JOHNSTON CARMICHAEL

Where sharp minds meet

Spring Budget Briefing

March 2017

Helping you understand how proposed changes might impact you or your business

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Contents

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The Budget proposals may be subject to amendment in a Finance Act. You should contact us before taking any action as a result of the contents of this summary.

Foreword by Susie Walker

In Chancellor Philip Hammond's first and last Spring Budget he wasn't expected to pull any rabbits out of the hat and he didn't. He reported on an economy that has continued to confound the commentators with robust growth, putting in place a strong and stable platform as the negotiations begin to exit the European Union.

The main changes affecting our clients are:

- A welcome delay from 2018 to 2019 in the introduction of Making Tax Digital for unincorporated businesses with turnover up to the VAT threshold. We had hoped for further delay to HMRC's bold plans but despite pressure from professional and trade bodies, the Government are pushing ahead and this will impact those above the VAT threshold from April 2018 with extra compliance costs;
- A reduction in the tax-free dividend allowance from £5,000 to £2,000 from April 2018;
- An increase in Class 4 NIC from 9% to 10% from April 2018 and a further increase to 11% from April 2019. However, following the Budget, the Chancellor has announced that the proposed Class 4 NIC increases will not proceed in this Parliament.

In this publication we have covered in wider detail the changes announced in the Budget as well as other key items previously announced.

Should you wish to discuss any aspect in more detail please contact either myself or your usual contact at Johnston Carmichael.

Susie Walker, Head of Tax

Tax Administration

Making Tax Digital (MTD)

The original plans laid down by HMRC involved having digital communications and quarterly reporting of profits to HMRC for unincorporated businesses where income is over £10,000 in place from April 2018, VAT from 2019, and companies from April 2020. HMRC has now announced a one year delay until April 2019 for unincorporated businesses and landlords with gross income below the VAT registration threshold. It has not been confirmed whether the starting threshold will remain at £10,000 in 2019.

Unincorporated businesses (including the self-employed and landlords) will be able to keep records of their income and expenditure digitally, and send summary updates quarterly to HMRC from their software (or using an app).

Those who genuinely cannot get online due to their individual circumstances such as disability, geographical, or other reasons, will be exempt from these obligations.

Avoidance, Sanctions and Deterrents

Following extensive consultation, the Government has confirmed the introduction of a new penalty on individuals or entities who use tax avoidance arrangements which are subsequently defeated by HMRC. The Government will also no longer allow reliance on non-independent advice within the defence of 'reasonable care' when assessing penalties on a person or business that uses such arrangements.

Personal Tax

The Chancellor confirmed increases in the personal allowance and higher rate threshold to take effect from April 2017 as follows:

	2016/17	2017/18
Personal Allowance	£11,000	£11,500
Basic Rate Threshold	£32,000	£33,500
Higher Rate Threshold	£43,000	£45,000
Additional Rate Threshold	£150,000	£150,000

The Chancellor reiterated the Government's previous commitment to increase the personal allowance to £12,500 and the higher rate threshold to £50,000 by the end of the Parliament in 2020/21.

While the setting of the personal allowance remains the preserve of the UK Government, the Scottish Government can vary tax rates and bands for earned income and rental income. While the Scottish Government has proposed not to vary the rates of tax, the basic rate band is being set at £31,500 for 2017/18, meaning that higher rate tax will be paid on earned and rental income where this exceeds £43,000. Scottish taxpayers with earned/rental income in excess of £45,000 will therefore pay £400 more income tax than taxpayers in other parts of the UK.

Dividend allowance

The tax-free dividend allowance will remain at £5,000 for 2017/18. Dividends within this allowance will be subject to tax at 0%. However, the tax-free dividend allowance will be reduced from £5,000 to £2,000 from 6 April 2018. Therefore following the reduction in the dividend allowance, taxpayers will be worse off as follows:

	Additional Tax Due
Basic Rate Taxpayers	£225
Higher Rate Taxpayers	£975
Additional Rate Taxpayers	£1,143

Rent a Room relief

The tax-free income threshold increased from £4,250 to £7,500 with effect from 6 April 2016. This applies where individuals let out a room in their only or main home. The Government will consult on proposals to redesign Rent a Room relief. Further details are expected to be announced shortly.

Partnership taxation: proposals to clarify tax treatment

As announced in the 2016 Autumn Statement, the Government will publish a response document and draft legislation to clarify and improve aspects of partnership taxation. The Government intends to legislate in Finance Bill 2017/18.

Reform of non-domicile rules

While no announcement was made by the Chancellor, the new deemed domicile rules will be included in the Finance Bill 2017 and are due to take effect from 6 April 2017. As things currently stand, the draft legislation provides:

15 out of 20 rule - Individuals who are tax resident in the UK for at least 15 out of 20 tax years will become deemed domiciled in the UK for all tax purposes from their 16th tax year of residence (15 out of 20 rule). Currently a person who has been resident in the UK for 17 out of the last 20 years will be deemed domiciled in the UK for inheritance tax (IHT) purposes only.

