

# Autumn Budget 2017



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The Chancellor of the Exchequer delivered his first Autumn Budget on 22 November 2017.

This is a summary of the announcements on tax and related matters. It has been prepared by the ICAEW Tax Faculty team, with an overview by Frank Haskew, and edited by Jane Moore.

All the government announcements and publications can be found on the government [Autumn Budget 2017](#) page. There is also a page with links to all the [Tax-related documents and announcements](#).

The main Budget documents are the [Red Book](#), which summarises the Budget announcements and policy decisions, and the [Overview of Tax Legislation and Rates \(OOTLAR\)](#), which sets out details of each policy announcement.

ICAEW has an [Autumn Budget 2017](#) page which brings together our commentary on all aspects of the Budget.

The Finance (No. 2) Bill 2017-19 (referred to here as FB 2017-18) will be published on 1 December 2017. This Bill will become Finance Act 2018. Some of the measures mentioned in the Budget will be included in Finance (No. 3) Bill 2017-19 (referred to here as FB 2018-19) which will be published in autumn 2018 and legislated as Finance Act 2019.

New consultations are expected to be published on 1 December 2017, listed on page 32.

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## OVERVIEW

### **Philip Hammond faces the music on St Cecilia's day!**

The Autumn Budget was delivered by the Chancellor, Philip Hammond, on 22 November 2017. He had certainly had to face the music in the run-up to the Budget, so it seems entirely appropriate that the event took place on none other than St Cecilia's day – St Cecilia of course being the patron saint of music.

So, and with apologies to a certain Mr George Frideric Handel, how did Mr Hammond's Ode for St Cecilia's day go down? He gave a pretty impressive performance, which was just as well as there was a lot riding on this Budget, including the Chancellor's job. He had an unenviable task: he had to balance the need to catch the public imagination and garner support for change on important matters like intergenerational fairness, while avoiding the controversial measures that caused such a car crash in the March 2017 Budget, and at the same time staring down the barrel of the Brexit gun and hampered by the fact that the UK is still running a substantial budget deficit. It was a tall order to pull this off but, in the event, he made a good show of rising to the challenges while steering his way around obstacles that spelled trouble.

### **Personal tax**

There was very little new on personal tax changes. The manifesto commitment to raise the personal allowance to £12,500 and the higher rate threshold to £50,000 by 2020 has been retained. As steps towards this goal, the personal allowance for 2018/19 will increase to £11,850 and the higher rate threshold to £46,350. There are no significant changes to rates and allowances; notably, no changes to the tax treatment of dividends or to tax relief for pension contributions, and the ISA subscription limit remains at £20,000.

### **Business taxes**

Once again the Budget was surprisingly light on tax changes for smaller business, something that will be welcomed given the extensive changes made in recent years. After the furore about the proposed rises in class 4 national insurance contributions (NIC) announced in the March 2017 Budget, only to be reversed a week later, he stayed well clear of making controversial policy announcements on NIC. Nevertheless, buried away in the detail is a proposal to consult on the possibility of extending the amended IR35 rules for those in the public sector to the private sector.

There had been considerable speculation that the VAT threshold might be reduced but, after the experiences of the class 4 debacle, the Chancellor obviously thought better of that proposal. However, he clearly has the VAT threshold in his sights, as it has been frozen for two years and there will be a consultation on its design.

Business rates remain a major concern of business and the Chancellor announced further measures to provide help and support, including switching the inflation measure from RPI to CPI, the removal of the so-called staircase tax and a consultation on moving from five-yearly to three-yearly revaluations.

Indexation relief used in calculations of chargeable gains by companies will be frozen from 1 January 2018. The rate of the R&D expenditure credit will be increased from 11% to 12% and will help to support certain businesses.

### **Tax avoidance and evasion**

After the release of the 'Paradise papers', it was inevitable that there would be some focus in the Budget on tackling tax avoidance and evasion. So it proved, with a further raft of

proposed measures designed to raise £4.8bn between now and 2022/23, adding to the £160bn the government claims to have secured since 2010.

In relation to international tax planning, Mr Hammond, like his predecessor, demonstrated that the UK is willing to take unilateral action to tackle international problems rather than wait for the OECD to catch up. Specifically, he announced a proposal to deduct withholding tax on royalty payments to low tax jurisdictions where the royalties relate to UK sales. This is an interesting proposal, not least as it will apply even where the payer is not in the UK. We wait to see the detail and how this will work, as it is not easy to see how it would comply with the UK's existing tax treaty obligations. It will also be interesting to see the reaction of other countries to the proposal.

## **Brexit**

There is an extremely large elephant in the room in the shape of Brexit, and the Chancellor has announced an immediate allocation of £700m to help with preparations along with a further £3bn of funding in the following two years. This extra funding, presumably across government and not just for HMRC, comes after recent appearances of Jon Thompson, chief executive of HMRC, before the Treasury Committee and the Public Accounts Committee where he made it clear that something will have to give if HMRC has to take on more tasks. He said: "I do not believe it is credible for us to continue with the transformation programme as it is – all 250 projects of it. We have to take into account the fact that ... we simply cannot take 250 projects and then add on another 50 for Brexit".

Well, his comments appear to have borne fruit: whether the extra funding will be enough is another matter, but it is at least a start. As an example of what is needed to prepare for Brexit, earlier in the week the government published a 165-page Taxation (Cross-border Trade) Bill which will provide the basis for future UK customs arrangements after withdrawal from the EU. Although the Brexit clock is ticking, it does appear that the UK is now starting to gear up and get ready for these important changes, but it needs resources and staff to do so.

## **Housing and stamp duty**

The Chancellor took steps to address the difficulty of the younger generation to get a foot on the property ladder by removing stamp duty land tax (SDLT) for first time buyers on the price of a property of up to £300,000, with relief available for the first £300,000 on property up to a value of £500,000. The total potential saving is £5,000.

## **The public finances**

The task of bringing the UK budget back into balance, let alone surplus, remains a huge challenge now made much harder by the uncertainty over Brexit. So what were the Office for Budget Responsibility's forecasts for growth and their effect on the government finances?

The OBR forecast that growth would be considerably lower than it forecast in March 2017, with a consequent knock-on impact on the public finances. The Red Book lays bare the full impact of this downgrading of the growth forecasts: although borrowing for the current financial year (2017/18) will be £5.6bn lower than that estimated in March 2017, thereafter slower growth translates into much higher borrowing requirements over the remainder of the forecast period, with a hefty net £70bn of further debt added over the forecast period. The budget deficit is now forecast to continue into 2022/23 and presumably beyond.

However, it is important to remember that forecasting is not an exact science and can vary widely even in the short term. For example, in November 2016 the forecast borrowing requirement for that financial year (2016/17) was £68.2bn but the current forecast out-turn

now for that year is only £45.7bn, £22.5bn lower in the space of 12 months. Forecasting in the current climate is only for the brave.

## In conclusion

This was the Chancellor's third Budget, and the stakes have never been higher, for him and the country as a whole. He struck a positive tone and was careful not to send small businesses running for the hills. To conclude by returning to the musical theme, time will tell whether the Chancellor had a Handel on his Opus 3, but he gave a bravura performance that may mean he will at least be called back for an encore!

## RATES AND ALLOWANCES

The government has published a table of rates and allowances ([Annex A to the OOTLAR](#)).

The Tax Faculty will be publishing an updated version of our [Tax rates and allowances summary](#).

The intention to increase the personal allowance to £12,500 by 2020 was confirmed.

The personal allowance in 2017/18 is £11,500. This will increase to £11,850 for 2018/19.

### Higher rate threshold

The intention to increase the higher rate tax threshold to £50,000 by 2020 was confirmed.

The income tax 20% basic rate band for 2017/18 is £33,500 (with a 0% starting rate band of £5,000 for savings income in certain circumstances).

The 20% basic rate band will increase to £34,500 for 2018/19. As a result, the higher rate threshold (ie, the personal allowance plus the basic rate band) which is £45,000 in 2017/18 will be £46,350 in 2018/19.

In summary:

Year	Standard personal allowance	Basic rate band of 20% on income	Higher rate threshold	Additional rate of 45% on income over
2017/18	£11,500	£33,500	£45,000*	£150,000
2018/19	£11,850	£34,500	£46,350*	£150,000

(\*A lower higher rate threshold applies to earned income of Scottish taxpayers.)

### Dividend allowance

The tax-free dividend allowance of £5,000 (more correctly described as a dividend nil rate band) was introduced from April 2016. As announced in the March 2017 Budget this is to be reduced to £2,000 from April 2018. No further changes to the taxation of dividends were announced in the Autumn 2017 Budget and the rates remain at 7.5%, 32.5% and 38.1% depending on the level of income.

### National insurance

The NIC earnings limits have been updated. The lower earnings limit will increase from £113 to £116 per week from April 2018. The primary and secondary thresholds will increase from

£157 to £162 per week. The upper earnings limit will increase from £866 to £892 per week from April 2018.

