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Autumn Budget 2017

As expected with Brexit looming, Philip Hammond delivered a fairly non-descript Budget with only one or two small surprises. The highlights of most relevance to those in the financial planning industry are detailed below.

Pensions

Lifetime allowance for pensions – the Budget papers confirmed that the lifetime allowance for pension savings will increase in line with CPI, rising to £1,030,000 for 2018/19.

State Pension and Pension Credit – the basic State Pension will be increased by the triple lock. The rise in April 2018 will be 3%, a cash increase of £3.65 per week for the full basic State Pension. The benefits of the triple lock uprating will also be passed on to the poorest pensioners through an increase to the Standard Minimum Guarantee in Pension Credit to match the cash rise in the basic State Pension. This will be paid for through an increase in the Savings Credit threshold – the Savings Credit starting point. The full new State Pension will also be increased by the triple lock, rising by £4.80 per week.

Stamp duty land tax

Stamp duty has been abolished on homes under £300,000 for first-time buyers and they will not pay stamp duty on the first £300,000 for homes worth between £300,000 and £500,000. They will pay the normal rates of stamp duty on the price above that. This will save £1,660 on the average first-time buyer property. This change is effective from 22nd November 2017.

The Office for Budget Responsibility has said that the stamp duty cut will push house prices up. It says it expects this policy to increase prices by 0.3% with most of this effect occurring in 2018.

SDLT – The government will amend SDLT higher rates for additional properties with immediate effect. The changes will benefit those increasing their share of their own home, families affected by a divorce court order, and cases where properties are held in trust for children subject to Court of Protection orders. The government will also remove a potential opportunity for avoidance.

National Living Wage and the National Minimum Wage

The National Living Wage for those aged 25 and over will increase from £7.50 per hour to £7.83 per hour from April 2018. The National Minimum Wage will also increase:

21 to 24 year olds	18 to 20 year olds	16 and 17 year olds	Apprentices
£7.38 per hour	£5.90 per hour	£4.20 per hour	£3.70 per hour

Income tax

The personal allowance will rise from £11,500 to £11,850 in 2018/19.

Universal Credit

Households who qualify for Universal Credit will be able to access a month's worth of support within five days, via an interest-free advance, from January 2018. This can be repaid over 12 months.

Claimants will be eligible for Universal Credit from the day they apply, rather than after seven days. Housing Benefit will continue to be paid for two weeks after a Universal Credit claim.

Income tax and National Insurance

Personal allowance (PA) and higher rate threshold (HRT) – The government is committed to raising the PA to £12,500 and the HRT to £50,000 by 2020 The Budget announces that in 2018/19 the PA and HRT will increase to £11,850 and £46,350 respectively.

Marriage Allowance: allowing claims on behalf of deceased partners – The Marriage Allowance allows taxpayers to transfer up to 10% of their unused PA to their partner, reducing their tax bill by up to £230 a year in 2017/18. The government will now allow claims in cases where a partner has died before the claim was made. These claims will be able to be backdated by up to 4 years.

Starting rate for savings – The band of savings income that is subject to the 0% starting rate will be kept at its current level of £5,000 for 2018/19.

Off-payroll working in the private sector – The government reformed the off-payroll working rules (known as IR35) for engagements in the public sector in April 2017. Early indications are that public sector compliance is increasing as a result, and therefore a possible next step would be to extend the reforms to the private sector, to ensure individuals who effectively work as employees are taxed as employees even if they choose to structure their work through a company. The government will consult on how to tackle non-compliance in the private sector.

Employment status discussion paper – The government will publish a discussion paper as part of the response to Matthew Taylor's review of employment practices in the modern economy, exploring the case and 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 so will work with stakeholders to ensure that any potential changes are considered carefully.

Taxation of trusts – The government will publish a consultation in 2018 on how to make the taxation of trusts simpler, fairer, and more transparent.

National Insurance Contributions (NICs) Bill – As previously announced, the government will delay implementing a series of NICs policies by one year. These are the abolition of Class 2 NICs, reforms to the NICs treatment of termination payments, and changes to the NICs treatment of sporting testimonials.

