,000	10%	-	-
Over £1,500,000	12%	-	-
Non-natural persons			
Over £500,000	15 % on total consideration		

(1) An additional 3% surcharge applies on the purchase of an additional residential property or of a dwelling by certain non-natural persons, for consideration of £40,000 or more.

(2) A 0% rate applies on the first £300,000 paid if purchase, worth £500,000 or less, qualifies for first time buyer relief.

Lease rentals

SDLT on any lease premium is the same as for transfers of land (see above). Duty on the rent is charged on the net present value (NPV). A % rate applies to the amount of NPV in excess of the threshold.

Residential		Non-residential	
NPV of the lease threshold	**Band at**	**NPV of the lease threshold**	**Band at**
£0-£125,000	Zero	£0-£150,000	Zero
Over £125,000	1%	£150,001-£5,000,000	1%
-		Over £5,000,000	2%

Scotland land and buildings transaction tax (LBTT) - Proposed

From 1 April 2015, LBTT replaced SDLT in Scotland.

Residential		Non-residential	
Band of consideration	**Band at (1)**	**Band of consideration**	**Band at**
£0-£145,000	Zero(2)	£0-£150,000	Zero
£145,001-£250,000	2%(2)	£150,001-£350,000	3%
£250,001-£325,000	5%	Over £350,000	4.5%
£325,001-£750,000	10%	-	-
Over £750,000	12%	-	-

(1) An additional 3% surcharge applies on the purchase of an additional residential property or of a dwelling by certain non-natural persons, for consideration of £40,000 or more.

(2) A first-time buyer relief to be introduced in 2018/19 with first-time buyers having a zero tax threshold of £175,000

Lease rentals

Non-residential		Non-residential	
Lease premium	**Rate**	**NPV of rates**	**Rate**
£0-£150,000	Zero	£0-£150,000	Zero
£150,001-£350,000	3%	Over £150,000	1%
Over £350,000	4.5%		

Wales land transaction tax (LTT) - Proposed

From 1 April 2018, LTT replaces SDLT in Wales.

Residential		Non-residential	
Band of consideration	**Band at (1)**	**Band of consideration**	**Band at**
£0-£180,000	Zero	£0-£150,000	Zero
£180,001-£250,000	3.5%	£150,001-£250,000	1%
£250,001-£400,000	5%	£250,001-£1,000,000	5%
£400,001-£750,000	7.5%	Over £1,000,000	6%
£750,001-£1,500,000	10%		
Over £1,500,000	12%	-	-

(1) An additional 3% surcharge applies on the purchase of an additional residential property or of a dwelling by certain non-natural persons, for consideration of £40,000 or more.

Leases

Non-residential LTT lease rates	
NPV threshold	**Band at**
£0-£150,000	Zero
£150,001-£2,000,000	1%
Over £2,000,000	2%

Stamp duty reserve tax

The rate of stamp duty/stamp duty reserve tax on the transfer of shares and securities is unchanged at 0.5% standard rate and 1.5% higher rate for 2018/19. From 28 April 2014 shares quoted on 'growth markets' such as AIM are not subject to stamp duty.

Annual tax on enveloped dwellings

The tax is payable by 30 April of each tax year.

Property value	2017/18	2018/19
More than £500,000 but not more than £1,000,000	£3,500	£3,600
More than £1,000,000 but not more than £2,000,000	£7,050	£7,250
More than £2,000,000 but not more than £5,000,000	£23,550	£24,250
More than £5,000,000 but not more than £10,000,000	£54,950	£56,550
More than £10,000,000 but not more than £20,000,000	£110,100	£113,400
Over £20,000,000	£220,350	£226,950

Air passenger duty rates (£)

Band and distance of capital city of destination country in miles from London	In the lowest class of travel (reduced rate)	In other than the lowest class of travel (standard rate)	Higher rate
On and after 1 April 2017			
A (0-2,000)	£13	£26	£78
B (over 2,000)	£75	£150	£450
On and after 1 April 2018			
A (0-2,000)	£13	£26	£78
B (over 2,000)	£78	£156	£468

**Higher rate applies to flights on aircraft of 20 tonnes and above, with fewer than nineteen seats.*

Environmental taxes

	Rates from 1 April 2017	Rates from 1 April 2018
Landfill tax		
Standard rate	£86.10 per tonne	£88.95 per tonne
Lower rate	£2.70 per tonne	£2.80 per tonne
Aggregates levy		
Aggregates levy rate	£2.00 per tonne	£2.00 per tonne
Climate change levy		
Electricity	0.568p per kWh	0.583p per kWh
Natural gas	0.198p per kWh	0.203p per kWh
Liquefied petroleum gas	1.272p per kg	1.304p per kg
Solid fuel	1.551p per kg	1.591p per kg

Tobacco duty rates

Product	from midnight 20 May 2017	from 6pm 22 November 2017
Cigarettes	An amount equal to the higher of either: £207.99 per 1000 cigarettes plus 16.5% of retail price or £268.63 per 1000 cigarettes	An amount equal to the higher of either: £217.23 per 1000 cigarettes plus 16.5% of retail price or £280.15 per 1000 cigarettes
Cigars	£259.44 per kg	£270.96per kg
Hand-rolling tobacco	£209.77 per kg	£221.18 per kg
Other smoking tobacco and chewing tobacco	£114.06 per kg	£119.13 per kg