Changes to the remittance basis charge - As a result of the above, under the proposed changes the £90,000 remittance basis charge for those who have been UK resident under the 17 out of 20 rule has been removed. Such individuals will be subject to UK income tax and Capital Gains Tax (CGT) on their worldwide income and gains. In addition, they will be liable to UK IHT on their worldwide assets and on certain lifetime gifts.

Losing UK deemed domicile status - An individual's UK deemed domicile status will fall away once they have been non-resident for six whole consecutive tax years for income tax and CGT purposes. Therefore an individual who has become deemed UK domicile and ceases to be UK resident, will continue to be deemed UK domiciled for up to six whole years following their departure from the UK for income tax and CGT purposes. However, an individual will only need to leave the UK and remain non-UK resident for four whole consecutive UK tax years to lose their deemed UK domicile for IHT purposes. Stricter rules apply for returning UK domiciliaries.

Revived UK domicile of origin - Individuals with a UK domicile of origin and born in the UK, who have left the UK and subsequently returned, will be treated as UK deemed domicile for income tax and CGT purposes from 6 April in the tax year they become UK resident. For IHT purposes, they will be deemed domiciled at the start of the following tax year. However, they will not be able to benefit from the rebasing, cleansing of mixed funds and special tax rules for trusts.

Rebasing of foreign assets - Individuals who become UK domiciled on 6 April 2017, will be able to 'rebase' the capital gains costs of their foreign assets to their market value as at 5 April 2017. This proposed new rule only applies to individuals who become UK deemed domicile on 6 April 2017 and does not apply to individuals who become UK deemed domicile in a later tax year. The rule is limited to taxpayers who have paid the remittance base charge in any year before 6 April 2017.

"Cleansing of Mixed Funds" - There is a two year temporary window (in the 2017/18 and 2018/19 tax years) in which individuals can rearrange and "cleanse" their mixed funds by separating them into their constituent parts. Individuals can separate the capital from the mixed funds by transferring them to a different bank account so that it can be remitted to the UK potentially tax-free in the future. The cleansing will be available to non-domiciled individuals who have unremitted foreign income and gains regardless of how long an individual has been UK resident, but is not available to individuals born in the UK with a UK domicile of origin.

Non-domiciled and UK residential properties – UK residential property which is held by offshore structures such as Offshore Trusts, Offshore Companies and Offshore Partnerships, will be brought within the scope of UK IHT.

Offshore evasion: requirement to correct previous non-compliance

As announced in the 2016 Budget, legislation will be introduced in Finance Bill 2017 for a new legal requirement for those who have failed to declare UK tax on offshore interests to correct that situation, with tougher sanctions for those who fail to do so before 1 October 2018. This new 'requirement to correct' is expected to come into force when the Finance Bill 2017 receives Royal Assent and will apply to all taxpayers with offshore interests who have not complied with their UK tax obligations as at 5 April 2017. The draft legislation will be revised to ensure the reasonable excuse provision doesn't apply where advice is received from an adviser who is not independent.

National Insurance and the self-employed

The Chancellor confirmed that Class 2 National Insurance Contributions (NICs) payable by the self-employed will be abolished from April 2018. These are currently paid at a rate of £2.80 per week in 2016/17 and £2.85 per week in 2017/18. Class 2 NICs are now collected through the self-assessment system.

Increases to the rate of Class 4 NICs on profits between the lower profits limit and upper profits limits are as follows:

- From April 2018 – increase from 9% to 10%
- From April 2019 – increase from 10% to 11%

However, following considerable opposition raised about the proposed Class 4 NIC increases, the Chancellor announced on 15 March not to proceed with the measures announced in his Budget or indeed for the rest of this Parliament.

Using 2017/18 rates, a self-employed individual with profits over the upper profits limit (£45,000) will pay an additional £368 in Class 4 NICs. A similar increase will apply from April 2019, albeit that Class 2 NICs will have been abolished, saving £148 per year.

Changes to tax treatment of foreign pension regimes

As announced at the 2016 Autumn Statement, the Government will legislate in Finance Bill 2017 to more closely align the treatment of foreign pensions with the UK's domestic pension regime. Following consultation, the legislation has been revised to set out the position for defined benefit specialist pension schemes for those employed abroad, clarifying that all lump sums paid out of funds built up before 6 April 2017 will be subject to existing tax treatment. These changes will have effect from 6 April 2017.

Life insurance policies - part surrenders and part assignments

The Government will legislate in Finance Bill 2017 to change the current tax rules for part surrenders and part assignments of life insurance policies to allow policyholders who have generated a wholly disproportionate gain to apply to HMRC to have the gain recalculated on a just and reasonable basis. Following consultation, the legislation has been revised to clarify who can apply, and when and how the recalculation is given effect.

