Budget 2017

CIPP summary of Budget 2017

Introduction

The last Spring Budget began with strong statements, "*a labour market delivering record employment"* and "*a deficit down by over two-thirds"*. And of course, as the government starts the negotiations to exit the European Union *"this Budget takes forward our plan to prepare Britain for a brighter future".*

Philip Hammond then went on to ask us to wish him luck; after the Treasury had apparently pointed out that he is not the first to announce the last Spring Budget. Twenty four years ago Norman Lamont made the very same announcement, reporting on an economy that was growing faster than any other in the G7, and committed to continued restraint in public spending. The then Prime Minister described it as the 'right budget, at the right time, from the right Chancellor'. Ten weeks later, he was sacked, "*so wish me luck"* said the Right Honorable Hammond.

This vein of humour continued throughout his speech, mainly to the detriment of those sitting across the table, though he did allow time to include some Budget detail, along with his aspirations for the UK to be the best place to be to do business; growth forecasts have been upgraded, more opportunities are being extended to all our young people and there is further investment in our public services, in particular the NHS. The sugar tax is working, local pubs are to get discounts on business rates, corporation tax is to fall to 17% by 2020 as planned, and fuel duty is to be frozen again for 2017-18.

"*We are stronger together*" said the Chancellor as he announced £350m funding for the Scottish Government, £200m for the Welsh Government and £120m for the Northern Ireland executive.

Education received several boosts with funding for further new free schools, over £200m to repair and rebuild existing schools and the introduction of T- levels to raise the status of technical education and further support for 16 to 19 year olds.

From a payroll perspective, it was rumoured that the changes next month to the way the current intermediaries legislation is applied to off-payroll working in the public sector would be extended to the private sector, but there was no mention of this. Neither was there any mention of pensions tax relief or the extension of Shared Parental leave and pay to grandparents.

Our summary of announcements details the actual changes which could affect payroll and employers and as ever we will be scrutinising the 64 page [red Budget book] for any underlying detail which we will publish over the coming days.

Tax rates and thresholds

Income tax

The tax-free personal allowance will increase in April 2017 to £11,500 as previously announced, continuing its progression towards the government's target of £12,500 in April 2020. It will mean 1.3 million people will have been taken out of the tax regime altogether since the start of this parliament.

To ensure the benefits of the personal allowance increase are passed on to higher rate taxpayers, and to encourage individuals to progress, the point at which higher earners start to pay 40% tax will increase to £45,000 in 2017-18, again as previously announced.

CIPP comment
The former Chancellor made a point of announcing personal allowance levels and higher rate thresholds several years in advance, although (or perhaps so that) he was obliged to revise them positively in subsequent statements. Unusually, there were no announcements about 2018-19 allowances or thresholds today.

Company cars, vans and fuel

There were no announcements concerning company car and van charges or fuel charges.

Childcare

Tax-Free Childcare

The Chancellor confirmed that the government will shortly be rolling out Tax-Free Childcare for working families with children under 12, providing up to £2,000 a year for each child to help with childcare costs. Parents of younger children will be able to apply first and all eligible parents will be able to benefit by the end of this year. Parents will be able to apply for all of their children at the same time, when their youngest child qualifies.
Parents can now sign up to receive an email update which will notify them when they are able to apply.

Free childcare

From September 2017, the free childcare offer will double, from 15 to 30 hours a week for working families with 3 and 4 year olds in England, in total worth up to £5,000 for each child.

Dividend Allowance

Introduced in April 2016, the dividend allowance means that there is no tax payable on dividend payments up to the limit of the allowance, currently £5,000. From April 2018 the allowance will be reduced from £5,000 to £2,000. Any dividends received above this allowance will be taxed at 7.5% for basic-rate taxpayers, 32.5% for higher-rate tax payers and 38.1% for additional-rate taxpayers. The Chancellor stated that this would reduce the tax differential between the employed and self-employed on the one hand and those working through a company on the other. A £2,000 dividend allowance will continue to mean that 80% of general investors pay no dividend tax, including those with sizeable investments (typically, up to £50,000).

Expenses and benefits

Off-payroll working in the public sector - expenses

As confirmed at Autumn Statement 2016, from 6 April 2017 responsibility for determining whether the 'IR35' rules apply, and the subsequent responsibility for applying those rules, transfers from the worker's intermediary to the fee-payer where the end client is a public sector body. The worker's intermediary may be an individual, a partnership, a personal service company (PSC) or a managed service company (MSC). The fee-payer is the public sector employer or a third party such as an agency.

In documents published alongside Spring Budget 2017, the government confirmed that, following responses to the technical consultation, it will be optional for the fee-payer to take into account the worker's expenses when calculating tax due. This puts the worker on the same footing as an employee, whose employer can choose whether or not to reimburse expenses incurred.

National Insurance contributions

Class 4 NICs

The Chancellor said a fair tax system should ensure that: "people doing similar work for similar wages and enjoying similar state benefits pay similar levels of tax". He highlighted the gap between the amount of NICs paid by employees and the self-employed, which was set to widen due to the previous Chancellor's abolition of Class 2 NICs for the self-employed from April 2018. The self-employed also gained access to the same State Pension as employees in April 2016.