Rent-a-room relief – The government will publish a call for evidence to establish how rent-a-room relief is used and ensure it is better targeted at longer-term lettings.

Benefits in kind: electric vehicles – From April 2018, there will be no benefit in kind charge on electricity that employers provide to charge employees' electric vehicles.

Taxation of employee business expenses – Following the call for evidence published in March 2017, the government will make several changes to the taxation of employee expenses:

- Self-funded training – The government will consult in 2018 on extending the scope of tax relief currently available to employees and the self-employed for work-related training costs.
- Subsistence benchmark scale rates – To reduce the burden on employers, from April 2019 they will no longer be required to check receipts when reimbursing employees for subsistence using benchmark scale rates. The existing concessionary accommodation and subsistence overseas scale rates will be placed on a statutory basis, to provide greater certainty for businesses.
- Guidance and claims process for employee expenses – HMRC will work with external stakeholders to improve the guidance on employee expenses, particularly on travel and

subsistence and the process for claiming tax relief on non-reimbursed employment expenses.

Armed Forces personnel accommodation – An income tax and NICs exemption will be introduced for certain allowances paid to Armed Forces personnel for renting or maintaining accommodation in the UK private market. This will support the Ministry of Defence's aim to provide a more flexible, attractive and better value-for-money approach to accommodation.

Seafarers' Earnings Deduction and the Royal Fleet Auxiliary – Seafarers are entitled to an income tax deduction of their foreign earnings in certain circumstances. The existing extra-statutory treatment of the Royal Fleet Auxiliary will be placed on a statutory basis.

Qualifying Care Relief (QCR) and self-funded Shared Lives payments – QCR is a tax simplification covering expenses incurred when providing care that means carers only need to keep simple records. The government will extend the scope of QCR to cover self-funded Shared Lives care payments, to encourage the use of Shared Lives care.

Class 4 National Insurance contributions – As previously announced, the government will no longer proceed with an increase to the main rate of Class 4 NICs from 9% to 10% in April 2018, and to 11% in April 2019.

Capital Gains Tax

Capital Gains Tax (CGT) payment window – The introduction of the 30-day payment window between a capital gain arising on a residential property and payment will be deferred until April 2020.

Taxing gains made by non-residents on immovable property – To align the UK with other countries and remove an advantage which non-residents have over UK residents, all gains on non-resident disposals of UK property will be brought within the scope of UK tax. This will apply to gains accrued on or after April 2019. The government intends to include targeted exemptions for institutional investors such as pension funds.

Investments

Individual Savings Account (ISA) annual subscription limits – The ISA annual subscription limit for 2018/19 will remain unchanged at £20,000. The annual subscription limit for Junior ISAs and Child Trust Funds for 2018/19 will be uprated in line with CPI to £4,260.

Save As You Earn scheme – 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 employee share scheme, increased from 6 months currently. The change will take effect from 6 April 2018.

Life assurance and overseas pension schemes – From April 2019, tax relief for employer premiums paid into life assurance products or certain overseas pension schemes will be modernised to cover policies when an employee nominates an individual or registered charity to be their beneficiary.

The Budget announces an action plan to unlock over £20 billion of patient capital investment to finance growth in innovative firms over 10 years by:

- establishing a new £2.5 billion Investment Fund incubated in the British Business Bank with the intention to float or sell once it has established a track record. By co-investing with the private sector, a total of £7.5 billion of investment will be unlocked
- doubling the annual allowance for people investing in knowledge-intensive companies through the Enterprise Investment Scheme (EIS) and the annual investment those companies can receive through EIS and the Venture Capital Trust scheme, and introducing a

new test to reduce the scope for and redirect low-risk investment, together unlocking over £7 billion of growth investment

- investing in a series of private sector fund of funds of scale. The British Business Bank will seed the first wave of investment with up to £500 million, unlocking double its investment in private capital. Up to three waves will be launched, supporting a total of up to £4 billion investment
- backing new and emerging fund managers through the British Business Bank's established Enterprise Capital Fund programme, unlocking at least £1.5 billion of new investment
- backing overseas investment in UK venture capital through the Department for International Trade, expected to unlock £1 billion of investment

