Forbes Dawson
THE TAX SPECIALISTS

Spring Budget 2017

THE FORBES DAWSON TOP 10

8 MARCH 2017

Experts in keeping things simple

Income tax

1

Personal tax thresholds and allowances

The personal allowance has been increasing year on year, and for 2017/18 will be over 75% higher than it was in 2009/10:

Personal allowance for 2017/18 - £11,500

The increase in personal allowance coupled with the basic rate band rising to £33,500, means that the higher rate tax threshold is further increased. In 2017/18, only income above £45,000 will suffer income tax at the higher rates of 40%.

The threshold for the additional rates of tax (45%) will remain at £150,000.

Once the personal allowance reaches £12,500, it will rise in line with the Consumer Price Index, which is already the case for the tax rate bands.

Our view

The increase in the personal allowance benefits all but the top earners. The continuing increase has resulted in 1.3 million people being taken out of paying income tax altogether since 2010.

Forbes Dawson
THE TAX SPECIALISTS

Dividend allowance

2

Further hit on company profit extraction

Despite only coming into effect 12 months ago the tax-free allowance for dividend income (currently £5,000) is to be reduced to £2,000 from 6 April 2018.

Dividends above this amount will continue to be either taxed at 7.5%, 32.5% or 38.1%

Although the tax due on dividend income is rising, it is still more tax efficient when comparing the payment of a salary as illustrated in the below table:

Salary	Higher rate	Basic rate	Dividend	Higher rate	Basic rate
Profit	100,000	33,500	Profit	100,000	33,500
Total tax corporate & personal	53,534	13,482	Tax on extraction	45,325	8,400
Effective tax rate	53.53%	40.25%	Effective tax rate	45.33%	25.08%

Our view

Philip Hammond continues where George Osborne left off. Although the reduction in corporation tax rates offers clear savings for owner managed businesses, the reduction in the dividend allowance is a further attempt to plug the tax gap between small incorporated businesses and similar sized self-employed businesses.

Forbes Dawson
THE TAX SPECIALISTS

Class 4 NICs

3

National Insurance increase for the self-employed

The Chancellor has large professional partnerships in his sights as a target for increasing revenues. Despite fiscal advantages, it is usually difficult for these businesses to incorporate as the business owners are regularly changing. Whilst partners can come and go with relative ease, changing shareholders can be complicated and also expensive from a tax standpoint.

The Class 4 increases, announced today, from the current rate of 9% to 10% in 2018 and 11% in 2019 may signal the narrowing of the NI advantages that self-employed individuals enjoy over their employed counterparts.

UPDATE: The Chancellor has since announced that this is no longer going ahead.

Our view

The lowering Corporation Tax rates make it desirable for high earning professional businesses to incorporate, particularly where they are retaining profits for future growth.

The increase in NI rates will create a further incentive to do so.

Forbes Dawson
THE TAX SPECIALISTS

Non-domiciliaries

4

Significant changes for non-doms

From 6 April 2017, UK-residents with a domicile of origin outside the UK that have lived here for 15 out of the last 20 years will be subject to tax on their worldwide income and gains going forward, without the ability to pay tax only when they remit the funds. They will therefore have two bases of tax; the arising basis of tax from 6 April 2017 and the remittance basis when they bring in any of their previously untaxed foreign income and gains.

A few transitional provisions soften the blow by allowing individuals to organise their bank accounts containing their historical untaxed income, capital gains and clean capital (that will not be taxable) so that when they bring this into the UK they are taxed in the most favourable way. They are also allowed to rebase the value of their foreign assets at 6 April 2017, to wipe out any historical capital gain, provided they have previously paid the remittance basis charge.

There are also favourable rules that apply to any existing offshore trusts so long as they are not added to. The foreign income and gains are not assessable to tax until distributed to beneficiaries. It is worth noting that the provision of an interest-free loan to the trust by the settlor does cause the settlement to lose this privileged status.