Indirect Taxes

Insurance Premium Tax (IPT)

As announced in the 2016 Autumn Statement, the standard rate of IPT will be increased from 10% to 12% with effect from 1 June 2017.

VAT & Duty

The turnover thresholds at which businesses must become VAT registered and may deregister for VAT, have been increased with effect from 1 April 2017 to £85,000 and £83,000 respectively.

It was announced that HMRC will remove the VAT use and enjoyment provision for mobile phone services provided to consumers. Those services used outside the EU will be brought within the scope of UK VAT.

In order to reduce fraud within the construction sector, the Government will launch a consultation on 20 March 2017 on a range of policy options to combat supply chain fraud in supplies of labour within the construction sector. One option is to include a reverse charge mechanism so the recipient accounts for VAT.

VAT Administration

The Government will publish a call for evidence on 20 March 2017 on the case for a new VAT collection mechanism for online sales. This would use technology to extract VAT directly from transactions at the point of sale.

Fuel Duty

For the seventh consecutive year, the main rate of Fuel Duty will be frozen at 57.95 pence per litre for 2017/2018.

Alcohol Duty Rates

The duty rates on beer, cider, wine and made-wine and spirits will increase in line with retail price index (RPI) with effect from 13 March 2017.

The results of a consultation on introducing a new band for certain still ciders, wine and made-wine will be published on 20 March 2017.

Gambling Duties

No change was announced to the Gambling Duty bands.

Disclosure of Indirect tax avoidance schemes

As announced in the 2016 Autumn Statement, legislation will be introduced in Finance Bill 2017 to strengthen the regime for the Disclosure of Indirect Tax Avoidance. Provision will be made to make scheme promoters primarily responsible for disclosing schemes to HMRC and the shape of the legislation will be extended to include all indirect taxes, including the soft drinks industry levy.

Soft Drinks Industry Levy

It was announced that the lower and higher rates of levy have been set at 18 pence per litre and 24 pence per litre respectively.

The new legislation will also include a criminal offence for evasion of the levy.

Air Passenger Duty Rates

Air Passenger duty rates will increase in line with RPI from 1 April 2018 (separate rules apply in Scotland).

Gaming Duty

The increased Gross Gaming Yield bandings for Gaming Duty to bring them into line with RPI must be used for accounting periods starting on or after 1 April 2017.

Tobacco Duty Rates

The duty rates for all tobacco products will be increased by 2% above RPI from 18:00 on 8 March 2017.

A new minimum excise duty on cigarettes has been based on a packet price of £7.35.

Landfill Tax (N.B. Does not apply in Scotland)

Legislation will be introduced in Finance Bill 2017 to amend the definition of a taxable disposal for Landfill Tax. The aim of this change is to clarify the tax treatment of material disposed of at landfill sites and give greater certainty to landfill site operators.

It was announced that the scope of the Landfill Tax will be extended to include material disposed of at illegal waste sites.

Aggregates Levy

The aggregates levy rate for 2017 to 2018 will be frozen at £2 per tonne.

Vehicle Excise Duty rates for cars, vans, motorcycles and motor cycle licences

Vehicle Excise Duty rates will increase by RPI from 1 April 2017.

Stamp Duty Land Tax (SDLT)

The Government has confirmed that it will delay until April 2018 the reduction in its SDLT filing and payment window from the current 30 days to 14 days. For those acquiring properties in Scotland, Land and Buildings Transaction Tax (LBTT) applies; the filing and payment windows remain unchanged, at 30 days after the date of transaction.

Business Tax

Corporation Tax rate

The Chancellor reaffirmed the Government's commitment to ensuring the UK is one of the world's best places to set up and grow a business by confirming that the UK's Corporation Tax rate will reduce to 17% from April 2020.

Tax deductibility of corporate interest expenses

As previously announced in the 2016 Budget, legislation will be introduced from 1 April 2017 to limit the tax deductions that companies can claim for their interest expenses. There will be a Fixed Ratio Rule which limits corporation tax deductions to 30% of EBITDA (Earnings Before Interest Tax Depreciation and Amortisation) where a group has net interest expenses of more than £2 million and the group's net interest to earnings ratio in the UK exceeds that of the worldwide group. The Government has released the detail of the optional rules for qualifying companies investing in public infrastructure. The Public Benefit Infrastructure Exemption (PBIE) is much wider than initially anticipated and an unexpected benefit is the inclusion of property rental projects. The legislation is detailed and there may be situations where public benefit infrastructure projects do not meet the relevant conditions. It is important to look carefully at how your circumstances may be impacted.

Withholding tax on interest

It was announced that the Government will extend the administrative implications of the Double Tax Treaty Passport scheme to assist foreign lenders and UK borrowers. This will allow easier access to reduced withholding tax rates on interest where there is a Double Tax Treaty in place between the UK and an overseas territory. The Government will also consult on the implementation of an exemption from withholding tax for interest on traded debt in spring 2017.

