

# SPRING BUDGET

2017



**MORRIS & Co**  
CHARTERED ACCOUNTANTS

0151 348 8400

[www.moco.co.uk](http://www.moco.co.uk)

[Mail@moco.co.uk](mailto:Mail@moco.co.uk)

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# INTRODUCTION



Chancellor Philip Hammond described his first and last Spring Budget as one that “takes forward our plan to prepare Britain for a brighter future”.

The economic forecasts outlined by the Office for Budget Responsibility (OBR) were broadly in line with those from the Autumn Statement in November 2016.

Inflation is forecast at 2.4% in 2017, 2.3% next year and 2% in 2019.

Growth is predicted to be 2% in 2017 (up from 1.4% forecast at Autumn Statement 2016) and 1.6% in 2018.

Borrowing in 2016/17 is forecast to be £51.7 billion (£16.4 billion lower than in the autumn) and public sector net borrowing is predicted to fall from 3.8% of GDP in 2016 to 2.6% this year.

Spring Budget 2017 was light on new measures with very few new announcements that will come into effect for the 2017/18 tax year.

The Chancellor confirmed that from April 2017:

- the national living wage will be £7.50 an hour
- personal allowance will increase to £11,500 and the higher rate threshold to £45,000 (£43,000 in Scotland)
- a new NS&I bond paying 2.2% on deposits up to £3,000.

The following report summarises the announcements made by Chancellor Philip Hammond during Spring Budget 2017 on 8 March 2017.

## **IMPORTANT INFORMATION:**

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future. The information in this report is based upon our understanding of the Spring Budget 2017, in respect of which specific implementation details may change when the final legislation and supporting documentation are published.

This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation. You should not make any investment decisions based upon its content.

Whilst considerable care has been taken to ensure that the information contained within this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information.



# AT A GLANCE

Measures announced at Spring Budget 2017 include:



## MAKING TAX DIGITAL

Quarterly reporting delayed by one year for businesses with turnover below VAT threshold



## BUSINESS RATES

Cap in bills for firms coming off small business rate relief in England



## BUSINESS RATES: PUBS

£1,000 business rate discount in England



## T-LEVELS

New qualification for technical education



## SELF-EMPLOYED NICs

Class 4 NICs to rise to 10% in April 2018 and 11% in April 2019



## TAX AVOIDANCE

Measures against converting capital losses to trading losses



## R&D TAX CREDITS

Measures to lower administrative burden to be introduced



## DIVIDEND ALLOWANCE

Tax-free dividend allowance to reduce to £2,000 from April 2018



## SOFT DRINKS LEVY

18p rate for main band and 24p for higher band



# BUSINESS

## CORPORATION TAX

It was confirmed that the rate of corporation tax will reduce to 19% from April 2017. As previously announced, the corporation tax rate will reduce by a further 2% to 17% by 2020.

Financial year to	31 March 2017	31 March 2018
Taxable profits	20%	19%
Loans to participators rate	32.5%	32.5%

## MAKING TAX DIGITAL

Unincorporated businesses and landlords that have an annual turnover below the VAT threshold will now have until April 2019 to prepare before making tax digital (MTD) becomes mandatory.

MTD will require businesses to use digital software to keep tax records and update HMRC on a quarterly basis.

Businesses, self-employed people and landlords will be required to start using the new digital service from:

- April 2018 if they have profits chargeable to income tax and pay class 4 national insurance contributions (NICs) and their turnovers are in excess of the VAT threshold
- April 2019 if they have profits chargeable to income tax and pay class 4 NICs and their turnovers are below the VAT threshold (as above)
- April 2019 if they are registered for and pay VAT
- from April 2020 if they pay corporation tax.

Businesses, self-employed people and landlords with turnovers of less than £10,000 per annum are exempt from these requirements.

## CASH BASIS ENTRY THRESHOLD

From 6 April 2017, the cash basis entry threshold is to increase from £83,000 to £150,000.

Cash basis accounting is an optional and simplified method for calculating and reporting taxable profits for qualifying trading businesses.

## OFF-PAYROLL WORKING IN THE PUBLIC SECTOR

The rules surrounding individuals working for public sector organisations through their own limited company will change from April 2017.