The government will also support long-term investment by:

- giving pension funds confidence that they can invest in assets supporting innovative firms as part of a diverse portfolio. The Pensions Regulator will clarify guidance on investments with long-term investment horizons. With over £2 trillion in UK pension funds, small changes in investment have the potential to transform the supply of capital to innovative firms
- changing the qualifying rules in Entrepreneurs' Relief to remove the disincentive to accept external investment and consulting on the detailed implementation of that change
- launching a National Security Strategic Investment Fund to invest in advanced technologies to contribute to the national security mission. The British Business Bank will also support developing clusters of business angels outside London through a new commercial investment programme

Corporate tax

Corporate indexation allowance – To bring the UK in line with other major economies and broaden the tax base through removing relief for inflation that is not available elsewhere in the tax system, the corporate indexation allowance will be frozen from 1 January 2018. Accordingly, no relief will be available for inflation accruing after this date in calculating chargeable gains made by companies.

Changing how non-resident companies' UK property income and certain gains are taxed – From April 2020, income that non-resident companies receive from UK property will be chargeable to corporation tax rather than income tax. Also from that date, gains that arise to non-resident companies on the disposal of UK property will be charged to corporation tax rather than CGT.

VAT

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

Tax evasion and the hidden economy

Requirement to notify HMRC of offshore structures – The government will publish a consultation response on the proposed requirement for designers of certain offshore structures that could be misused to evade taxes, to notify HMRC of these structures and the clients using them. This work will be taken forward in conjunction with the OECD and EU.

Extending offshore time limits – Assessment time limits for non-deliberate offshore tax non-compliance will be extended so that HMRC can always assess at least 12 years of back taxes without needing to establish deliberate non-compliance, following a consultation in spring 2018.

Tax avoidance

NICs Employment Allowance – The government has found evidence of some employers abusing the Employment Allowance to avoid paying the correct amount of NICs, often by using offshore arrangements. To crack down on this, HMRC will require upfront security from employers with a history of avoiding paying NICs in this way. This will take effect from 2018 and raise up to £15 million a year.

Disguised remuneration – The government will tackle disguised remuneration avoidance schemes used by close companies – companies with five or fewer participators – by introducing the close companies' gateway, revised following consultation, and measures to ensure liabilities from the new loan charge are collected from the appropriate person.

Tax administration and compliance

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

Late Submission Penalties and Late Payment Interest – The government will reform the penalty system for late or missing tax returns, adopting a new points-based approach. It will also consult on whether to simplify and harmonise penalties and interest due on late payments and repayments. This will ensure that the system is fair, simple and effective across different taxes. Final decisions on both measures will be taken following this latter consultation.

Faster recovery of Self-Assessment debt – HMRC will use new technology to recover additional Self-Assessment debts in closer to real-time by adjusting the tax codes of individuals with Pay As You Earn (PAYE) income. These changes will take effect from 6 April 2019.

Modern banking services

The Budget sets out further actions which will enable innovation in banking services, strengthen challenger banks, and improve access to affordable credit for consumers.

- Open Banking – the Open Banking project will, from early next year, make it easier for customers to access innovative products and services that better suit their needs. The government has now secured the commitment of the largest banks to extend Open Banking to more payment products, including credit cards. The second phase of the Nesta Open-Up Challenge will also award £2.5 million to firms to develop innovative Open Banking apps to support greater customer choice and flexibility
- Support for challenger banks – as agreed with the European Commission in September 2017, RBS will fund and deliver a £775 million package of measures designed to improve competition in the UK business banking market. The Prudential Regulation Authority will also make capital requirements more proportionate for eligible smaller banks, helping them compete more effectively in the market
- Post Office banking services – the government will ask Post Office Limited and UK Finance to raise public awareness of the banking services available at the Post Office, both for personal customers and Small and Medium Enterprises (SMEs)
- Credit Unions – to improve access to reputable sources of credit, the government will increase the number of potential members that a credit union serving a local area is able to have from 2 to 3 million