Research and Development (R&D) Tax Relief

The Government announced in November 2016 that a review would be undertaken of the tax environment for R&D. It had been hoped that this may lead to the announcement of measures to further enhance the UK's regimes for R&D tax relief; perhaps increasing the headline rates or widening the scope of relief. However, the findings of the review have shown that the UK regimes for R&D tax relief remain an effective and internationally competitive element of the Government's support for innovation in the UK. Thus, rather than increase the amount or scope of the relief available, the Government has announced that it will make administrative changes to increase the certainty and simplicity around claims for the Research and Development Expenditure Credit (RDEC) and will act to improve awareness of R&D tax credits among Small and Medium-sized Enterprises (SMEs).

The RDEC regime applies to R&D claims by large businesses and, in certain circumstances, to SMEs (for example, where an SME's expenditure on R&D has been subsidised by grant income). It is not yet clear what the administrative changes will be. However, the mechanism for calculating relief under the RDEC can give rise to some complex technical issues (for example, determining the rate of RDEC relief applying to amortised expenditure on intangibles, or the precise mechanism for offsetting the RDEC against certain liabilities such as the tax payable on loans to participators). Any measures to simplify the way in which claims for the RDEC are made, or to add further certainty for companies making claims, are to be welcomed.

Patent Box – cost sharing arrangements

As announced in the 2016 Autumn Statement, the Government will legislate in Finance Bill 2017 to add specific provisions to the revised Patent Box rules, covering cases where R&D is undertaken collaboratively by two or more companies under cost sharing arrangements.

Hybrids and other mismatches

The Government will make two minor changes to the hybrid and other mismatches regime to simplify the rules. These rules are designed to tackle aggressive tax planning and differences in tax treatment between jurisdictions on cross border transactions, typically involving multinational groups. The changes took effect from 1 January 2017.

Grassroots sports

The Government will expand the circumstances in which companies can get deductions for contributions to grassroots sports from 1 April 2017. This measure extends the treatment of a sport governing body to its 100% subsidiaries.

Disposals of land in the UK

The 'Profits from Trading in and Developing Land in the UK' measure was announced in the 2016 Budget and took effect for disposals of property on or after 5 July 2016. The legislation brings into charge to UK corporation tax or income tax all profits from dealing in or developing land in the UK, irrespective of the residence of the person making the disposal (i.e. those using offshore structures to undertake the trading and development of land in the UK).

Legislation will be introduced in Finance Bill 2017 to the effect that all profits from dealing in or developing land in the UK that are recognised in the accounts on or after 8 March 2017 will be taxed. This will be the case even if the contract for disposal was entered into prior to 5 July 2016.

The amendment will have effect in relation to profits recognised in accounts on or after 8 March 2017.

Cash basis accounting

The threshold will be increased from 6 April 2017 from £83,000 to £150,000 whereby taxable profits can be computed on a cash basis for trading businesses with straightforward tax affairs.

Bringing non-resident companies' UK income into the corporation tax regime

The Government will consult on the position of non-resident companies who receive taxable income from the UK and are considering bringing these companies into the UK corporation tax regime. The Government wants to deliver equal tax treatment to ensure that all companies are subject to the rules which apply generally for the purposes of corporation tax, including the limitations on the deductibility of corporate interest expense and the loss relief rules outlined in this document.

Loss relief reform

Changes to the corporate loss relief rules will give companies more flexibility in their use of losses incurred after 1 April 2017 by allowing surplus losses to be carried forward and offset against different types of income and profits of other group companies. The rules apply across a range of losses that include trading and property losses, management expenses, and non-trading deficits under the loan relationship and intangible assets regimes.

A restriction to be introduced with effect from 1 April 2017 will, however, limit the offset of brought forward losses to 50% of taxable profits, but only to those profits of a standalone company or group in excess of £5 million.

Conversion of capital losses to trading losses

The appropriation of a capital asset to trading stock is treated as taking place at market value and can give rise to a chargeable gain or capital loss. However, an election is available to defer the accrued gain/loss within the transfer value of the asset so as to crystallise it instead as a trading gain/loss on sale of the stock. This has allowed businesses with loss-making capital assets to use the mechanism to convert capital losses into more flexible trading losses. Changes that will be introduced into the legislation with immediate effect will only permit such elections to be made where the appropriation into trading stock at market value would give rise to a chargeable gain, and not where it gives rise to an allowable loss.

Substantial Shareholding Election (SSE)

A simplification of the SSE rules effective from 1 April 2017 will remove the requirement for the investing company to be a trading company or a holding company of a trading group. In addition, the continuous period of 12 months during which the substantial shareholding must have been held may, now, be at any time within six years, rather than the current two years before the date of disposal.