Our view

The arising basis of taxation will be a shock to the system for many people who have been able previously to limit their UK tax liability. Initially, the rules announced were extremely penal, however, the transitional reliefs offered particularly for protected settlements (where the rules are now better than before!) make it more palatable.

Planning is required before 5 April 2017 to minimise tax going forward.

Forbes Dawson
THE TAX SPECIALISTS

Residential property 5

IHT reform for UK residential properties

As previously announced, from 6 April 2017 there will be a significant reform to UK inheritance tax rules relating to UK residential property held through offshore companies or any other opaque vehicles funded, owned or created by non-UK domiciliaries. Under the current rules, UK residential property held through an offshore company is not liable to UK inheritance tax.

From 6 April, ALL residential property held through an offshore company – whether the company shares are owned by a trust or an individual directly – will be liable to UK inheritance tax. In addition, loans made into offshore companies which have been used to acquire UK residential properties will also be caught under the new rules. It is also likely that where collateral has been provided for loans to acquire UK residential property that these will also be caught. It has been confirmed that the rules will not apply to commercial properties.

Where a mixture of residential and commercial properties are owned the value of the shares/loans will be apportioned between the two types of property, with the residential element subject to UK inheritance tax. These rules apply to both lifetime transfers and the value of chargeable estates on deaths for individuals. In addition they will apply for exit charges and 10 year charges for trusts.

Our view

These proposals provide a significant change to the current regime and will bring a number of structures into the scope of UK inheritance tax where they have previously fallen outside. Existing structures should be reviewed pre 5 April 2017 to ensure that any planning required can be completed in advance of the new rules taking effect.

Forbes Dawson
THE TAX SPECIALISTS

Lifetime ISA 6

New LISAs launching next month

Announced in last year's budget, the Chancellor confirmed that the new lifetime ISA – or 'LISA' – is set to launch on 6 April 2017. This is only made available to individuals aged 18-40, and tax-free savings up to £4,000 a year can be made with the government adding a 25% bonus. The bonus stops when the individual reaches the age of 50.

However, there are strings attached. The money can only be used to either buy a first home or used for retirement. But unlike pension schemes where there is a 25% tax-free lump sum, all the savings from a LISA can be drawn out tax-free after the age of 60. However, should any individual wish to withdraw the funds before the age of 60, a 25% charge will be made (except for the 2017/18 tax year).

It is also worth noting that the overall ISA limits are also due to rise from £15,000 to £20,000 this April, so this can be used in conjunction with a standard ISA or the existing Help-to-Buy ISA.

Our view

Amidst increasing uncertainty surrounding pensions, the LISA seems attractive as it offers flexibility for individuals that want to save but do not want to commit to contributing into a pension pot.

However, caution should be exercised, as individuals drawn away from workplace pension schemes could lose out on valuable employer contributions often worth more than the £1,000 a year bonus.

Forbes Dawson
THE TAX SPECIALISTS

Pensions

7

Changes to MPAA and QROPS

If you've extracted funds from your pension using the flexible drawdown, the Money Purchase Annual Allowance (MPAA) is the maximum amount that can be contributed in one year to your pension without a tax charge applying. For the 2016/2017 tax year the MPAA is £10,000 but this will be reduced to £4,000 with effect from 6 April 2017.

Also, the rules have been massively tightened up in respect of QROPS (qualifying recognised overseas pension schemes). Historically, these have offered opportunities for non-residents to free up their UK pension schemes at reduced tax rates. From tomorrow, transfers of schemes will be taxable at 25% unless the scheme member and the QROPS are in the same country (or both are within the EEA). In addition, any payments will still be subject to UK pension rules if they are made within 5 years of transfer to the QROPS (for transfers after 5 April 2017).

Our view

There are no big surprises here. These changes simply have the effect of tidying up abusive practices. Unsurprisingly, the government did not like taxpayers accessing tax-free lump sums and then recycling them back into their funds with tax relief. Similarly, they did not like members 'QROPS shopping' to get the best deal when leaving the UK. On a positive note, they haven't carried out threats to restrict pension relief to a fixed rate of 25% which would have been punitive.