For the self-employed, as announced earlier in November 2017, class 2 NIC will be abolished from April 2019 rather than April 2018 as previously planned. In the meantime the rate of class 2 increases to £2.95 per week from April 2018 (2017/18: £2.85) and the small profits threshold remains unchanged at £6,205 per annum. The lower and upper profits limits for class 4 NIC will increase from April 2018 to £8,424 (2017/18: £8,164) and £46,350 (2017/18: £45,000) respectively.

### **Capital gains tax**

The CGT annual exemption for 2018/19 will be £11,700 (£5,850 for most trustees). This is an increase from £11,300 for 2017/18. There are no changes to the rates of CGT.

### **Property taxes**

See the section on Property tax for details of stamp duty land tax (SDLT) and annual tax on enveloped dwellings (ATED).

### **Pensions**

The lifetime allowance for pension savings will be £1,030,000 in 2018/19.

### **Corporation tax**

The rate of corporation tax is currently 19%. As previously announced it will be reduced to 17% from April 2020.

### **VAT**

The VAT registration threshold will remain frozen at £85,000 for two years until April 2020. For details see the section on VAT and duties.

## **BUSINESS AND COMPANY TAX**

### **Corporate tax and the digital economy**

HM Treasury published a position paper [\*Corporate tax and the digital economy\*](#) on Budget Day to consider how to ensure that multinational businesses pay tax in the countries in which they generate value.

The paper sets out how the government intends to achieve this:

- It will push for reforms to the international tax framework, to ensure that the value created by the participation of users in certain digital businesses is recognised in determining where those businesses' profits are subject to tax.
- Pending reform of the international framework, the government will explore interim options to raise revenue from digital businesses that generate value from UK users, such as a tax on revenues that these businesses derive from the UK market. The UK will work with other countries to consider how such a tax could be targeted, designed and co-ordinated to minimise business burdens and distortion. However, the government stands ready to take unilateral action in the absence of sufficient progress on multilateral solutions.
- The government will take more immediate action against multinational groups, primarily in the digital sector, who achieve low-tax outcomes by holding their valuable intangible assets such as intellectual property in low-tax countries where they have limited economic substance. This action, which is taken in accordance with the UK's

international treaty obligations, will help to prevent groups achieving unfair competitive advantages in the UK market in which they operate. It will also help to ensure that the discussion on how value is created by the users of certain digital businesses starts from a more sustainable position.

## **Business rates**

The government previously pledged that by the end of this parliament 600,000 businesses will not pay business rates again. To support businesses further, a package of additional relief measures worth £2.3bn was announced:

- From 1 April 2018 indexation on property valuations will be based on the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI).
- Non-domestic property valuations will take place every three years rather than every five years. There will be a consultation in the spring to consider how best to implement this change.
- Support for pubs, first announced in the Spring Budget 2017, will be extended for one year from 1 April 2018 where there is a rateable value of up to £100,000.
- Draft legislation will be published to allow businesses affected by the 'staircase tax' to have their valuation recalculated and their bills backdated to April 2010 based on previous rules.

The so-called 'staircase tax' meant that businesses operating over several floors within the same property were assessed separately to business rates for each occupied floor, rather than billed for their premises as a whole. This backdated change was made after a Supreme Court ruling in August 2017. It was widely criticised for unfairly penalising firms with separate office spaces in the same building.

The Red Book states that local government will be compensated for income lost as a result of these measures.

## **Partnership taxation: proposals to clarify tax treatment**

The government will legislate in FB 2017-18 to clarify the taxation of partnerships. This follows HMRC's consultation [\*Partnership taxation: proposals to clarify the tax treatment\*](#) in 2016. A number of areas had been identified as unclear, in particular where the partners named on the tax return differ from those registered at Companies House and where there are multiple levels of partnership structures making it unclear as to who the ultimate partner is. There was also concern in relation to the allocation of profits.

[Draft legislation](#) was published on 13 September 2017 to which we responded in [ICAEW REP 115/17](#). In our response we stated: "there are a number of commercial reasons why taxable profits are not allocated in the same proportion as accounting profits, the most common example being disallowable expenditure, ie, private use of car adjustments which relate directly to a particular partner. In such cases the disallowable expenditure will be allocated to the specific partner rather than being adjusted for at the partnership level." We note that, following technical consultation, "the legislation has been revised to be more compatible with commercial arrangements".

## **Enhanced capital allowances**

Enhanced capital allowances are available on certain energy-saving technologies and the list of qualifying assets will be updated through FB 2017-18. This will allow businesses to invest in energy-saving plant and machinery that might otherwise be unaffordable.

## **First year allowances**

The 100% first year allowance was due to expire on 31 March 2018 for zero-emission goods vehicles and gas refuelling equipment. The government announced an extension to both schemes at Budget 2015 and it has now been confirmed that the relief will be available for another three years. This measure will encourage businesses to invest in energy-efficient vehicles while protecting the environment for the next generation.

## **First year tax credits**

The first year tax credit scheme will be extended to the end of this parliament. The credits enables loss-making businesses to claim tax relief for investment in energy-saving technology. The credit will be set at two-thirds of the corporation tax rate.

## **Corporate indexation allowance**

Indexation allowance on corporate chargeable gains will be frozen from 1 January 2018, removing relief for inflation which accrues from this date. The announcement, which was not unexpected, will bring the calculation of corporate gains in line with the personal tax regime. The measure will be felt by companies holding properties that continue to rise in value since their acquisition date.

## **Disincorporation relief**

It has been confirmed that disincorporation relief will not be extended beyond its expiry date of 31 March 2018. The Office of Tax Simplification (OTS) published a focus paper, [\*Disincorporation relief – what of the future?\*](#) earlier this year to assess how useful the relief has been to businesses. Since its inception in 2013 fewer than 100 companies have claimed it.

## **R&D expenditure credit**

From 1 January 2018 the research and development expenditure credit (RDEC) will increase by 1% to 12% for expenditure incurred on or after that date. RDEC is available to large companies incurring qualifying R&D expenditure although certain SMEs are also eligible for the relief. The relief was first introduced in April 2013 at a rate of 10% and is currently available at 11%.

This measure is expected to have an impact for 4,000 businesses claiming RDEC.

A policy paper [\*Corporation tax: increasing the rate of R&D expenditure credit\*](#) gives more detail.

The cost of this additional relief is estimated to be £750m over the five years from 2018/19.

## **R&D tax credits: raising awareness and increasing certainty**

The government will launch a campaign to increase awareness and encourage the take-up of R&D credits among smaller businesses and SMEs. The government will focus on businesses developing and using emerging technologies.

For businesses making RDEC claims the government will pilot a new advance clearance service to increase certainty about tax relief available. The new service will provide companies with a pre-filing agreement for three years.

## **Substantial shareholding exemption: unintended CGT consequences**

The substantial shareholding exemption (SSE) legislation and the share reconstruction rules will be amended to avoid unintended capital gains being triggered when a UK company incorporates foreign branch assets in exchange for shares in an overseas company.

The policy paper published on the day of the Budget – [Corporation tax: capital gains assets transferred to non-resident company – reorganisation of share capital](#) – explains the problem as follows:

“Where the trade and assets of a UK company’s foreign branch are transferred to an overseas company in exchange for shares in that company, existing legislation allows tax on any capital gains on this disposal of assets to be postponed. The postponement is temporary, until the overseas company sells the assets, or the UK company disposes of the shares in the overseas company, other than in exchange for further shares during a corporate reconstruction. Under the current rules, an unintended consequence is that if the shares exchanged during the reconstruction fall within conditions for the SSE to apply, the postponed tax charge may become payable, even though the group still owns the shares of the overseas company.”

## **BEPS: the multilateral instrument**

FB 2017-18 will amend the powers by which double taxation arrangements with other territories are given effect in the UK. The changes are being made to ensure that the powers are sufficient to give full effect to the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (known as the multilateral instrument (MLI), which was signed by the UK in June 2017.

The MLI was developed by the OECD Base Erosion and Profit Shifting (BEPS) project. It enables changes to be made to all existing tax treaties in one go, rather than having to renegotiate them individually.

The changes will have effect on and after Royal Assent of FB 2017-18.

## **Intangible fixed asset regime**

There will be a consultation in 2018 on the tax treatment of intellectual property to consider what changes need to be made to the current regime to better support UK companies investing in intellectual property.

Changes were announced to combat ‘related party step up schemes’ and these proposals are covered in the section below on Avoidance, evasion and compliance.

## **Bank levy changes**

Bank levy is going to be amended so that for UK-headquartered banks it will apply only on their UK balance sheet liabilities. Minor changes will also be made to the administration of the bank levy. Full details are in the policy paper [Bank Levy: changes to the scope and administration](#)

The changes to the bank levy’s scope will have effect for chargeable periods ending on and after 1 January 2021, while other changes will have effect on or after Royal Assent of FB 2017-18, or for chargeable periods ending on and after 1 January 2018.