Oil and Gas

In the 2016 Autumn Statement the Government demonstrated its recommitment to the long-term plan set out in the Driving Investment document issued in 2014 to help the North Sea oil and gas sector. It included simplifying the reporting process and reducing the administrative costs of Petroleum Revenue Tax. However the recommitment gave no indication of a timeline or the areas of focus.

In this Budget, the Government announced much welcomed plans in order to ensure support for, and facilitate the transfer of, late life assets and keep them productive for longer. An advisory panel of industry experts will be set up to look at ways of improving the decommissioning tax regime and consider options for allowing the transfer of tax history between the buyer and seller. A formal discussion paper is expected to be published alongside the Finance Bill later this year and the review will report in the 2017 Autumn Budget.

Employment Taxes

Disguised remuneration

As announced in the 2016 Autumn Statement, the Government will legislate in Finance Bill 2017 to tackle existing and prevent future use of disguised remuneration avoidance schemes. The future use of schemes (including certain Employee Benefit Trust structures) will be prevented by strengthening the current rules. The existing use of schemes will be tackled by the introduction of a new charge on disguised remuneration loans that were made after 5 April 1999 and remain outstanding on 5 April 2019. Legislation will also be introduced to ensure there is no double taxation.

Legislation will also be introduced in Finance Bill 2017 to tackle existing and to prevent future use of similar schemes used by the self-employed. Legislation preventing the future use of these schemes will have effect from 6 April 2017.

Also announced in the 2016 Autumn Statement was legislation to prevent employers claiming a deduction when computing their taxable profits for contributions to a disguised remuneration scheme unless income tax and NICs are paid within a specified period. This will have effect for contributions made on or after 1 April 2017 (for corporation tax purposes) or 6 April 2017 (for income tax purposes).

Employment remuneration and benefits in kind

Employers can choose to remunerate their employees in a range of different ways. The tax system treats these different forms of remuneration differently and remuneration packages can be structured tax-efficiently to take advantage of various reliefs and exemptions available to employers and employees.

The Government is continuously reviewing how the tax system could "be made fairer and more coherent" and are consulting on the following:

- **Taxation of benefits in kind** – The Government will invite views from interested parties on exemptions and valuation methodology for the income tax and employer NIC treatment of benefits in kind. A consultation process is expected to follow.

- **Accommodation benefits** – The Government will publish a consultation with proposals to bring the tax treatment of employer-provided accommodation and board and lodgings up to date. This will include proposals for when accommodation should be exempt from tax and to support taxpayers during any transition.

- **Employee expenses** – The Government will invite views to better understand the use of the income tax relief for employees' expenses, including those that are not reimbursed by their employer. A consultation process is expected to follow.

Salary sacrifice

As announced at the 2016 Autumn Statement, legislation will be introduced in Finance Bill 2017 to remove income Tax and employer NICs advantages where benefit in kinds are provided through salary sacrifice or other optional remuneration arrangements. These changes will take effect from 6 April 2017.

A transitional rule will protect employees who are in contractual arrangements before 6 April 2017 until the earlier of a variation or renewal of the contract or 6 April 2018, except for cars with emissions above 75g CO_2 per kilometre, accommodation and school fees for which the final date is 6 April 2021.

Employer provided pensions and pension advice, childcare vouchers, employer provided childcare and workplace nurseries, cycle to work schemes and ultra-low emissions cars, with emissions not exceeding 75g CO_2 per kilometre, will be excluded from this measure.

Tax treatment of termination payments

As previously announced, the Government will legislate in Finance Bill 2017 to tighten and clarify the tax treatment of termination payments.

This will include making all contractual and non-contractual payments in lieu of notice taxable as earnings and requiring employers to tax the equivalent of an employee's basic pay if notice is not worked. Legislation will also be introduced to align the tax and employer NICs treatment of termination payments so that employer NICs will be payable on the elements of the termination payment exceeding £30,000 on which income tax is due.

The first £30,000 of a termination payment will remain exempt from income tax and NICs. The changes will take effect from 6 April 2018.

Image rights

Some employers pay image rights in respect of employees under separate contractual arrangements to employment income (perhaps most commonly in the context of professional football players). HMRC will publish guidelines for employers who make payments of image rights to their employees to improve the clarity of the existing rules.

Employment Allowance

HMRC is actively monitoring National Insurance Employment Allowance compliance following reports of some businesses using avoidance schemes to avoid paying the correct amount of NICs. The Government will consider taking further action in the event that this avoidance continues.

Apprenticeship Levy

The introduction of the 0.5% Apprenticeship Levy goes ahead from 6 April 2017.

The levy applies to UK employers with annual salary levels (more specifically, earnings subject to employer's class 1 NIC) in excess of £3 million which is anticipated to represent around 2% of employers. Businesses should be aware that the levy applies across all sectors, irrespective of whether their organisation engages apprentices.

Off-payroll working in public sector

From April 2017, public sector bodies will be responsible for identifying and reviewing the employment status of all workers they engage through personal service intermediaries.