To address this difference, the Chancellor announced increases in Class 4 NICs. From April 2018 when the Class 2 weekly rate is abolished, the main Class 4 rate will increase from 9% to 10% of profits between the lower and upper profits limits. And from April 2019, the main Class 4 rate will increase by a further 1%, to 11% of profits.

Alongside Matthew Taylor's review into employment practices, the government will also consider whether there is a case for greater parity of parental benefits between the employed and the self-employed.

Employment Allowance

The Employment Allowance, which employers can offset against their secondary Class 1 NICs liabilities, is being actively monitored by HMRC's compliance team following reports that some businesses are using avoidance schemes to avoid paying the correct amount of NICs. Further action would follow, if deemed necessary.

Removing National Insurance from the effects of the Limitation Act

Autumn Statement 2016 announced that, from April 2018, the government would remove NICs from the effects of the Limitation Act 1980 and Northern Ireland equivalent. This will align the time limits and recovery process for enforcing National Insurance debts with other taxes.

To allow more time for a full consultation on the draft legislation, the government has deferred the change, which will be introduced in a future NICs Bill.

Pensions

State Pension age

To ensure that the State Pension remains sustainable and fair across generations, the government is carrying out the first statutory review of State Pension age. The government will consider all the evidence – including an independent report by John Cridland – before publishing its review by 7 May 2017.

Reducing the money purchase annual allowance

As announced at Autumn Statement 2016, documents published alongside Budget 2017 confirmed that the money purchase annual allowance (MPAA) will be reduced from £10,000 to £4,000 with effect from 6 April 2017.

The MPAA is the reduced amount of annual allowance of tax-free pensions savings that an individual is permitted if a defined contribution pension fund has been flexibly accessed under the pension flexibility reforms. (The standard annual allowance is £40,000.) The MPAA is designed to limit the extent to which individuals could recycle funds and gain double tax relief and unused amounts cannot be carried forward to later years.

Charge on transfers for Qualifying Recognised Overseas Pension Schemes

The tax treatment of overseas transfers from registered pension schemes has remained broadly the same since the changes to the pensions tax regime in 2006. The regime was strengthened between 2012 and 2015 to more precisely define the types of pension schemes that could receive tax-free transfers and improve the information required in relation to these transfers.

The Chancellor has announced that transfers to Qualifying Recognised Overseas Pension Schemes (QROPS) requested on or after 9 March 2017 will be taxable unless, from the point of transfer, both the individual and the pension savings are in the same country, both are within the European Economic Area (EEA) or the QROPS is provided by the individual's employer. If this is not the case, there will be a 25% tax charge on the transfer and the tax charge will be deducted before the transfer by the scheme administrator or scheme manager of the pension scheme making the transfer.

This announcement widens the scope of UK taxing provisions so that, following a transfer to a QROPS on or after 6 April 2017, they apply to payments out of those transferred funds in the five tax years following the transfer. Whilst this measure supports the government's objective of promoting fairness in the tax system, it continues to allow overseas transfers from pension schemes that have had UK tax relief that are made when people leave the UK and take their pension savings with them to their new country of residence.

As a result of these changes, an overseas scheme cannot be a QROPS unless the scheme manager has given HMRC an undertaking that they will operate the new overseas transfer charge and pay this to HMRC when due. For the purposes of these new undertakings only, HMRC will deem existing QROPS to continue to meet the 'qualifying' requirement to be a QROPS until 13 April 2017. If by 13 April 2017 HMRC has not received the new undertaking the overseas scheme will automatically cease to be a QROPS.

From 14 April 2017 HMRC will suspend the ROPS notifications list and publish an updated list on 18 April 2017.

If you are involved with QROPS you can find new and updated forms on GOV.UK. HMRC will reject old versions of the forms used for transfers made from 9 March 2017.

Student loans

Postgraduate Doctoral Loans

Alongside the publication of the Budget 2017 report a number of consultation responses were published, amongst which is the government response to the consultation on Postgraduate Doctoral Loans. This paper sought views on the technical aspects of the design of this new loan product that will come in to repayment from April 2019.

The main findings from the consultation are:

- The age restriction of '59 and under' strikes an appropriate balance between enabling the broadest possible access to doctoral study and mitigating the risk of non-repayment;
- The doctoral loan is unlikely to incentivise large numbers of students to study purely for personal benefit;
- There is little support for an alternative proposal of capping the number of doctoral loan places per institution;
- The proposed maximum course length of six years would benefit students who need to study part time. Additional flexibility may be needed for some students and, according to more than 30 universities, the government should consider extending the loan length to seven or eight years;
- To ensure timely completion of doctoral programmes, universities are generally favourable to the idea of reporting students' progress as a trigger for loan payments, however, the frequency of progress reporting currently varies between institutions;
- There is strong support among respondents for the loan to be available for all Level 8 doctoral degrees;
- The proposed approach of basing loan eligibility on a student's qualification intentions appears to be sensible, but would need clear guidance and FAQs for applicants;
- The loan ought to complement other forms of public and private funding for doctoral programmes, in the interests of ensuring choice for students.