## **Education Authority (Northern Ireland): exemption from CT**

The Education Authority (Northern Ireland) is to be exempted from corporation tax so that it is treated in the same way as equivalent bodies providing state-funded education in other parts of the UK.

The changes will have effect on and after 1 April 2015.

## **Accounting changes for leasing: tax changes**

The introduction of a new accounting standard for leasing, IFRS 16, creates the need for changes to tax legislation. The government will publish two consultations on 1 December 2017:

- firstly, on the legislative changes required by the new accounting standard to ensure that the income and corporation tax rules for leased plant and machinery continue to work as they do currently, and on the wider impact of the accounting change for income and corporation tax; and
- secondly, to evaluate options for the corporation tax treatment of lease payments under the new corporate interest restriction rules at Part 10, Taxation (International and Other Provisions) Act 2010.

## **Oil and gas: transferable tax history**

FB 2018-19 will introduce transferable tax history for oil and gas companies. This follows publication of a discussion document at Spring Budget 2017 on tax issues for late life oil and gas assets, and the establishment of an expert panel to examine the issue. This change will have effect on and after 1 November 2018.

The government has published [An Outline of Transferable Tax History](#) which explains how transferable tax history is intended to work, and sets out a timeframe for publication of draft legislation and technical consultation. Draft legislation will be published in spring 2018 for consultation. The government intends to legislate in FB 2018-19 and the legislation will apply, with retrospective effect, to deals completed on or after 1 November 2018.

## **PRT: treatment of retained decommissioning liabilities**

FB 2018-19 will amend the petroleum revenue tax (PRT) rules to enable more flexibility over retention of decommissioning. A technical consultation will be issued in spring 2018.

## **Tariff receipts: ring fence corporation tax**

FB 2017-18 will clarify that all activities of UK petroleum licence holders that give rise to tariff income in relation to UK oil and gas assets are oil extraction activities and as such the profits are subject to ring fence corporation tax and supplementary charge.

## **Patient Capital Review: summary of responses**

At Autumn Statement 2016 the Chancellor announced the government's commitment to provide more support for UK infrastructure and innovation, as part of the government's [Patient Capital Review](#). The review, led by a panel of industry experts chaired by Sir Damon Buffini, considered the factors affecting the supply of patient capital (defined as "long term investment in innovative firms led by ambitious entrepreneurs who want to build large-scale businesses").

As part of the review HM Treasury published a consultation document [Financing growth in innovative firms](#) which looked at the availability of long-term finance and the barriers faced by companies seeking to access patient capital. ICAEW responded in [ICAEW REP 102/17](#).

A [summary of consultation responses](#) has now been published and members might be particularly interested in chapter 3 which deals with current tax interventions. In the document the government sets out the policy response to the issues raised which include seeking to address the issue of investors using tax-advantaged schemes purely for capital preservation and doubling the annual investment limit for Enterprise Investment Scheme (EIS) investors to £2m.

The [industry panel](#) leading the review has also published a response document in which they specifically recommend the investment limit for the enterprise investment scheme (EIS) is increased.

### **Venture capital schemes: risk to capital condition**

In response to the Patient Capital Review the government will legislate to ensure that venture capital schemes are targeted at high risk, growth companies. The schemes are: venture capital trusts (VCTs), the EIS and the seed enterprise investment scheme (SEIS). Relief will no longer be available where arrangements are intended to provide capital preservation in low risk companies, and HMRC will no longer provide advance assurance for such investments. These changes will have effect for investments made on or after the date that FB 2017-18 receives Royal Assent.

### **Venture capital schemes: streamlining the advance assurance service**

In December 2016 the government consulted on ways in which to streamline the advance assurance service for companies using EIS, SEIS, VCT and social investment tax relief (SITR). ICAEW responded in [ICAEW REP 19/17](#), in which we said that publication of a checklist of common errors and issues, to be completed before an advance approval application is accepted by HMRC, would result in improved application documents and help reduce workload. A [summary of responses](#) was published on 20 March 2017 and the government response will be published on 1 December 2017.

### **EIS and VCT: increased limits for knowledge-intensive companies**

The Patient Capital Review considered how the tax system could incentivise more investment in knowledge-intensive companies. As a response, the government will double the amount an individual can invest under EIS to £2m, provided that any amount over £1m is invested in one or more knowledge-intensive companies. The annual investment limit for such companies receiving funds through EIS and VCTs will double to £10m.

These changes will have effect from 6 April 2018.

### **EIS and VCT: relevant investments**

The government will legislate to amend the definition of 'relevant investments' following changes introduced in Finance (No. 2) Act 2015 to better target EIS and VCTs at high-growth companies. This means that all investments will count towards the lifetime limit (£20m for knowledge-intensive companies and £12m for others). This includes all risk-finance investments made before 2012 that were not previously included due to previous transitional arrangements.

### **EIS: innovative fund**

A consultation will be published in 2018 to consider a new knowledge-intensive EIS fund structure. This follows responses to the Patient Capital Review in which stakeholders called for flexibility to use capital raised over a longer period of time.

## **VCTs: anti-abuse provisions**

Anti-abuse rules exist to prevent income tax relief being claimed where an investor sells shares in a VCT and within six months subscribes for shares in either the same VCT or in another VCT where those two merge. The government will legislate in FB 2017-18 to relax the rules, ensuring that income tax relief is not withdrawn where the VCTs merge more than two years after the subscription of shares or where the merger is for commercial reasons. The change will have effect for VCT subscriptions made on or after 6 April 2014.

## **VCT: other reforms**

Further announcements were made to ensure that VCTs are appropriately targeted at higher-risk, growth investments.

From the date of Royal Assent of FB 2017-18 a new anti-abuse rule will be introduced to prevent VCTs making secured loans to investee businesses.

From 6 April 2018 the government will:

- remove grandfathering rules which allow VCTs to invest in companies under rules in place at the time funds were raised; and
- require that VCTs invest 30% of funds raised in an accounting period in qualifying holdings within 12 months after the end of the accounting period.

From 6 April 2019:

- the proportion of funds that must be held in qualifying holdings will increase from 70% to 80%; and
- the time limit to reinvest proceeds from the disposal of qualifying holdings will increase from six months to 12 months.

## **Social investment tax relief: care home accreditation**

Under current rules, investment in nursing and residential care homes does not qualify for SISR. The government plans to consult on how to extend the relief to this sector and has proposed that the system will allow for a minimum proportion of local authority funded beds.

## **PROPERTY TAX**

### **SDLT: first time buyers**

The Chancellor did not have any white rabbits to pull out of his hat, the nearest he came was announcing the stamp duty land tax (SDLT) changes for first time buyers. The press had trailed that he would announce an SDLT holiday for first time buyers but instead he abolished it for this group. His reasoning was that it was not just those on the brink of buying their first property that would benefit.

Properties costing up to £300,000 will have no SDLT, a saving of up to £5,000. Properties costing up to £500,000 will be exempt from SDLT on the first £300,000. This applies to transactions with an effective date on or after 22 November 2017.

The measure will cost £125m in the current financial year and then £560m next year rising to £670m in 2022/23.

The SDLT changes are part of a whole package of announcements designed to increase the housing stock and give help to younger buyers. Thirteen years ago 59% of those aged 25 to 34 were home buyers, that percentage is now down to 38%.

The boost for first time buyers is welcome but it is another bolt on to the taxation of property which has been compiled in bits and pieces over several years with no coherent policy running through it and we have long called for an overall review.

### **SDLT: higher rates**

A change to the rules for the additional 3% SDLT for additional properties, granting relief in certain cases, has immediate effect. It applies to those people 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.

New rules will be introduced to prevent abuse of relief for replacement of a purchaser's only or main residence by requiring that the disposal has to be of their whole interest in the former main residence and to someone other than their spouse.

### **SDLT: changes to the filing and payment process**

It was announced at the Spring Budget 2017 that the changes to reduce the SDLT filing and payment date from 30 days to 14 days would be delayed until after April 2018. It has now been confirmed that the reduced filing and payment window will apply to land transactions with an effective date of 1 March 2019 or later. Some improvements will be made to the SDLT form to make it easier to comply with the new reporting time frame.

### **Rent-a-room relief**

There will be a call for evidence to establish how rent-a-room relief is being used to ensure it is better targeted at longer-term lettings. Rent a room allows you to earn up to £7,500 per year tax-free from letting out furnished accommodation in your home. It is available to resident landlords and is also available if you run a bed and breakfast or guest house but not if your home is converted into separate flats.

### **Mileage rates for landlords**

Many landlords and indeed agents will be surprised to know that the option of claiming 45p per mile for travel expenses has not been available until now. With effect from 6 April 2017 landlords will be able to use this shortcut method; there will be transitional arrangements for those landlords who have claimed capital allowances in the past and wish to move to the shortcut method.