Where, in the absence of the personal service intermediary, the worker would have been regarded as an employee of the public sector authority, the public sector body (or the agency, depending on who pays the personal service intermediary) will be required to treat any payment as a 'deemed employment payment'. The public sector body or the agency will be required to account for PAYE and National Insurance (both employee and employer) to HMRC on the deemed employment payments made to the personal service intermediary.

Entrepreneurial Taxes

Enterprise Management Incentives

The Government has approval to continue the Enterprise Management Incentive (EMI) scheme until 2018 and will seek State Aid approval to extend provision of this tax relief beyond 2018.

Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS)

As previously announced in the 2016 Autumn Statement, legislation will be introduced from 1 April 2017 making some minor changes to the EIS and SEIS.

These changes include clarification that pre-arranged exits do not include any arrangement with a view to an exchange of shares where the exchange qualifies as continuity of EIS, or arrangements with the view to any shares in the company being exchanged or converted into shares in that company of a different class.

The Government has advised that a summary of responses to the recent consultation on options to streamline and prioritise the advance assurance service will be published shortly.

Venture Capital Trust

The Venture Capital Trust (VCT) rules have been amended to provide additional flexibility for follow-on investments made by VCTs in companies with certain group structures on or after 6 April 2017.

Social Investment Tax Relief

Social enterprises may raise up to £1.5 million using risk finance including Social Investment Tax Relief (SITR), SEIS, EIS, VCT and aid received pursuant to a measure approved by the European Commission.

In addition, a number of amendments which take effect from 6 April 2017 have been made to the requirements for SITR including the following:

- Inclusion of a requirement to receive their initial risk finance investment no later than seven years after commercial sale.
- Reduce the limit on full-time equivalent employees from below 500 employees to below 250 employees.
- Exclusion of certain activities, including asset leasing and on-lending, investment in nursing homes and residential care homes.
- Exclusion of the use of money raised under the SITR to pay off existing loans.
- Clarify that individuals will be eligible to claim relief under the SITR only if they are independent from the social enterprise.
- Introduce a provision to exclude investments where arrangements are put in place with the main purpose of delivering a benefit to an individual or party connected to the social enterprise.

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JOHNSTON CARMICHAEL WEALTH

A diversified strategy should pay dividends....

In his 2016 Autumn Statement the Chancellor announced that there will, in the future, be only one Budget a year. Rather perversely, that announcement means that this year there are actually two Budgets!

In the end there were very few surprises in what will be the final Spring Budget. Although many of the announcements simply reinstated what had already been proposed, there are still some issues for our clients to consider, both now and with one eye to the future.

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Johnston Carmichael Wealth believe that life is for living and we are proud to be the "trusted adviser" to our clients.

Craig Hendry, Managing Director,
Johnston Carmichael Wealth

Pre-Budget speculation anticipated that the spring announcement would be a tax raising Budget in an effort to prepare the UK for the effects of Brexit ensuring that there is "gas in the tank" in case the economy falters in the future. It was also widely predicted that the Chancellor would again go to the pensions' "well" as tax relief on pension contributions reportedly costs the treasury £35 billion per annum.

In the end there were very few surprises and many of the announcements were simply restating what was proposed in the Autumn Statement. This included an increase of £500 in the personal allowance to £11,500 for 2017/18, and a commitment that the allowance will rise to £12,500 by the end of the parliament. Although the higher rate tax threshold will rise to £45,000 in England, it will not rise for Scottish taxpayers, remaining at £43,000 north of the border.

A significant change of direction (almost a U turn) is a reduction in the tax-free dividend allowance. In this year and next, individuals will have a tax free dividend allowance of £5,000, however from 6 April 2018 this will be reduced to £2,000. It is envisaged that this will affect individuals with unsheltered portfolios of over £50,000. However, the annual CGT allowance will increase from £11,100 to £11,300. This reinforces the benefit of sheltering shares and investment funds in ISAs where, as previously advised, the limit will rise from the current £15,240 to £20,000 for the next tax year.

Following a significant rise in the number of self-employed, there is concern that individuals are choosing their business structure simply to avoid tax.

In order to help families, this Budget announced an increase in childcare provision including 30

hours of free care. This is a welcome trend which will help many working families.

Pension tax relief remains unaltered which means that pensions are still an effective means of saving for the future. Calls for the lifetime allowance (now only £1 million) to be scrapped have not been answered. However the allowance is due to rise with inflation from 2018 which may mean that the level of pensions from which individuals can benefit, before paying the additional lifetime allowance charge, may rise faster than previously anticipated.

The Government announced that they will target UK pensions being transferred to Qualifying Recognised Overseas Pension Schemes (QROPS) by applying a 25% charge on the value transferred.

As per the Autumn Statement, the money purchase annual allowance (the amount which you can invest to a pension after having taken benefits) will reduce from £10,000 pa to £4,000 pa with effect from 6 April 2017.