Part-time Maintenance Loans

The government has published its response to the consultation on the provision of Part-time Maintenance loans.

In a bid to tackle the decline in part-time undergraduate Higher Education, the government proposes to introduce a new part-time maintenance loan for students starting a degree in academic year 2018-19. It then intends to extend this support to distance learning course and level 4 and 5 higher education qualifications from the academic year 2019-20 subject to the development of a robust control regime to manage particular risks and challenges associated with this mode of study.

Tax administration and simplification

Making Tax Digital

The government will provide an extra year, until April 2019, before Making Tax Digital is mandated for unincorporated businesses and landlords with turnover below the VAT threshold. This will provide them with more time to prepare for digital record keeping and quarterly updates.

The government will also consult on the design aspects of the tax administration system, including interest and penalties, with the aim of adopting a consistent approach across taxes.

Tax avoidance, evasion and compliance

Promoters of Tax Avoidance Schemes (POTAS)

New legislation aims to ensure that promoters of tax avoidance schemes cannot circumvent the POTAS regime by re-organising their business by either sharing control of a promoting business, or putting a person or persons between themselves and the promoting business.

Legislative amendments will have effect from 8 March 2017 for the purpose of determining whether a person should be treated as meeting a threshold condition.

Strengthening tax avoidance sanctions and deterrents

Following on from the announcement at Autumn Statement 2016, the government will introduce a new penalty for a person who has enabled another person or business to use a tax avoidance arrangement that is later defeated by HMRC.

The government will also remove the defense of having relied on non-independent advice as taking 'reasonable care' when considering penalties for a person or business that uses such arrangements.

Compliance

The government is aware that some employers pay image rights in respect of employees under separate contractual arrangements to employment income. HMRC will publish guidelines for employers who make payments of image rights to their employees to improve the clarity of the existing rules.

Consultations in the pipeline

The government has also published an annex which sets out forthcoming consultations and calls for evidence. Those which could potentially impact payroll practitioners over the next few months include:

Consultations

Tackling Disguised Remuneration avoidance schemes	Expected later in 2017
Employer-provided accommodation	Expected 20 March 2017
Digital Tax Administration	Expected 20 March 2017
HMRC Large Business Risk Review	Expected Summer 2017

Calls for evidence

Employee business expenses	Expected 20 March 2017
Taxation of benefits in kind	Expected 20 March 2017

Other areas of interest

Alcohol and tobacco

There are no changes to previously planned uprating of duties on alcohol and tobacco.

Alcohol duty rates and bands - From 13 March 2017, the duty rates on beer, cider, wine and spirits will increase by RPI inflation, in line with previous forecasts. The government will also consult on introducing a new duty band for still cider just below 7.5% abv to target white ciders and the impacts of introducing a new duty band for still wine and made-wine between 5.5% and 8.5% abv.

Tobacco duty rates - As announced at Budget 2014, duty rates on all tobacco products will increase by 2% above RPI inflation. This change will come into effect from 6pm on 8 March 2017.

Minimum Excise Tax - The government will introduce a Minimum Excise Tax for cigarettes. This will target the cheapest tobacco and promote fiscal sustainability. The rate will be set at £268.63 per 1,000 cigarettes. It will take effect from 20 May 2017.

Business rates relief (England only)

Over the past few months there has been an increasing clamour amongst the press and small businesses as to the unfairness of, and steep hikes in, the business tax rate liabilities that some organisations have to pay. The government, whilst not directly acknowledging the concerns, have proposed that the following measures are put in place to support businesses facing increases in rate bills as a consequence of the revaluation process.

- Permanently double Small Business Rate Relief from 50% to 100% (on property with a rateable value of £12,000 or less) thereby removing a business rate liability from 600,000 businesses.
- Introduce a cap on business rate increases for small businesses coming out of the Small Business Rate Relief to not more than £50 per month or £600 per annum for this year and the next.
- Public houses to be given a £1,000 discount for premises with rateable values of less than £100,000.
- Local authorities will have a £300 million fund for discretionary relief to allocate where needed.
- Reform of the business rates process with a consultation before next revaluation process due (2022).

As part of the process of increased devolution to London the government has also agreed to explore how the administration of business rates can be included.

Corporation tax

Corporation Tax will reduce to 19% from 2017-18 and 17% by 2020 as planned.

Tax credit debt

As announced by the Secretary of State on 9 February 2017, the DWP will recover a volume of HMRC tax credit debt using its existing powers including the use of Direct Earnings Attachments.

Fuel Duty

Fuel Duty is to be frozen again for the 2017-18 tax year.

Insurance Premium Tax (IPT)

The government will legislate to introduce anti-forestalling provisions and increase the standard rate of IPT to 12% from 1 June 2017, as announced at Autumn Statement 2016.

Value Added Tax (VAT)

From 1 April 2017 the VAT registration threshold will increase from £83,000 to £85,000 and the deregistration threshold from £81,000 to £83,000.