The [policy paper](#) explains how s272(2), Income Tax (Trading and Other Income) Act 2005 (ITTOIA 2005) which applies to property businesses that continue to use GAAP will be amended, but it does not mention s272ZA(1), ITTOIA 2005 which now applies to property businesses that use the cash basis, which is the default basis. We presume this is an oversight as the cash basis has only just been enacted.

### **Annual tax on enveloped dwellings**

The annual tax on enveloped dwellings (ATED) charges will rise by 3% from 1 April 2018 in line with the September 2017 CPI. The ATED charge applies to companies, partnerships with corporate members and collective investment schemes with an interest in UK property valued at more than £500,000.

The annual charges are as follows. The chargeable period runs from 1 April to 31 March.

Property value £	2017/18 charge £	2018/19 charge £
500,001–1,000,000	3,500	3,600
1,000,001–2,000,000	7,050	7,250
2,000,001–5,000,000	23,550	24,250
5,000,001–10,000,000	54,950	56,550
10,000,001–0,000,000	110,100	113,400
20,000,001 and over	220,350	226,950

The bands themselves have not been updated for inflation and so businesses could see their properties falling into higher bands and now subject to an increased charge.

### **Capital gains tax payment window**

It had been proposed that CGT on the disposal of a residential property should be paid within 30 days with effect from April 2019; this will now be delayed by a year. Most sales of residential property will qualify for principal private residence relief and so no tax is payable. There have been problems with the process for non-residents to report capital gains on the sale of residential properties, liable to CGT since April 2015, within a 30-day window. Hopefully lessons have been learnt from that and a simpler fail-safe system will be introduced for resident and non-resident taxpayers.

### **Gains made by non-residents on immovable property**

It is proposed to levy CGT on non-residents on the disposal of all immovable property in the UK, that is, widening the scope of the present charge from just residential property to include commercial property. The changes will have effect from 1 April 2019 for companies and 6 April 2019 for individuals.

A consultation [Taxing gains made by non-residents on UK immovable property](#) was published on 22 November to explore the regime for taxing gains made by non-residents which covers direct and indirect disposals, rebasing and a very welcome look at harmonising ATED-related CGT within the wider regime.

### **Taxation of non-resident companies' UK property income and gains**

A consultation was published in March 2017 to look at whether non-resident companies with UK property income should be liable to income tax or corporation tax. The change from income tax to corporation tax was suggested to ensure that non-resident companies renting out UK properties do not escape the interest restrictions and loss restrictions applicable to corporates.

From April 2020 non-resident companies with UK property income will be liable to corporation tax and gains arising on the disposal of UK property will be charged to corporation tax rather than capital gains tax.

## PERSONAL AND EMPLOYMENT TAXES

### Marriage allowance

The uptake of marriage allowance continues to be poor with only about half of the four million eligible couples having claimed. An anomaly which prevented claims on behalf of deceased spouses and civil partners is to be removed with effect from 29 November 2017. Claims can be backdated for up to four years.

### NIC Bill: abolition of class 2 NIC and other changes

The National Insurance Contributions Bill will be introduced in 2018. The measures it will implement will now take effect one year later, from April 2019. These are:

- abolition of class 2 NIC;
- reforms to the NIC treatment of termination payments; and
- changes to the NIC treatment of sporting testimonials.

Draft legislation for the [abolition of class 2 NIC](#) and reforms to the NIC treatment of [termination payments](#) (see elsewhere for income tax changes) and [sporting testimonials](#) was published on 5 December 2016.

### Class 4 NIC

As previously announced, the government will no longer proceed with an increase to the main rate of class 4 NIC from 9% to 10% in April 2018 and to 11% in April 2019.

### Company car benefits charges

For company cars benefit-in-kind rates see the table in Annex C of OOTLAR.

### Company car benefit and VED: CO<sub>2</sub> emission regime

FB 2017-18 will confirm that CO<sub>2</sub> figures compatible with the current New European Driving Cycle (NEDC) test procedure will continue to be used by HMRC for the purposes of collecting company car tax until April 2020.

For periods from April 2020, government will legislate in a future Finance Bill to change the system for measuring CO<sub>2</sub> emissions to the Worldwide Harmonised Light Vehicle Test Procedure (WLTP). Similar legislation will be introduced in respect of vehicle excise duty (VED).

### Company car benefit: diesel supplement

The diesel supplement will be increased from 3% to 4%. The diesel supplement is used to calculate company car tax and car fuel benefit charge where the employer provides the employee with a diesel car that is made available for private use. This will apply to all diesel cars registered on and after 1 January 1998 that do not meet the Real Driving Emissions Step 2 (RDE2) standards. There is no change to the current position that the diesel supplement does not apply to hybrid cars. The change will have effect from 6 April 2018.

### Employer-provided electricity for electric or hybrid cars

From April 2018, there will be no benefit-in-kind charge on electricity that employers provide to charge employees' electric or hybrid vehicles.

### Van benefit and fuel benefits

Van benefit charge and the fuel benefit charges for both vans and cars will be increased from 6 April 2018 by the September 2017 RPI, as follows:

- the flat-rate van benefit charge will increase to £3,350 (2017/18: £3,230);
- the multiplier for the car fuel benefit charge will increase to £23,400 (2017/18: £22,600); and
- the flat-rate van fuel benefit charge will increase to £633 (2017/18: £610).

The government will legislate by statutory instrument in December 2017 to ensure the changes can be reflected in tax codes for 2018/19.

### **Overseas scale rates for accommodation and subsistence**

The existing concessionary travel and subsistence overseas scale rates will be placed on a statutory basis on and after 6 April 2019, to provide clarity and certainty. Employers will only be asked to ensure that employees are undertaking qualifying travel.

This follows the call for evidence on the taxation of employee expenses published on 20 March 2017, to which we contributed in [ICAEW REP 75/17](#). The full response to this consultation will be published on 1 December 2017.

### **Taxation of employee business expenses**

Also arising out of HM Treasury's call for evidence published in March 2017, the following changes will be made:

- Subsistence benchmark scale rates: employers will no longer be required to check receipts when making payments to employees for subsistence using benchmark scale rates. This applies to standard meal allowances paid in respect of qualifying travel and the newly legislated overseas scale rates. Employers will only be asked to ensure that employees are undertaking qualifying travel. The change will have effect from April 2019. Abolition of receipt checking does not apply to amounts agreed under bespoke scale rates or industry wide rates.
- 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.

### **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.

### **Employment status consultation**

The government will publish a consultation as part of its response to [Matthew Taylor's review of modern working practices](#) published in July 2017, considering 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.

### **Termination payments: foreign service relief**

Employees who are UK resident in the tax year that their employment is terminated will not be eligible for foreign service relief on their termination payments. The existing Statutory Residency Test will be used to determine whether employees are UK resident in the tax year they receive their termination award. Reductions in the case of foreign service are retained for seafarers. The changes will have effect from 6 April 2018 and apply to those who have their employment contract terminated on or after 6 April 2018.

[Draft legislation on reforms to the NIC treatment](#) of termination payments was published on 5 December 2016; this will be included in a NIC Bill in 2018 and apply from April 2019.

### **SAYE schemes and parental leave**

Employees on maternity and parental leave will be able to take a pause of up to 12 months from saving into their Save As You Earn employee share scheme, increased from six months currently. HMRC guidance will set out the changes. The change will take effect from 6 April 2018.

### **Armed forces accommodation allowance**

An income tax exemption is being introduced for certain allowances paid to armed forces personnel for renting or maintaining accommodation in the private market. A class 1 NIC disregard will also be introduced through regulations. The change will have effect on and after Royal Assent of FB 2017-18, once regulations have been laid. This is intended to support the Ministry of Defence's aim to provide a more flexible, attractive and better value-for-money approach to accommodation.

### **Seafarers' earnings deduction extended to Royal Fleet Auxiliary**

Seafarers are entitled to an income tax deduction, known as the seafarers' earnings 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. The change will have effect on and after Royal Assent of FB 2017-18.

### **Qualifying care relief**

Qualifying care relief (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.

Shared lives schemes are designed to support adults with learning disabilities, mental health or other problems that make it harder for them to live on their own. The schemes match an adult who has care needs with an approved shared lives carer. These carers share their family and community life, and give care and support to the adult with care needs.

### **Reducing student loan overpayments**

The government will tackle the problem of graduates overpaying their student loans. The Student Loans Company and HMRC will update their processes by April 2019, in order to share data more frequently and stop payments after a borrower has fully repaid.

### **NLW and NMW**

In line with the recommendations of the independent Low Pay Commission, the national living wage (NLW) for those aged 25 and over will increase from by 4.4% from £7.50 per hour to £7.83 per hour from April 2018.



The national minimum wage (NMW) will increase as follows:

	21 to 24 year olds	18 to 20 year olds	16 and 17 year olds	Apprentices
From April 2018	£7.38 per hour	£5.90 per hour	£4.20 per hour	£3.70 per hour
Current rates	£7.05	£5.60	£4.05	£3.50
% increase	4.7%	5.4%	3.7%	5.7%

All these increases are above the rate of inflation, so are welcome.

