Autumn Budget 2017

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CIPP summary of Autumn Budget 2017

Introduction

Having declined the offer of a more exotic drink and armed with the PM's cough sweets, the Chancellor Phillip Hammond delivered the 2017 Autumn Budget, taking just over an hour to do so. A "balanced approach" Budget was assured with some fiscal loosening that aimed to get Britain "firing on all cylinders" and "fit for the future". We have also been promised a future full of change (the payroll profession is certainly used to that) and new challenges, but above all new opportunities.

We were given the admission that negotiations with the EU are at a critical stage (who knew?) and that government is preparing for every possible outcome; whilst putting £3 billion aside over the next two years for "Brexit preparation".

There was a sprinkling of gags from the Chancellor: "*More maths for everyone, don't let anyone say I don't know how to show the nation a good time*" particularly raised a chuckle with us in Policy.

Keeping the devolved administrations on side, Scotland is to receive an additional £2bn, Wales £1.2bn and Northern Ireland £650m. There was good news too for small businesses – the VAT threshold will maintain its current level of £85,000 for the next 2 years and business rate increases will be set by CPI not RPI from April 2018, two years earlier than planned.

Stamp duty is to be abolished for first time buyers on properties up to £300,000. In London stamp duty will be abolished for first time buyers for the first £300,000 on properties up to £500,000. Fuel duty for petrol and diesel is to be frozen for another year and, amid the rumours of hikes to alcohol duty, only "white cider" will be affected from 2019; duty rates on beer, wine, spirits and other ciders will be frozen. Driverless cars are to receive investment and let's not talk about the Jeremy Clarkson reference and the "Hammond and May" correlation.

We will see increases in both the personal allowance and the higher tax rate threshold from April 2018 and the National Living Wage and National Minimum Wage rate increases recommended by the Low Pay Commission have been accepted by government.

A further package of measures was announced to raise £4.8bn tackling tax avoidance and evasion. The scope of Making Tax Digital will not be widened until the system is proved to work and not before April 2020 at the earliest. IR35 will not be extended to the private sector, well, not yet anyway. And surprisingly, there was no mention of any plans to change pensions tax relief.

The Policy Team will of course do a bit of light reading and digest the 86 page long Red Budget Book and advise the profession of any underlying details accordingly.

Please read on for our summary of the key announcements.

Tax rates and thresholds

The tax-free personal allowance will increase in April 2018 to £11,850 and the higher rate threshold, when higher earners start to pay 40% tax, will increase to £46,350. Both figures are increasing in line with inflation and continue their progression towards the government's targets for April 2020 of £12,500 and £50,000, respectively.

The Scottish Government is expected to announce the higher rate threshold that will apply to Scottish taxpayers from April 2018, as well as Scottish tax rates, in its draft Budget on 14 December.

Rules for the Marriage Allowance (also known as the Transferrable Tax Allowance) will be revised to allow claims to be made following the death of a partner, backdated by up to four years.

Expenses and Benefits in Kind

Electric vehicles

From April 2018, there will be no Benefit in Kind (BiKs) charge on electricity that employers provide to charge employees' electric vehicles.

Taxation of employee business expenses

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

- In line with the underlying theme of improving productivity though training, the government will consult on whether to extend the scope of tax relief that is currently available for work-related training costs for the employed and self-employed.
- Subsistence benchmark scale rates – to reduce the burden on employers, from April 2019 they will no longer be required to check receipts when reimbursing employees for subsistence using benchmark scale rates. The existing concessionary accommodation and subsistence overseas scale rates will be placed on a statutory basis, to provide greater certainty for businesses.
- Guidance and claims process for employee expenses – HMRC will work with external stakeholders to improve the guidance on employee expenses, particularly on travel and subsistence and the process for claiming tax relief on non-reimbursed employment expenses.

Transport tax

Company cars, vans and fuel

The cash equivalent where a van is made available to an employee for private use will increase to £3,350 for 2018 to 2019. The value of the multiplier for calculating the cash equivalent of the fuel benefit for a car will increase to £23,400 for 2018 to 2019. The flat rate charge for the van fuel benefit will be increased to £633 for 2018 to 2019. Legislation will be introduced by statutory instrument to increase the cash equivalent of the van benefit charge and the fuel benefit charges.