The 'off-payroll' rules will mean that where a public sector organisation engages an off-payroll worker, that organisation will be responsible for deducting and paying the associated tax and NICs to HMRC.

The 5% allowance that was available to reflect the costs of administering the rules will also be removed for those who work in the public sector.



## QUARTERLY REPORTING DELAYED FOR BUSINESSES WITH TURNOVER BELOW VAT THRESHOLD

## APPROPRIATIONS INTO STOCK

A new measure for corporation tax and income tax will prevent an election being made for appropriations of a capital asset into trading stock made on or after 8 March 2017.

The purpose is to prevent businesses converting losses attributable to a period for which the asset was a capital asset into more flexible trading losses. The legislation will only permit this election to be made where the appropriation at market value into trading stock would give rise to a chargeable gain and not where it gives rise to an allowable loss.

## HYBRID AND OTHER MISMATCHES

Two retrospective minor changes to the hybrid and mismatch regime came into effect on 1 January 2017. The first change removes the need to make a formal claim in relation to the permitted time period rules, which deal with mismatches involving financial instruments.

The second change provides that deductions for amortisation are not treated as relevant deductions in relation to the legislative requirements.

## RESEARCH AND DEVELOPMENT

The government will make administrative changes to the research and development (R&D) expenditure credit to increase certainty and simplicity around claims and will take action to improve awareness of R&D tax credits among SMEs.

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## BUSINESS RATES

The adverse effect of the changes to the rates revaluation in England in April 2017 on some businesses may be reduced in certain circumstances. The measures include:

- support for small businesses losing small business rate relief to limit increases in their bills to the greater of £600 or the real term transitional relief cap for small businesses each year
- providing English local authorities with funding to support discretionary relief, to allow them to provide support to individual hardship cases in their local areas
- a £1,000 business rate discount for pubs with a rateable value of up to £100,000, subject to state aid limits for businesses with multiple properties, for one year from 1 April 2017.

## DISPOSALS OF LAND IN THE UK

Legislation will be introduced in Finance Bill 2017 to ensure that all profits arising from the dealing or development of land recognised in the accounts on or after 8 March 2017 will be taxed, regardless of the contract date. Previously the rule only applied to contracts entered into on or after 5 July 2016.

## SUGAR DRINKS INDUSTRY LEVY

The levy rate for added sugar drinks will be set at 18p per litre for drinks with a total sugar content of 5-7g, per 100ml, and 24p per litre for those with a total sugar content of 8g or more, per 100ml.





# PERSONAL

## PERSONAL ALLOWANCE

From 6 April 2017 the tax-free personal allowance will increase to £11,500. The higher rate threshold will rise to £45,000 except in Scotland where it remains at £43,000.

## NATIONAL INSURANCE CONTRIBUTIONS

With class 2 national insurance contributions (NICs) due to be abolished in April 2018, class 4 NICs are to rise from 9% to 10% in April 2018 and then from 10% to 11% in April 2019.

The intention of this change is to move toward equalising the payments made by the self-employed when compared with those who are employed.

However, it is expected that only a self-employed person with profits over £16,250 will have to pay more as a result of these changes.

The government will look further to see if it considers there is a greater case for consistency in parental benefits between the employed and self-employed.

## DIVIDEND ALLOWANCE

The £5,000 tax-free dividend allowance, introduced in April 2016, is to be reduced to £2,000 from 6 April 2018.

## CAPITAL GAINS TAX

The annual capital gains tax exemption increases by £200 to £11,300.

## INHERITANCE TAX

There were no new announcements regarding inheritance tax. The new residence nil-rate band limit is available from 6 April 2017 at a rate of £100,000.

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# DUTIES

## VEHICLE EXCISE DUTY

From 1 April 2017 vehicle excise duty (VED) rates for cars, vans and motorcycles registered before that date increase in line with the retail price index (RPI). VED is paid on vehicle ownership, and rates are dependent on the type of vehicle and the first date of registration.

## HGV VEHICLE EXCISE DUTY AND ROAD USER LEVY

There will be no change in HGV VED and road user levy rates.