### **Gift aid donor benefit rules**

There are currently three monetary thresholds for determining the level of benefit that can be given to donors in consequence of a donation on which gift aid can be claimed. For donations:

1. up to £100, the value of the benefit can equate to a total of 25% of the donation;
2. between £100 and £1,000, the value of the benefit is capped at £25; and
3. over £1,000, the value of the benefit can equate to a total of 5% of the donation, up to a maximum annual benefit value of £2,500.

These will be replaced from April 2019 by two percentage thresholds; thresholds 2 and 3 above will in effect be amalgamated:

1. the benefit threshold for the first £100 of the donation will remain at 25% of the amount of the donation; and
2. for larger donations charities will be able to offer an additional benefit to donors up to 5% of the donation that exceeds £100 with a maximum annual benefit of £2,500.

### **Entrepreneurs' relief**

A consultation document will be published in spring 2018 to consider whether an individual can claim entrepreneurs' relief once their holding has fallen below the 5% qualifying level following an issue of new shares to external investors. Retaining the ability to access the relief could encourage an individual to maintain an active role in the management of the business.

## **PENSIONS AND SAVINGS**

### **Lifetime allowance for pensions**

The lifetime allowance, the maximum that can be saved in pension funds without incurring a lifetime allowance charge when funds are withdrawn, is increased in line with CPI from £1,000,000 to £1,030,000 for 2018/19.

### **Life assurance and overseas pension schemes**

FB 2018-19 will legislate to modernise the tax relief for employer premiums paid into life assurance products or certain overseas pension schemes. The change will extend the existing exemption to cover policies when an employee nominates any individual or registered charity to be their beneficiary.

## **Master trust registration**

HMRC powers to register and de-register master trust pension schemes and schemes for dormant companies will be introduced in FB 2017-18. The draft legislation was published for comment on 13 September 2017 and is unchanged.

## **ISA annual limits**

The individual savings account (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 updated in line with CPI to £4,260.

## **Trust simplification**

The government will publish a consultation next year on how to make the taxation of trusts simpler, fairer and more transparent. The complications have been added over successive years so simplification would be welcome. There have been a few attempts in the recent past to simplify the inheritance tax charges in trusts but the proposals have been more complex than the existing regime so in the main no changes have so far been made.

Offshore trusts: anti-avoidance rules

The draft legislation for FB 2017-18 introducing new anti-avoidance rules relating to the taxation of income and gains accruing to offshore trusts was published on 13 September 2017; we reviewed and commented on the draft suggesting several changes in [ICAEW REP 120/17](#).

Minor changes have been made to the draft legislation including a change to ensure that the onward gift rules can apply if the close family member rule applies, to clarify the position in the year of the settlor's death and in relation to onward gifts to multiple recipients.

## **Stamp taxes: financial institution bail-in exemption**

In order to benefit creditors when resolving failing financial institutions where shares and/or land are transferred to public bodies or affected creditors the transfers will be exempt from stamp taxes. The measure is intended to simplify and strengthen the process of resolving failing financial institutions.

## **Stamp taxes: securities deposited with financial institutions**

Following the UK's exit from the EU the 1.5% stamp duty and stamp duty reserve tax charge on the issue of shares into overseas clearance services and depositary receipt systems will not be reintroduced.

# **UNIVERSAL CREDIT AND STATE BENEFITS**

## **Universal credit**

The government responded to the concerns about universal credit by announcing the following changes:

- The seven-day waiting period will be removed from February 2018, so that entitlement to universal credit will start on the first day of the application (though there will still be a wait of at least four weeks before payment is due).
- Those already on housing benefit when they make a claim to universal credit will continue to receive their award for the first two weeks after they claim. This change will be introduced in April 2018.
- An interest-free advance of up to a month's worth of universal credit, payable within five days, will be offered to those who need it and who have an underlying

entitlement to universal credit. The recovery period for these advances will be extended from the current six months to 12 months. This change will be in place in January 2018.

- It will be easier for claimants to have the housing element of their universal credit award paid direct to their landlord.
- The roll-out of universal credit will slow down between February and April 2018. Roll-out is not now expected to be complete until December 2018 (rather than September 2018 as was envisaged when the plans were last updated).

There was no announcement of any change to the 'minimum income floor' rules that apply to the self-employed and the concerns about the design of universal credit for the self-employed remain, as highlighted in a report by the Low Incomes Tax Reform Group [Self-employed claimants of universal credit – lifting the burdens](#).

### **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 pension.

For the poorest pensioners there will be an increase to the standard minimum guarantee in pension credit to match the cash rise in the basic state pension.

The full new state pension will also be increased by the triple lock, rising by £4.80 per week.

## **VAT AND DUTIES**

### **VAT: registration and deregistration thresholds**

There will be no change to the VAT registration threshold, and it will remain frozen at £85,000 for two years. The government will consider how to address distortions and barriers to growth caused by the threshold, one of the issues highlighted in the recent Office of Tax Simplification (OTS) report on VAT.

The thresholds will continue as follows until 31 March 2020:

- the taxable turnover threshold that determines whether a person must be registered for VAT will remain at £85,000;
- the taxable turnover threshold that determines whether a person may apply for deregistration will remain at £83,000; and
- the registration and deregistration threshold for relevant acquisitions from other EU member states will also remain at £85,000.

### **Office of Tax Simplification VAT review**

The Chancellor of the Exchequer has [written to the Office of Tax Simplification](#) responding to the core recommendations made in its [report on simplifying the VAT system](#), published on 7 November 2017. The Tax Faculty responded to this review in [ICAEW REP 79/17](#).

### **VAT registration threshold**

In response to the OTS's recommendations, the government will consult on the design of the VAT registration threshold, noting the distorting effect the current threshold appears to have on business behaviour. In the meantime, the threshold will remain at its current level of £85 000 while the issues raised are considered.

## **VAT administration**

The Chancellor appreciates that practical administrative issues are of importance to businesses working within the VAT system, and that those businesses benefit from clear guidance and prompt rulings. He is keen to ensure that progress in this area continues. He has also asked HMRC to consider how to tackle the administrative costs and uncertainty for business when voluntarily disclosing inaccuracies.

## **Multiple VAT rates**

The OTS suggested that HMRC should undertake a comprehensive review of the reduced rate, zero-rate and exemption schedules. The government accepts that the current rates structure is the root cause of much of the complexity in the VAT system, although the ability to amend the scope of the various rates and exemptions is limited to some extent by EU law at present. There may be a review of this area in the longer term.

## **Partial exemption and capital goods scheme**

The report raised concerns about the existing partial exemption regime and capital goods scheme. The Chancellor encourages the OTS to keep working with HMRC and the Treasury in this area.

## **Option to tax land and buildings**

As part of the introduction of Making Tax Digital for VAT, the online handling of options to tax is to be considered.

## **Tackling fraud on online marketplaces**

Where overseas businesses sell goods to UK consumers via online marketplaces and those goods are in the UK at the point of sale, there will be new rules to hold the online marketplace jointly and severally liable for:

- any future VAT that a UK business selling goods via the online marketplace fails to account for after HMRC has issued a notice to the online marketplace, ensuring that all sellers are in scope, and
- any VAT that a non-UK business selling goods via the online marketplace fails to account for, where the business was not registered for VAT in the UK and that online marketplace knew or should have known that that business should be registered for VAT in the UK.

Finance Bill 2017-18 will extend the scope of existing joint and several liability (JSL) rules to achieve this.

The first of these extensions will help tackle the UK hidden economy and eliminate the risk of overseas traders establishing a UK shell company simply to escape the existing JSL regime.

Online marketplaces will also be required to ensure that VAT numbers displayed for third party sellers on their websites are valid. They will also be required to display a valid VAT number when they are provided with one by a third-party seller operating on their platform. There will be a penalty for failing to meet these requirements.

The changes will have effect on and after Royal Assent of FB 2017-18.

## **Compliance by users of digital platforms**

The government expects digital platforms to play a wider role in ensuring their users are compliant with the tax rules. A call for evidence will be published in spring 2018 to explore what more digital platforms can do to prevent non-compliance among their users.

## **VAT: refunds for Scottish emergency services**

Section 33(3) of Value Added Tax Act 1994 will be amended to include the following bodies/class of bodies:

- The Scottish Police Authority
- The Scottish Fire and Rescue Service
- Combined Authorities
- Fire and Rescue Service Bodies, which become a function of Police and Crime Commissioners (PCC)

The change will have effect on and after Royal Assent of Finance Bill 2017-18. It will enable the listed authorities to recover VAT on costs relating to their non-business activities, where they were previously unable to do so following a reorganisation of the services.

## **VAT: grouping consultation**

At Autumn Statement 2016, a consultation was issued to gather evidence on whether to make changes to the UK VAT grouping provisions. A summary of responses will be published on 1 December 2017. The scope of VAT grouping is to be further considered, taking account of the issues raised and the impact of any potential changes.