Alcohol duty rates (£)

Product and basis of duty	from 21 March 2016	from 13 March 2017
Rate per litre of pure alcohol		
Spirits	27.66	28.74
Spirits-based ready to drinks	27.66	28.74
Wine and made wine: exceeding 22% alcohol by volume (abv)	27.66	28.74
Rate per hectolitre % of alcohol in the beer		
Lower strength beer duty – beer exceeding 1.2% but not exceeding 2.8% abv	8.10	8.42
General beer duty	18.37	19.08
Additional high strength duty exceeding 7.5% abv	5.48	5.69
Rate per hectolitre of product		
Still cider and perry: exceeding 1.2% – not exceeding 7.5% abv exceeding 7.5% – not exceeding 8.5% abv	 38.87 58.75	 40.38 61.04
Sparkling cider and perry: exceeding 1.2% – not exceeding 5.5% abv exceeding 5.5% – not exceeding 8.5% abv	 38.87 268.99	 40.38 279.46
Wine and made wine: exceeding 1.2% – not exceeding 4% abv exceeding 4% – not exceeding 5.5% abv	 85.60 117.72	 88.93 122.30
Still wine and made wine: exceeding 5.5% – not exceeding 15% abv	277.84	288.65
Wine and made wine: exceeding 15% – not exceeding 22% abv	370.41	384.82
Sparkling wine and made wine: exceeding 5.5% – not exceeding 8.5% abv exceeding 8.5% – not exceeding 15% abv	 268.99 355.87	 279.46 369.72

Gambling tax rates (%)

	2017/18	2018/19
General betting duty	15	15
General betting duty – sports spread bets	10	10
General betting duty – financial spread bets	3	3
Bingo duty	10	10
Remote gaming duty	15	15
Pool betting duty	15	15
Lottery duty (% of ticket value)	12	12
Machine games duty - maximum cost per play not more than 20p and maximum cash prize not more than £10		
(type 1 machines)	5	5
– all others (cost per play not more than £5)	20	20
– all others (cost per play can exceed £5)	25	25

Fuel duty rates 2018/19 (pence per litre unless stated)

Fuel type	From 23 March 2011
Ultra-low sulphur petrol/diesel	57.95
Sulphur-free petrol/diesel	57.95
Biodiesel	57.95
Bioethanol	57.95
Liquefied petroleum gas used as road fuel	31.61p per kg
Natural gas used as road fuel	24.70p per kg
Rebated gas oil (red diesel)	11.14
Fuel oil	10.70

**Fuel duty rates have remained frozen since 6pm on 23 March 2011.*

Vehicle excise duty for cars registered on or after 1 April 2017 (£) - *alternative fuel discount: £10 all cars*

CO2 emissions (g/km)	Standard rate	First-year rate 2017/18	First-year rate 2018/19
0	0	0	0
(1-50)	140	10	10
(51-75)	140	25	25
(76-90)	140	100	105
(91-100)	140	120	125
(101-110)	140	140	145
(111-130)	140	160	165
(131-150)	140	200	205
(151-170)	140	500	515
(171-190)	140	800	830
(191-225)	140	1,200	1,240
(226-255)	140	1,700	1,760
(Over 255)	140	2,000	2,070

Vehicle excise duty (VED) for cars registered on or after 1 March 2001 but before 1 April 2017 (£)

VED band/CO2 emissions (g/km)		Standard rate (1) 2017/18 (2)	Standard rate 2018/19	First-year rate 2017/18 and 2018/19 (3)
A	(Up to 100)	0	0	N/A
B	(101-110)	20	20	N/A
C	(111-120)	30	30	N/A
D	(121-130)	115	120	N/A
E	(131-140)	135	140	N/A
F	(141-150)	150	155	N/A
G	(151-165)	190	195	N/A
H	(166-175)	220	230	N/A
I	(176-185)	240	250	N/A
J	(186-200)	280	290	N/A
K (2)	(201-225)	305	315	N/A
L	(226-255)	520	540	N/A
M	(Over 255)	535	555	N/A

(1) *Alternative fuel discount: £10 all cars.*

(2) Includes cars emitting over 225g/km registered before 23 March 2006.

(3) There is no first year rate under the graduated VED system because the new system is coming into effect.

Vehicle excise duty for cars and vans registered before 1 March 2001 (£)

VED band	2017/18 rate	2018/19 rate
Up to 1549cc	150	155
Over 1549cc	245	255

Vehicle excise duty for cars and vans registered after 1 March 2001 (£)

VED band	2017/18 rate	2018/19 rate
Early Euro 5 and Euro 5 compliant vans	140	140
All other vans	240	250

11. Glossary of terms

BEPS – base erosion profit share

EIS – Enterprise Investment Scheme

CGT – capital gains tax

CPI – consumer price index

EEA – European Economic Area

HMRC – HM Revenue and Customs

IHT – inheritance tax

ISA – individual savings account

NIC – national insurance contribution

OECD – Organisation for Economic Cooperation and Development

OBR - Office for Budget Responsibility

OTS – Office of Tax Simplification

PAYE – pay as you earn

VCT – Venture Capital Trust

smithandwilliamson.com

Offices: London, Belfast, Birmingham, Bristol, Cheltenham, Dublin (City and Sandyford), Glasgow, Guildford, Jersey, Salisbury and Southampton.