Forbes Dawson
THE TAX SPECIALISTS

Business tax

8

Corporation tax - rates confirmed

Philip Hammond confirmed the previously announced reductions in the rate of corporation tax to 19% from 1 April 2017 and 17% from 1 April 2020.

Business rates - help for small businesses

The Chancellor also outlined measures to help small businesses, in particular, cope with upcoming changes to business rates. This includes a £50 monthly cap on rate rises for those businesses losing Small Business Rate Relief and a £300m hardship fund for those worst hit.

Appropriations to stock - tax avoidance clamp down

The Chancellor also introduced a new measure taking immediate effect that will prevent businesses converting capital losses into trading losses. This change removes the option for businesses to elect for capital losses that would otherwise arise where an asset is appropriated to trading stock to be treated as trading losses. (Trading losses are more flexible than capital losses as they can be offset against the total trading profits of the business.) The government has stated this move addresses an unfairness in the current rules that can be exploited for avoidance.

Our view

The UK's corporation tax rate remains the lowest in the G20, reflecting the Government's ambition to operate a highly competitive business tax regime.

Business rates concessions had a feeling of inevitability about them given the backlash against recent changes, and are not therefore unexpected.

The changes in relation to the tax treatment of losses arising on an appropriation to trading stock, although unanticipated, are expected to have a negligible impact overall.

Forbes Dawson
THE TAX SPECIALISTS

Interest restriction 9

No relief on rental income interest restriction

Although it was rumoured that there might be some sort of relaxation of the interest relief restrictions on buy-to-let properties, the Chancellor made no mention of this. As previously announced, from 6 April 2017, the new restrictions on interest relief will be phased in as follows:

Tax Year	Interest Relief fully allowable	Interest Relief allowable at the basic rate
2017/18	75%	25%
2018/19	50%	50%
2019/20	25%	75%

Once the measures take full effect, the interest cost will be completely disallowed in computing rental profits and instead a tax credit equal to 20% of the interest will be given against the individual's income tax liability.

Our view

These rules will be some property investors' worst nightmare! In some cases they will end up paying tax on non-existent profits if they continue to hold the property as individuals. Although this can provide an incentive to incorporate great care is needed here to minimise SDLT costs and potentially capital gains tax that can be triggered on the incorporation. In some cases this will be a rare case of the tax tail wagging the commercial dog and investors will get out of the game. If this puts more housing on the market then maybe prices will be pushed down. This could be what was intended all along!

Forbes Dawson
THE TAX SPECIALISTS

Cash basis threshold 10

Cash basis entry and exit thresholds increased

The cash basis of accounting has been an option available to sole traders and partnerships since 2013/14. It simplifies the way small traders can calculate their profits for tax purposes, by recognising income when it is received and expenditure when paid, rather than on a normal accruals basis.

Currently, an individual or partnership can only elect for the cash basis treatment if their turnover is less than £83,000 (in line with the VAT threshold). You must also leave the scheme if your income exceeds twice the VAT threshold, £166,000.

From 2017/18, the chancellor has announced that the entry threshold is increasing to £150,000 and traders must only leave this scheme if their turnover exceeds £300,000. Unfortunately, the maximum interest that can be claimed on a deduction against profits by those on the cash basis has not increased in line with the entry and exit thresholds, and remains at £500 each tax year.

Our view

The increase in the thresholds opens up the cash basis treatment to many more sole traders and partnerships. This treatment is both a time and money saver as administrative burdens are reduced and income is only taxed once cash is received. However, the cash basis does not suit every small trader and so care should be taken before an election is made.

Forbes Dawson
THE TAX SPECIALISTS

Forbes Dawson
THE TAX SPECIALISTS

To discuss how we can help you, please get in touch with us.

Tel: 0161 927 9277
www.forbesdawson.co.uk