The Tax Faculty responded to this consultation, our key points being as follows:

- The membership of VAT groups should be made as widely available as possible.
- Membership of a VAT group should remain voluntary in all cases.
- The concept of control requires further clarification.
- New eligibility tests for entities other than corporate bodies should be offered as an alternative, and in addition, to the existing tests.

## **VAT fraud in labour provision in the construction sector**

Following a consultation *Fraud on provision of labour in construction sector: consultation on VAT and other policy options* into options for tackling fraud in construction labour supply chains, the government will introduce a VAT domestic reverse charge to prevent VAT losses.

A summary of responses to the consultation will be published on 1 December 2017 and a technical consultation on draft legislation for a VAT reverse charge in spring 2018, with a final draft of the legislation and guidance being published by October 2018. ICAEW responded to the consultation in June 2017 [ICAEW REP 69/17](#)

The measure shifts responsibility for paying the VAT along the supply chain to remove the opportunity for it to be stolen and will have effect on and after 1 October 2019. The long lead-in time reflects a commitment to give businesses adequate time to prepare for the changes.

This measure is estimated to bring in extra revenue of £405m in the four years from 2018/19.

It has been decided not to bring in legislative measures highlighted in the consultation to address the fraud in the direct tax construction industry scheme. Instead, HMRC is increasing its compliance response to target the fraud there.

## **VAT: split payment for online payments**

On 1 December 2017 HMRC will published a response document on the call for evidence to develop a split payment model that was launched after Spring Budget 2017.

A split payment model would allow VAT to be extracted from online payments in real time and help to reduce online VAT fraud. The responses to the call for evidence were broadly positive about the concept but highlighted the complexities of implementation. The response document will set out plans for further engagement with external stakeholders, in preparation for a full consultation in 2018.

### **VAT and vouchers**

A consultation paper will be published on 1 December 2017 in advance of legislation in FB 2018-19 to implement certain changes in the VAT treatment of vouchers with effect from 1 January 2019. These will simplify the VAT treatment of vouchers, including the point at which they will become subject to VAT, and in some cases their value for taxation. The aim is to ensure that when customers pay with vouchers, businesses account for the same amount of VAT as when other means of payment are used, aligning the UK with similar changes being made across the rest of the EU.

### **VAT and APT on tourism in Northern Ireland**

A call for evidence will be published in early 2018 on the impact of VAT and air passenger duty (APT) on tourism in Northern Ireland, to report at Budget 2018.

### **VAT: imports and postponed accounting**

The government has stated it recognises that businesses currently benefit from postponed accounting for VAT when importing goods from the EU (acquisition VAT), as well as the importance of such arrangements to business due to the cashflow advantage they provide. It will take this into account when considering potential changes following EU exit and will look at options to mitigate any cashflow impacts for businesses.

### **Accident Rescue Charities Grant Scheme**

A grant will be provided to help accident rescue charities meet the cost of normally irrecoverable VAT.

### **Amendment to the Customs and Excise Management Act 1979**

New legislation will be introduced to clarify the powers that allow officers of HMRC to use force to gain access to a locked vehicle, when stopping or searching it, which they suspect contains goods liable to forfeiture.

The changes will have effect on and after Royal Assent of FB 2017-18.

### **Customs examination powers**

The powers HMRC officers currently have under s24, Finance Act 1994 will be extended, so they can examine and take account of goods thoroughly, post clearance, inland, where a customs offence is suspected. This will enable an officer to move, open or unpack goods or containers, or require them to be opened or unpacked, and search the containers and anything in them, as well as mark them as necessary.

The changes will have effect on and after Royal Assent of FB 2017-18.

### **VED rates**

Vehicle excise duty (VED) rates for motorcycles, vans and cars registered before 1 April 2017, and first year rates for cars under the post-April 2017 VED system, will be increased by the RPI from 1 April 2018.

### **VED diesel supplement**

A supplement will be applied to new diesel cars registered on and after 1 April 2018, so that the first year rate of VED for a new diesel car will go up by one band. The change will apply to all new diesel cars that do not meet the RDE2 standards.

### **VED: zero-emission taxis**

The government will exempt zero-emission capable taxis from the VED supplement that applies to expensive cars. It will also consult on how to define zero-emission capable taxis, ahead of implementation in April 2019.

### **HGV VED and HGV levy**

Rates of VED for heavy goods vehicles (HGVs) will be frozen for the tax year 2018/19, which includes all rates linked to the basic goods rate. HGV levy rates will also be frozen for the tax year 2018/19. There will be a call for evidence on updating the existing HGV road user levy.

### **Fuel duty rates**

Fuel duty rates will remain frozen for the tax year 2018/19.

### **Rural fuel duty rebate scheme**

The rural fuel duty rebate scheme for the Scottish Islands and Isles of Scilly will be extended until 31 October 2023.

### **Alternative fuels**

The existing fuel duty rates for alternatives to petrol and diesel will be reviewed to see if they are appropriate ahead of making decisions at Budget 2018. In the meantime, the government will no longer be bound by the duty escalator policy for liquefied petroleum gas road fuel.

### **Tobacco duty rates**

FB 2017-18 will:

- increase the duty rates for all tobacco products by 2% above RPI inflation from 18:00 on 22 November 2017; and
- increase duty for hand-rolling tobacco by an additional 1% above this 2% increase, to 3% above retail price from 18:00 on 22 November 2017.

Tobacco duty rates will continue to increase by a minimum of 2% above inflation until the end of this parliament.

### **Tobacco minimum excise tax**

The minimum excise tax will be set at £280.15 per 1,000 cigarettes. The change will have effect from 18:00 on 22 November 2017.

### **Alcohol duty rates**

All alcohol duty rates will be frozen. There will be no revisions to existing legislation and no new legal provisions will be introduced.

### **New cider duty band**

A new duty band will be introduced with effect from 1 February 2019 for still cider of a strength of at least 6.9% but not exceeding 7.5% alcohol by volume, to encourage the production and consumption of lower-strength ciders. This follows the alcohol structures consultation announced at Spring Budget 2017. The summary of responses to this consultation will be published on 1 December 2017.

## **Wine dilution**

HMRC will review the practice of diluting wine and made-wine after excise duty has been calculated. The aim is to prevent wine producers from unfairly reducing the excise duty they pay on the larger volume of diluted product, and create consistency with all other alcohol sectors.

## **Gaming duty**

A consultation will be published in early 2018 on gaming duty return periods to seek views on bringing the administration of gaming duty more into line with the other gambling duties. It will also seek views on removal of the requirement to make payments on account.

# **ENVIRONMENTAL TAXES**

## **Climate change levy: main rates**

The government will set climate change levy (CCL) main rates for the tax years 2020/21 and 2021/22 at Budget 2018, with the exception of the rate for liquefied petroleum gas. To ensure better consistency between portable fuels in the off-gas grid market, this rate will be frozen at the tax year 2019/20 level in tax years 2020/21 and 2021/22.

This follows the announcement at Budget 2016 that main rates of CCL would increase on 1 April 2019 to recover the tax revenues lost by closing the carbon reduction commitment energy efficiency scheme, with changes to the reduced rates payable by businesses in the climate change agreement scheme.

It was also announced that the balance between rates on taxable commodities would be updated to reflect changes in the fuel mix used in electricity generation, starting with an adjustment of the current electricity to gas ratio of 2.9:1 to 2.5:1 in 2019/20. The government also announced its intention to re-balance the rates to an electricity to gas ratio of 1:1 by 2025 to deliver greater carbon savings.

## **CCL: exemptions for mineralogical and metallurgical processes**

As announced at Autumn Budget 2017, FB 2018-19 will make minor amendments to the way the exemptions from CCL for energy used in mineralogical and metallurgical processes are defined.

The scope will remain unchanged, but the changes will ensure the exemptions remain operable after EU exit and address business concerns about how the exemptions apply in landlord/tenant situations. The changes will have effect from spring 2019.

## **Aggregates levy: rates**

The rate of aggregates levy will be frozen for 2018/19. The rate has been frozen since 2009 and the government will return to index linking the levy in the longer term. This follows the announcement at Spring Budget 2017 that the rate of aggregates levy would remain at £2 per tonne in 2017/18.

## **Aggregates levy: exemption for laying underground utility pipes**

The conclusion has been reached that the case to introduce a new aggregates levy exemption for aggregate which is an unavoidable by-product when laying underground utility pipes is not strong enough at this time. This follows consultation in 2016.

A summary of responses to the consultation and the government's response will be published on 1 December 2017.



## **Landfill Communities Fund for 2018/19**

The value of the Landfill Communities Fund for 2018/19 will be set at £33.9m, with the cap on contributions by landfill operators remaining at 5.3% of their landfill tax liability.