The van benefit charge for zero-emission goods vehicles increases from 20% to 40% of the standard charge from April 2018, as previously announced.

The Chancellor announced that the Company Car Tax (CCT) diesel supplement will increase from 3% to 4% from April 2018. The supplement is used when calculating the taxable benefit of a diesel car that is available for private use and will apply to diesel cars registered on or after 1 January 1998 that are not certified to the Real Driving Emissions 2 (RDE2) standard. The supplement will not apply to diesel hybrids or to vehicles other than cars.

The government also confirmed that HMRC and the DVLA will continue using CO_2 emissions figures based on the current NEDC test system for CCT and for Vehicle Excise Duty purposes until April 2020. From April 2020, HMRC and the DVLA will switch to figures based on the new test system, WLTP that was introduced in September 2017.

Electricity provided by employers to charge employees' electric vehicles will not be treated as a benefit in kind from April 2018.

Fuel duty

Fuel duty will be frozen for an eighth year in 2018-19. Fuel duty freezes since 2011 will have saved the average driver a cumulative £850 by April 2019, compared to what they would have paid under the pre-2010 escalator plans.

The government will review whether the existing fuel duty rates for alternatives to petrol and diesel are appropriate, ahead of decisions at Budget 2018. In the meantime, the government will end the fuel duty escalator for Liquefied Petroleum Gas (LPG). The LPG rate will be frozen in 2018-19, alongside the main rate of fuel duty.

Vehicle Excise Duty (VED)

From 1 April 2018 VED (commonly known as car tax) rates for cars, vans and motorcycles registered before April 2017, and the First-Year Rates for cars registered after April 2017, will increase in line with RPI. However, the Heavy Goods Vehicle (HGV) VED and Road User Levy rates will be frozen from 1 April 2018.

A call for evidence on updating the existing HGV Road User Levy will be launched and the government will work with industry to update the Levy so that it rewards hauliers that plan their routes efficiently, to encourage the efficient use of roads and improve air quality.

Also focussing on improving air quality, a new VED supplement will apply to new diesel cars first registered from 1 April 2018, so that their First-Year Rate will be calculated as if they were in the VED band above. This will not apply to next-generation clean diesels – those which are certified as meeting emissions limits in real driving conditions, known as Real Driving Emissions Step 2 (RDE2) standards.

Zero-emission capable taxis will be exempt from the VED supplement that applies to expensive cars from April 2019. The government intends consulting beforehand to determine how such taxis should be defined.

National Insurance contributions (NICs)

Policy delays

As previously announced, to ensure that there is enough time to work with Parliament and stakeholders on the detail of reforms that will simplify the NICs system, the government has announced that it will delay implementing a series of NICs policies by one year. These are the abolition of Class 2 NICs, reforms to the NICs treatment of termination payments, and changes to the NICs treatment of sporting testimonials, which will all now take effect from 6 April 2019.

Class 4

As announced earlier this year, the government will no longer proceed with an increase to the main rate of Class 4 NICs from 9% to 10% in April 2018, and to 11% in April 2019.

Employment Allowance

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

National Minimum Wage/National Living Wage

Alongside the Budget the government response to the Low Pay Commission's Autumn 2017 report was published, accepting the following recommendations:

Hourly rates should increase in April 2018:

- from £7.50 to £7.83 for workers aged 25 and over (the National Living Wage)
- from £7.05 to £7.38 for 21-24 year olds
- from £5.60 to £5.90 for 18-20 year olds
- from £4.05 to £4.20 for 16-17 year olds
- from £3.50 to £3.70 for apprentices aged under 19 or in the first year of their apprenticeship.

The daily accommodation offset rate will increase from £6.40 to £7.00 (weekly £49.00)

Reform of the intermediaries legislation

Off-payroll working

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

The government will consult on how to tackle non-compliance in the private sector, drawing on the experience of the public sector reforms, including through external research already commissioned by the government and due to be published in 2018.

CIPP comment
It was widely predicted that addressing off-payroll working in the public sector was simply paving the way for similar reforms in the private sector. The only surprise in the Chancellor's speech is that the he did not announce those changes in this Budget.

Pensions

Lifetime allowance

The lifetime allowance for pension savings will increase in line with CPI, rising to £1,030,000 for 2018-19.