For savers, the Chancellor confirmed that the new Savings Bond will be available in April. Despite an increase in inflation, the rate of interest will be 2.2% for three years and the maximum investment remains at £3,000. For those holding existing Index Linked bonds re-investment may be a good option in an inflationary environment.

Despite more households being concerned with Inheritance Tax, there were no significant announcements. From 6 April the new residence nil rate band comes into effect providing an additional £100,000 nil rate band, which like the current allowance of £325,000 is transferable between spouses. This means that in the new tax year, estates with a value of up to £850,000 may not suffer tax which is very welcome.

Thinking more broadly and with future income in mind, we recommend not just a diversified investment strategy but also diversification across tax wrappers in an effort to insulate clients from significant changes to one or more taxes. As always, careful planning in conjunction with a Chartered Independent Adviser is something everyone should consider.

Appendix 1: UK Rates and Allowances 2017/18

https://www.gov.uk/government/publications/spring-budget-2017-overview-of-tax-legislation-and-rates-ootlar/annex-a-rates-and-allowances

Contents

1. Personal tax and benefits

1.1 Income tax bands of taxable income (£ per year) (Scottish taxpayers)

	2016-17	2017-18 (*1)
Basic rate	£1 – £32,000	£1 - £31,500
Higher rate	£32,001 - £150,000	£31,501 - £150,000
Additional rate	Over £150,000	Over £150,000

1.2 Income tax bands of taxable income (£ per year) (Rest of UK taxpayers)

	2016-17	2017-18 (*1)
Basic rate	£1 – £32,000	£1 - £33,500
Higher rate	£32,001 - £150,000	£33,501 - £150,000
Additional rate	Over £150,000	Over £150,000

1.2 Income tax rates - 2016-17

	Tax year 2016-17
Main rates (*2)	
Basic rate	20%
Higher rate	40%
Additional rate	45%
Dividend rates (*3)	
Dividend ordinary rate - for dividends otherwise taxable at the basic rate	7.5%
Dividend upper rate - for dividends otherwise taxable at the higher rate	32.5%
Dividend additional rate - for dividends otherwise taxable at the additional rate	38.1%

1.3 Income tax rates - 2017-18

	Tax year 2017-18
Main rates (*4)	
Basic rate	20%
Higher rate	40%

	Tax year 2017-18
Additional rate	45%
Savings rates (*5)	
Starting rate for savings	0%
Savings basic rate	20%
Savings higher rate	40%
Savings additional rate	45%
	Tax year 2017-18
Dividend rates (*6)	
Dividend ordinary rate - for dividends otherwise taxable at the basic rate	7.5%
Dividend upper rate - for dividends otherwise taxable at the higher rate	32.5%
Dividend additional rate - for dividends otherwise taxable at the additional rate	38.1%
Default rates (*7)	
Default basic rate	20%
Default higher rate	40%
Default additional rate	45%

1.4 Starting rates for savings income

	Tax year 2016-17	Tax year 2017-18
Starting rate for savings	0%	0%
Starting rate limit for savings	£5,000	£5,000

1.5 Special rates for trustees' income

	Tax year 2016-17	Tax year 2017-18
Standard rate on first £1,000 of income which would otherwise be taxable at the special rates for trustees	Up to 20%, depends on the type of income	Up to 20%, depends on the type of income
Trust rate	45%	45%
Dividend trust rate	38.1%	38.1%

1.6 Income tax allowances

	Tax year 2016-17	Tax year 2017-18
Personal allowance (*8)	£11,000	£11,500
Income limit for personal allowance	£100,000	£100,000
Income limit for Married couple's allowance (*9)	£27,700	£28,000
	Tax year 2016-17	**Tax year 2017-18**
Marriage allowance (*10)	£1,100	£1,150
Married couple's allowance for those born before 6 April 1935		
Maximum amount of married couple's allowance (*11)	£8,355	£8,445
Minimum amount of married couple's allowance (*11)	£3,220	£3,260
Blind person's allowance	£2,290	£2,320

	Tax year 2016-17	Tax year 2017-18
Dividend allowance (*12)	£5,000	£5,000
Personal savings allowance		
Personal savings allowance for basic rate taxpayers (*13)	£1,000	£1,000
Personal savings allowance for higher rate taxpayers (*13)	£500	£500

2. National Insurance Contributions

2.1 Class 1 NICs: Employee and employer rates and thresholds (£ per week)

	Tax year 2016-17	Tax year 2017-18
Weekly Lower Earnings Limit (LEL) (*14)	£112	£113
Weekly Primary Threshold (PT) (*14)	£155	£157
Weekly Secondary Threshold (ST) (*15)	£156	£157
Upper Earnings Limit (UEL) (*16)	£827	£866
Upper Secondary Threshold for under 21s (*16)	£827	£866
Apprentice Upper Secondary Threshold (AUST) for under 25s (*16)	£827	£866
Employment Allowance (per employer)	£3,000 per year	£3,000 per year