## **Landfill tax: rates for 2019/20**

The standard and lower rates of landfill tax will rise in line with RPI, rounded to the nearest 5p with effect on and after 1 April 2019.

## **Landfill tax reform**

Changes will be made to the criteria determining when landfill tax is due, and to extend the scope of the tax to disposals of material at sites operating without the appropriate environmental authorisation. This follows consultations in 2016 and 2017 respectively.

[Draft legislation and a policy paper: Landfill Tax: disposals not made at landfill sites](#) were published on 13 September 2017, when the government also confirmed its intention to legislate from 1 April 2018.

Following consultation, changes have been made to further align the legislation with environmental law and ensure that operators of quarries will not be required to register for landfill tax. Statutory instruments will also be required. Draft instruments will be published in December 2017 and laid after Royal Assent to FB 2017-18.

The changes will have effect on and after 1 April 2018. The measure will apply to sites in England and Northern Ireland. Landfill tax was devolved to the Scottish Parliament in April 2015 and will be devolved to the Welsh Assembly from April 2018.

## **Air quality**

In support of the National Air Quality Plan published in July, the government will provide £220m for a new Clean Air Fund. This will allow local authorities in England with the most challenging pollution problems to help individuals and businesses adapt as measures to improve air quality are implemented. The government is launching a consultation alongside the Budget on options that could be supported by this fund. This will be paid for by the VED supplement that will apply to new diesel cars first registered from 1 April 2018 and a rise in the existing company car tax diesel supplement from 3% to 4%, with effect from 6 April 2018, for diesel cars which do not meet the RDE2 standards.

## **Air passenger duty**

APD for the long-haul standard rate will be increased to £172 and the long-haul higher rate to £515 on and after 1 April 2019. Short haul rates, and the long haul reduced rate for economy passengers will be frozen at the 2018/19 levels. The long-haul rates for premium economy, business and first class will increase by £16 and for those travelling by private jet by £47. Rates for the 2020/21 will be set at Budget 2018.

## **Call for evidence on single-use plastics waste**

A call for evidence will be launched in early 2018 on how the tax system or charges could help to reduce the amount of single-use plastic waste.

## **Total carbon price**

The government is confident that the total carbon price, currently created by the combination of the EU emissions trading system and the carbon price support, is set at the right level, and will continue to target a similar total carbon price until unabated coal is no longer used. This will deliver a stable carbon price while limiting cost on business. Revised indicative Carbon Price Support rates have been published for the 2020/21.

## AVOIDANCE, EVASION AND COMPLIANCE

The government published a document alongside the Budget papers [Tackling tax avoidance, evasion and non-compliance](#) setting out its record since 2010 in tackling tax avoidance and evasion and listing the measures that it has introduced over this period. It estimates that these measures have brought in additional revenue of almost £160bn.

The main measures announced in the current Budget are described below and these are estimated to bring in a further £4.8bn (para 3.65 of the Red Book), although the score-card in Table 2.1 estimates that all the avoidance, evasion etc measures will bring in a grand total of £5.57bn.

Tackling avoidance and evasion with additional resources for HMRC  
HMRC will receive a further £155m which is forecast in the Red Book to bring in an additional £2.3bn from the measures set out below.

The extra resources, and technology, will allow HMRC to:

- transform its approach to tackling the hidden economy through new technology;
- further tackle those who are engaging in marketed tax avoidance schemes;
- enhance efforts to tackle the enablers of tax fraud and hold intermediaries accountable for the services they provide using the corporate criminal offence;
- increase its ability to tackle non-compliance among mid-size businesses and wealthy individuals; and
- recover greater amounts of tax debt including through a new taskforce specifically to tackle tax debts more than nine months old.

### **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, both of which are undertaking work on similar proposals.

### **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 – in effect, on a ‘strict liability’ basis. The current time limits are four, six or 20 years depending on the behaviour that led to the non-compliance, so this represents a considerable extension of HMRC’s powers and a change in approach. There will be a consultation in spring 2018.

### **Hidden economy: conditionality**

There will be a consultation to determine how to make the provision of some public sector licences conditional on being properly registered for tax. This is in order to make it more difficult to trade in the hidden economy.

### **Royalties: withholding tax from April 2019**

With effect from April 2019, withholding tax will apply to royalty payments, and payments for certain other rights, made to low or no tax jurisdictions in connection with sales to UK customers. The rules will apply regardless of where the payer is located.

The Budget score-card estimates that this will raise £285m in the first year, 2019/20, and £800m over the full four years to 2022/23.

### **Intangible fixed assets: related party step-up schemes**

The intangible fixed assets rules will be updated with immediate effect, so that a licence between a company and a related party in respect of intellectual property is subject to the market value rule, and to ensure that the tax value of any disposal of a company's intangible assets is correct, even if the consideration is in something other than cash.

This measure is estimated to bring in extra revenue of £240m over the next six years.

### **Depreciatory transactions**

The government will remove the six-year time limit within which companies must adjust for transactions that have reduced the value of shares being disposed of in a group company. This will ensure that any losses claimed are in line with the actual economic loss to the group. This change will take effect for disposals of shares or securities in a company made on or after 22 November 2017.

This measure is estimated to bring in extra revenue of £55m over the next six years.

### **Permanent establishment losses and double tax relief**

There will be a restriction in the amount of credit allowed, or deduction given, for foreign tax where the company has received relief for losses against non-PE (permanent establishment) profits in the foreign jurisdiction. A policy paper Corporation Tax: double taxation relief and permanent establishment losses explains what detailed provisions are to be included in FB 2017-18.

The amount of double taxation relief available will instead be determined by reference to the amount of foreign tax suffered by the overseas PE, less the amount of the reduction in foreign tax which results from the PE's losses being relieved against non-PE profits in a foreign jurisdiction in the same or earlier periods.

### **Profit fragmentation**

The government will consult on the best way to prevent UK traders or professionals from avoiding UK tax by arranging for UK trading income to be transferred to unrelated entities. This will include arrangements where profits accumulate offshore and are not returned to the UK.

### **Hybrid mismatch rules**

FB 2017-18 will introduce some minor technical changes to the hybrids and other mismatches regime to ensure that the rules work as intended. This follows extensive informal consultation with stakeholders. The changes will not affect the amount of tax receipts.

### **Double tax relief: changes to targeted anti-avoidance rule**

HMRC will no longer from 1 April 2018 need to give a counteraction notice before the double tax relief (DTR) targeted anti-avoidance rule (TAAR) applies. The scope of one of the categories of prescribed schemes to which the TAAR applies will be extended to include tax payable by any connected persons. This will come into effect on 22 November 2017.

### **NIC: employment allowance**

Some employers are abusing the employment allowance and this is often done using offshore arrangements. HMRC will in future require upfront security from employers with a history of avoiding paying NICs. The new system will take effect from 2018 and is estimated to increase revenue by £15m a year.

### **Insolvency: use to escape tax debt**

The government will expand existing security deposit legislation to corporation tax and construction industry scheme deductions. These changes will be legislated for in FB 2018-19 and take effect from 6 April 2019. The government will consult on the most effective means of introducing this change.

This measure is estimated to bring in extra revenue of £505m in the four years from 2019/20.

### **Taxation of carried interest**

Legislation was introduced with effect from 8 July 2015 (Finance (No. 2) Act 2015) to determine the taxation of carried interest, which is a form of performance-related reward for investment managers.

There were transitional rules to excluded amounts of carried interest which had been subject to delays in payment for genuine commercial reasons and which were in relation to disposals of partnerships assets before 8 July 2015, or (in other circumstances) before 22 October 2015.

Carried interest will now be taxed if it arises on or after 22 November 2017 irrespective of the timing of connected disposals of partnership assets.

This measure is estimated to bring in extra revenue of £650m in the six years up to and including 2022/23.

### **Tackling waste crime**

From 1 April 2018, operators of illegal waste sites will become liable for landfill tax, and those who continue to flout the rules will face tough civil and criminal sanctions. This follows a positive response to the consultation announced at Spring Budget 2017. In addition, the government is providing £30m extra funding over the next four years to help the Environment Agency tackle waste crime and reduce the harm caused to the environment and to legitimate operators.

This measure is estimated to bring in extra revenue of £215m over the five years from 2018/19 onwards.

### **Disguised remuneration**

FB 2017-18 will include further legislation to tackle existing, and prevent future use of, disguised remuneration tax avoidance schemes. The majority of the changes announced at Budget 2016 have been enacted, including a new charge on loans made after 5 April 1999 through disguised remuneration schemes that remain outstanding on 5 April 2019. Following consultation on [draft legislation published on 13 September 2017](#), the government will legislate in FB 2017-18 to:

- introduce the close companies' gateway, to tackle disguised remuneration avoidance schemes used by close companies (ie companies with five or fewer participators) to remunerate their employees, and directors, who have a material interest. This change will have effect on and after 6 April 2017; and
- require all employees, and self-employed individuals, who have received a disguised remuneration loan to provide information to HMRC by 1 October 2019. This change will have effect on and after Royal Assent of FB 2017-18.