## AIR PASSENGER DUTY

Air passenger duty rates increase in line with the RPI from 1 April 2018 as follows:

Bands (distance in miles from London)	Reduced rate (lowest class of travel)	Standard rate	Higher rate
Band A (0 – 2,000 miles)	£13	£26	£78
Band B (over 2,000 miles)	£78	£156	£468

An announcement with regard to the applicable rates from 1 April 2019 will be made at Autumn Budget 2017.

## ALCOHOL DUTIES

From 13 March 2017 the duty rates on alcohol will increase in line with the RPI. The increase in cost is reported to be:

- pint of beer - 2p
- pint of cider - 1p
- bottle of Scotch whisky - 36p
- bottle of wine - 10p.

## TOBACCO DUTY RATES

All tobacco product duty rates increase with effect from 8 March 2017 by 2% above RPI inflation.

## GAMING DUTY

Gaming duty bands increase in line with inflation for gaming duty periods starting on or after 1 April 2017.

## CIGARETTE DUTY

From 20 May 2017 there will be a minimum excise tax for cigarettes. This is intended to target the cheapest tobacco. The rate is £268.63 per 1,000 cigarettes.

## AGGREGATES LEVY

The aggregates levy for 2017/18 will remain at £2 per tonne.

## STAMP DUTY LAND TAX

Following consultation, the government is to delay the reduction in the stamp duty land tax filing and payment window until 2018/19.



# SAVINGS & PENSIONS

## MONEY PURCHASE ANNUAL ALLOWANCE

The money purchase annual allowance (MPAA) will reduce from £10,000 to £4,000 from 6 April 2017.

There will be no changes to how the MPAA will operate or how it is calculated and the transitional provision for the 2015/16 tax year remains unchanged.

Any unused MPAA cannot be carried forward for later years.

## QUALIFYING OVERSEAS PENSION SCHEMES

Transfers to qualifying recognised overseas pension schemes (QROPS) requested on or after 9 March 2017 are to be taxable. This won't apply if at the point of transfer both the individual and the pension savings are in the same country and both are within the European Economic Area, or the QROPS is provided by the individual's employer.

If this is not the case, a 25% tax charge on the transfer will apply before the transfer is made.

## LIFETIME ISA

The Lifetime ISA will be available to individuals aged between 18 and 40 from 6 April 2017. The Lifetime ISA allows for savings of up to £4,000 per annum up to the age of 50. There is an entitlement of a 25% bonus of up to £1,000 from the government each year.

Withdrawals can be made without penalty if the funds are used to purchase a first home (as long as a number of conditions are met) or for any reason after the age of 60. Withdrawals before age 60 for another reason will incur a charge that will effectively repay the government's bonus, plus an additional charge.

## NS&I INVESTMENT BOND

A new NS&I Investment Bond will become available for 12 months from April 2017.

This bond will be available for all those aged 16 or over and is subject to a minimum investment of £100 and a maximum of £3,000. The bond will attract a 2.2% interest rate over a term of 3 years.

Tax-free saving accounts	2016/17	2017/18
	£ a year	
ISA subscription limit	£15,240	£20,000
Junior ISA subscription limit	£4,080	£4,128
Child Trust Fund subscription limit	£4,080	£4,128
Lifetime ISA	N/A	£4,000







# VAT

## REGISTRATION AND DEREGISTRATION THRESHOLDS

The taxable turnover threshold, which requires a person to register for VAT, increases from £83,000 to £85,000 per annum.

The threshold below which a VAT-registered person may apply to deregister increases from £81,000 to £83,000 per annum, and the relevant registration and deregistration threshold for Intra-Community acquisitions will also be increased from £83,000 to £85,000 per annum.

All these changes will take effect from 1 April 2017 and will prevent around 4,000 businesses from having to register in the financial year 2017/18.

## RATES

The positive rates of VAT are unchanged, so the standard rate remains at 20% and the reduced rate at 5%.

## SPLIT PAYMENTS MODEL

The government has continued to consider introducing alternative methods of collecting VAT where existing methods have been abused. This is in addition to the measures it has already introduced to address the problem of overseas businesses selling goods to UK consumers via online marketplaces without paying VAT.

On 20 March 2017, the government will publish a call for evidence regarding the case for a new, safer method of collecting VAT relating to online sales. The method will make use of technology to take the VAT out of such transactions at the point of purchase. This type of arrangement is known as split payments.