Life assurance and overseas pension schemes

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

Tax administration, simplification and compliance

Late Submission Penalties and Late Payment Interest

The Chancellor announced a reform of the current system for charging penalties and interest on late submissions and payments. The new system will be based on a points-based approach. Also under consideration is the simplification and harmonisation of the current penalty and interest schemes. Final decisions on both schemes will follow consultation.

CIPP comment
It is not clear at this time whether this statement affects all tax regimes but the CIPP awaits with interest the publication of this consultation and will survey members accordingly once it is published.

Making Tax Digital

As previously announced and legislated for in the Finance (No 2) Act 2017, Making Tax Digital will not become mandatory until April 2019, and then only for business with a turnover at or above the VAT threshold. The government is committed to ensuring that the system is robust before rolling it out further; the earliest date for any further rollout is April 2020.

Faster recovery of Self-Assessment debt

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

Security deposit legislation

To ensure the collection of debt in cases of insolvency, the government is expanding the security deposit legislation to cover Construction Industry Scheme (CIS) deductions. The change, which will take effect from 6 April 2019, will be included in Finance Bill 2018-19 and there will be a consultation on its implementation.

Tax avoidance and evasion

Further measures

The government has introduced over 100 measures to tackle tax avoidance, evasion, non-compliance and aggressive tax planning between 2010 and 2017. Published alongside the Budget is a policy paper which includes the work that has taken place but also details the 18 further measures announced at Autumn Budget 2017. New measures include extending HMRC's powers to hold online marketplaces jointly and severally liable for the unpaid VAT of all traders on their platforms. These further measures and additional investment in HMRC are forecast to raise a further £4.8 billion between now and 2022-23.

Disguised remuneration

The government will tackle disguised remuneration avoidance schemes used by close companies – companies with five or fewer participators – by introducing the close companies' gateway, revised following consultation, and measures to ensure liabilities from the new loan charge are collected from the appropriate person. Further details can be found in the policy paper published alongside the Budget.

Other areas of interest

Apprenticeship levy

Just a very small mention that the government will continue to work with employers on how the apprenticeship levy can be spent, so that the levy works effectively and flexibly for industry, and supports productivity across the country.

Public sector pay

In September 2017 the government announced its intention to move away from the 1% basic public sector pay award policy. For those workforces covered by an independent Pay Review Body (PRB), the relevant Secretary of State will shortly write to the PRB Chair to initiate the 2018-19 pay round, before later submitting detailed evidence outlining recruitment and retention data and reflecting the different characteristics and circumstances of their workforce. Each PRB will then make its recommendations in the spring or summer and Secretaries of State will make final decisions on pay awards, taking into account their affordability.

Taylor Review of Modern Working Practices

The government will publish a discussion paper as part of the response to Matthew Taylor's review of employment practices in the modern economy, exploring the case and options for longer-term reform to make the employment status tests for both employment rights and tax clearer. The government recognises that this is an important and complex issue, and so will work with stakeholders to ensure that any potential changes are considered carefully.

CIPP comment
Matthew Taylor made several recommendations in this review which would have an impact on payroll practices and processes. The CIPP will be submitting a response to the discussion paper when it is published.

Income Tax: mileage rates for unincorporated property businesses

The measure allows landlords the choice to use fixed rates per business mile to calculate their allowable deductions for motoring expenses, instead of deducting actual running costs and claiming capital allowances. It will not be available to landlords who are companies or in mixed partnerships (a partnership with both individual and non-individual members). This makes the tax computations of these businesses more consistent with trading businesses who already have this choice, and the mileage rates will be the same as for trading businesses and employees using the same vehicles.

Investing in HMRC

The government is investing a further £155 million in additional resources and new technology for HMRC. This investment is forecast to help bring in £2.3 billion of additional tax revenues by allowing HMRC to:

- transform their 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 their ability to tackle non-compliance among mid-size businesses and wealthy individuals
- recover greater amounts of tax debt including through a new taskforce to specifically tackle tax debts more than 9 months old

Save As You Earn scheme

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

VAT registration threshold

Although very high in comparison with other countries, the Vat Registration Threshold will remain at the current level of £85,000 for two years from April 2018, thereby helping small businesses. In response to the report by the Office of Tax Simplification, the government intends consulting on the design of the threshold.