The government will also legislate in FB 2017-18 to:

- put beyond doubt, with effect from 22 November 2017, that Part 7A of Income Tax (Earnings and Pensions) Act 2003 (ITEPA 2003) applies regardless of whether contributions to disguised remuneration avoidance schemes should previously have been taxed as employment income. This change will have effect on and after 22 November 2017; and
- ensure the liabilities arising from the loan charge are collected from the appropriate person where the employer is located offshore. This change will have effect on and after Royal Assent of FB 2017-18.

Further detail on these changes and draft legislation can be found in a policy paper [Disguised remuneration: further update](#) published on 22 November 2017.

### **Off-payroll working: extension to private sector**

The government is going to consult on how to tackle non-compliance with the intermediaries legislation (commonly known as IR35) in the private sector. The IR35 legislation is intended to ensure that individuals who effectively work as employees are taxed as employees, even if they choose to structure their work through a company. A possible next step would be to extend the April 2017 public sector off-payroll working reforms to the private sector.

In order to take account of the needs of businesses and individuals who would implement any change, the government in its consultation will draw on the experience of the public sector reforms and external research already commissioned by the government and due to be published in early 2018.

## **DIGITAL MATTERS AND ADMINISTRATION**

### **Making Tax Digital**

The Red Book includes merely a brief mention of Making Tax Digital (MTD), but leaves no doubt about the government's intention to progress its plans for digitalisation, albeit at a slower pace and starting with VAT.

Primary legislation was enacted in ss60–62, Finance (No. 2) Act 2017 requiring digital record-keeping for income tax and VAT. This sets out the framework for the new MTD requirements for record-keeping, periodic digital updates and an end of period statement. As announced on 13 July 2017, the start date for reports is not to be before April 2019 and will then relate only to VAT and only for businesses with income above the VAT threshold.

An updated impact assessment will be published on 1 December 2017.

The MTD for VAT legislation overview, on which we commented in [ICAEW REP 128/17](#), is likely to be formulated into draft regulations which will be published in mid-December with a consultation to run through to the end of January. This is to make sure legislation can be included in the spring Finance Act 2018.

We understand that the regulations covering MTD for income tax, which were published on 13 September 2017 and on which we commented in [ICAEW REP 126/17](#), will not be laid before parliament until the government has made a decision on whether MTD should become mandatory for income tax, and if so when.

## Late submission penalties and late payment interest

Following a consultation published by HMRC in March 2017 [Making Tax Digital: sanctions for late submission and late payment](#) to which we responded in [ICAEW REP 68/17](#), the government has decided to replace the current penalty system for late or missing tax returns with a new points-based approach.

The details have yet to be announced, but if they follow the design suggested in the consultation, a taxpayer would receive a penalty point each time they failed to make a submission on time and would only be charged a penalty when their points total reached a particular number. The points would be reset after a period of good compliance. Points would be accrued separately for different taxes.

Draft legislation for the points-based model for late submission will be published for consultation in summer 2018.

A further consultation will look at penalties and interest due on late payments and repayments and final decisions on the system as a whole will be taken following this consultation.

## Faster recovery of self assessment debt

As part of a project to update PAYE processes, HMRC started dynamic or in-year coding in July 2017. Previously when HMRC identified underpayments of PAYE the coding adjustment was made in the following tax year; HMRC now generally collects such underpayments in the tax year in which they are identified.

The recovery of self assessment debt is to be accelerated along the same lines from April 2019 with a yield of £55m in 2019/20, reducing to £20m in later years.

The PAYE regulations were changed from April 2012 to allow HMRC to collect self assessment debts up to the value of £2,999.99 by amending the tax code of individuals with a PAYE source of income.

The regulations were further changed from April 2015 and a graduated income scale which determines how much debt can be collected from individuals' tax codes was introduced:

Annual PAYE earnings £	Coding out limits £
Up to 29,999.99	3,000
30,000.00–39,999.99	5,000
40,000.00–49,999.99	7,000
50,000.00–59,999.99	9,000
60,000.00–69,999.99	11,000
70,000.00–79,999.99	13,000
80,000.00–89,999.99	15,000
90,000.00 and above	17,000

The legislation can be found in s684, ITEPA 2003 and in reg 14, Income Tax (Pay As You Earn) Regulations 2003, SI 2003/2682. The issue is covered in HMRC Debt Management and Banking Manual 618000.

The change to in-year recovery does not require any change to the regulations but it is disappointing that there is to be no consultation; we have merely a brief reference in the Red Book and nothing in the HMRC Budget documents. It is asking a lot of the system of tax codes to take account of an increasing number of adjustments. The risk is that tax codes will become even more incomprehensible to taxpayers. Dynamic coding has not gone entirely smoothly so far, though this latest change is not to be introduced until April 2019 so there is still some time to discuss the practicalities.

### **The legislative timetable**

This is the first Budget in the new annual tax policy-making cycle, which was announced in the 2016 Autumn Statement. The timetable involved one annual fiscal event, the Autumn Budget, with a Finance Bill in the Autumn for legislating before the following April, and (at least in theory) consultation on new proposals over the course of a year. Further details on this new process will be published later this year.

## **DEVOLVED TAXES**

### **Land transaction taxes**

Tax devolution is now well under way throughout the UK. In April 2018, for example, Wales will replace SDLT with its own equivalent land transaction tax (LTT), following on from Scotland's example in 2015. The rates for LTT were announced only last month and have some differences to the SDLT rates, for example the threshold above which you start paying LTT is set at £150,000 rather than £125,000 for SDLT. However, the announcement on 22 November 2017 of a SDLT exemption of £300,000 for first time buyers highlights one of the difficulties faced by the devolved administrations in running their own taxes – how do they respond to changes made at the UK level? Will Wales and Scotland be forced to follow suit and introduce such an exemption, probably blowing gaping holes in their budget calculations? Interestingly, although the rates and bands of SDLT and LTT are different, the tax on a £300,000 is exactly the same – namely £5,000. So buying your first home in Wales could cost you up to £5,000 more than buying a home in England. That's the devolution conundrum for you.

### **Northern Ireland rate of CT**

The government has reaffirmed, once again, its commitment to the introduction of a Northern Ireland rate of corporation tax (which we assume will be 12.5% to match the Republic of Ireland but this is not confirmed and could be different). It is considering an announcement in 2018/19 on implementing the Northern Ireland rate but it remains contingent on the Northern Ireland Executive being able to show its finances are on a sustainable footing.

### **Scotland: VAT and emergency services**

In Scotland, the government will legislate to introduce a VAT exemption for the Scottish Police and Fire Services. In 2013, the Scottish government took the decision to merge the local services into a national one, but in the process the ability to have any VAT refunded on costs was lost as this is only available to locally controlled forces, a situation which continues in England and Wales. Since 2013 this has cost the Scottish national services £140m.

### **Scotland: rural fuel duty rebate**

The rural fuel duty rebate scheme for the Scottish Islands will be extended until 2023. The scheme allows for a 5p per litre reduction in the price of fuel and from a quick 'google' it looks like this helps to keep fuel prices on a par with those on the mainland.

## CONSULTATIONS

The OOTLAR provides a list of all upcoming consultations relating to Budget measures, as follows:

Consultation	Start date
Corporate tax and the digital economy	22 November 2017
Taxing non-residents' gains on immovable property	22 November 2017
HGV road user levy	22 November 2017
Royalties withholding tax	1 December 2017
Simplifying late payment sanctions	1 December 2017
Corporation tax treatment of lease payments	1 December 2017
Rent-a-room relief	1 December 2017
VAT and vouchers	December 2017
Hidden economy: conditionality	December 2017
Gaming duty	Early 2018
Impact of VAT and air passenger duty on tourism on Northern Ireland	Early 2018
Single-use plastics waste	Early 2018
Extending time limits for offshore non-compliance	Spring 2018
Petroleum revenue tax treatment of retained commissioning liabilities	Spring 2018
Securing debt in insolvency: extension of security deposit legislation	Spring 2018
VAT: fraud in labour provision in the construction sector	Spring 2018
Capital gains tax entrepreneurs' relief: relief after dilution of holdings	Spring 2018
Corporation tax: non-UK resident companies' UK property income and certain gains	Summer 2018
VAT: consultation on the design of the registration threshold	2018
Taxation of trusts	2018
Insolvency and phoenixism risks	2018
Intangible fixed asset regime	2018
Encouraging compliance by users of digital platforms	2018
Enterprise investment scheme fund	2018
Extending the scope for employees and self-employed to claim tax relief on self-funded training	2018



### **ICAEW Tax Faculty**

Chartered Accountants' Hall  
Moorgate Place  
London EC2R 6EA

T +44 (0)20 7920 8646  
E [taxfac@icaew.com](mailto:taxfac@icaew.com)  
[icaew.com/taxfac](http://icaew.com/taxfac)

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