## CONSUMER MOBILE PHONE SERVICES

The current use and enjoyment provision for mobile phone services used by consumers will be removed.

The new measure will ensure that services used outside the EU are brought within the scope of VAT. Furthermore, mobile phone companies will no longer be able to use the inconsistency to avoid UK VAT. This will bring UK VAT rules in line with the internationally agreed approach.

## FRAUD IN THE CONSTRUCTION SECTOR

The government has announced that on 20 March 2017, it will publish a consultation document on a range of policy options to address fraudulent activity relating to the supply of labour in the construction industry.

Possibilities could include introducing a reverse charge (operating in the same way as services bought in from abroad) requiring the recipient of the services to account for the VAT. The qualifying criteria for gross payment status within the Construction Industry Scheme will also be reconsidered.

The objective of any changes would be to strike a balance between effective targeting, simplicity and minimal impact on businesses, at the same time as eradicating the likelihood of fraud as much as possible.

## PENALTIES IN FRAUD CASES

At Autumn Statement 2016, it was announced that a new penalty for cases of fraud would be introduced in Finance Bill 2017. That has now been confirmed.

A consultation process followed the issue of draft legislation and as a result, some minor changes have been made for the purposes of clarity and also to limit the naming of a company officer to cases where the amount of tax due exceeds £25,000.

The new penalty will take effect once the Finance Bill receives Royal Assent.

## FLAT RATE SCHEME

With effect from 1 April 2017, businesses eligible to use the flat rate scheme but which are classified as 'limited cost' businesses,

will have to account for VAT at 16.5% of their relevant gross turnover.

A 'limited cost' business is one which spends the following on relevant goods:

- less than 2% of its VAT flat rate turnover, or
- greater than 2% of its VAT flat rate turnover but less than £1,000 per year.

Relevant goods are those which are used exclusively for business purposes, but exclude the following:

- vehicle costs including fuel, unless the business is operating in the transport sector using its own, or a leased vehicle
- food or drink for the business or its staff
- capital expenditure goods of any value
- goods for resale, leasing, letting or hiring out if the main business activity is not ordinarily the selling, leasing, letting or hiring out of such goods
- goods for re-selling or hiring out, unless selling or hiring is the main business activity.

The measure is designed to ensure fairness of treatment for businesses which are considered to be receiving an unfair advantage from the classification and rate they currently use.

Notice 733 provides guidance on the transitional rules for those operating the basic turnover method or the cash based turnover method at paragraphs 8.2 and 9.7 respectively in that it explains the treatment for invoices issued or cash received after 23 November 2016 and before 1 April 2017. Those whose returns straddle 1 April will have to split their accounting between the old and new rates.

If, in any period, the cost of relevant goods is more than the 'limited cost' threshold, the business may use the normal flat rate scheme percentage for that period.



# OTHER ANNOUNCEMENTS

## TAX AVOIDANCE SCHEMES

A change in the legislation which came into effect on 8 March 2017 is intended to ensure that promoters of tax avoidance schemes cannot circumvent the promoters of tax avoidance schemes regime by re-organising their business so that they either share control of a promoting business or put a person or persons between themselves and the promoting business.

This is achieved by introducing the term 'significant influence' into the control definition of the Finance Act 2014.

## T-LEVELS

Plans were announced to provide an increase in the number of training hours for 16-19 year olds on technical routes by more than 50% to over 900 hours a year on average, including the completion of a high quality industry work placement during the programme.

## INSURANCE PREMIUM TAX

The standard rate of insurance premium tax is to increase from 10% to 12% from 1 June 2017.

## TAX CREDIT DEBT

The Department for Work and Pensions (DWP) will seek to recover HMRC tax credit debt using its existing powers including the use of direct earnings attachment.

## BENEFIT FRAUD AND ERROR

The DWP is to work with an external data provider with a view to better identify fraud and error caused by undeclared partners.



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Spring Budget 2017.



# NOTES

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0151 348 8400

[www.moco.co.uk](http://www.moco.co.uk)

[Mail@moco.co.uk](mailto:Mail@moco.co.uk)

Chester House, Lloyd Drive,  
Cheshire Oaks Business Park,  
Ellesmere Port  
CH65 9HQ

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