Employee's (primary) Class 1 contribution rates	Tax year 2016-17	Tax year 2017-18
Earnings band (*17)	NIC rate	NIC rate
Below LEL	0%	0%
LEL - PT (*18)	0%	0%
PT - UEL	12%	12%
Above UEL	2%	2%

Married woman's reduced rate for (primary) Class 1 contribution rates	Tax year 2016-17	Tax year 2017-18
Weekly earnings from between the PT and UEL	5.85%	5.85%
Weekly earnings from above UEL	2%	2%

Employer's (secondary) Class 1 contribution rates	Tax year 2016-17	Tax year 2017-18
Earnings band (*19)		
Below ST	0%	0%
Above ST	13.8%	13.8%

Employer's (secondary) Class 1 contribution rates for employees under 21	Tax year 2016-17	Tax year 2017-18
Earnings band (*20)		
Below UST	0%	0%
Above UST	13.8%	13.8%

Employer's (secondary) Class 1 contribution rates for Apprentices under 25	Tax year 2016-17	Tax year 2017-18
Earnings band (*21)		
Below AUST	0%	0%
Above AUST	13.8%	13.8%

2.2 Class 2 NICs: Self-employed rates and thresholds (£ per week)

	Tax year 2016-17	Tax year 2017-18
Small Profits Threshold (SPT) (*14)	£5,965 per year	£6,025 per year
Class 2 contribution rates (*14)	**Tax year 2016-17**	**Tax year 2017-18**
Annual Profits (£ a year) (*22)	£ per week	£ per week
Below SPT	0	0
Above SPT (*23)	£2.80	£2.85
Special Class 2 rate for share fishermen	£3.45	£3.50
Special Class 2 rate for volunteer development workers	£5.60	£5.65

2.3 Class 3 NICs: Other rates and thresholds (£ per week)

	Tax year 2016-17	Tax year 2017-18
Voluntary contributions (*14) (*24)	£14.10	£14.25

2.4 Class 4 NICs: Self-employed rates and thresholds (£ per year)

	Tax year 2016-17	Tax year 2017-18
Lower Profits Limit (LPL) (*14)	£8,060	£8,164
Upper Profits Limit (UPL) (*16)	£43,000	£45,000
Class 4 contribution rates	**Tax year 2016-17**	**Tax year 2017-18**
Annual profits band (*25)	NIC rate	NIC rate
Below LPL	0%	0%
LPL to UPL	9%	9%
Above UPL	2%	2%

3. Apprenticeship Levy

	Tax year 2016 to 2017	Tax year 2017 to 2018
Apprenticeship Levy allowance (per employer)	N/A	£15,000
Apprenticeship Levy rate	N/A	0.5%

4. Working and child tax credits, child benefit and guardian's allowance

4.1 Working and child tax credits

£ per year (unless stated)	Tax year 2016-17	Tax year 2017-18
Basic element	£1,960	£1,960
Couple and lone parent element	£2,010	£2,010
30 hour element	£810	£810
Disabled worker element	£2,970	£3,000
Severe disability element	£1,275	£1,290
Childcare element of the working tax credit		
Maximum eligible cost for one child	£175 per week	£175 per week
Maximum eligible cost for two or more children	£300 per week	£300 per week
Percentage of eligible costs covered	70%	70%
Child tax credit		
Family element	£545	£545
Child element	£2,780	£2,780
Disabled child element	£3,140	£3,175
Severely disabled child element	£1,275	£1,290
Income thresholds and withdrawal rates		
Income threshold	£6,420	£6,420
Withdrawal rate (per cent)	41%	41%
First threshold for those entitled to child tax credit only	£16,105	£16,105
Income rise disregard	£2,500	£2,500
Income fall disregard	£2,500	£2,500

4.2 Child benefit (£ per week)

	Tax year 2016-17	Tax year 2017-18
Eldest/only child	£20.70	£20.70
Other children	£13.70	£13.70
Guardians allowance (£ per week)		
Guardians allowance	£16.55	£16.70

5. Tax-free savings accounts

	Tax year 2016-17	Tax year 2017-18
Individual Savings Account (ISA) subscription limit	£15,240	£20,000
Junior ISA subscription limit	£4,080	£4,128
Child Trust Fund (CTF) subscription limit	£4,080	£4,128

6. Fuel benefit and van benefit charge

	Tax year 2016-17	Tax year 2017-18
Car fuel benefit charge multiplier	£22,200	£22,600
Van fuel benefit charge	£598	£610
Van benefit charge	£3,170	£3,230

7. CGT

	2016/17	2017-18
	£ per year	£ per year
Annual exemption - Individual	£11,100	£11,300
Annual exemption - Trust	£5,550	£5,650
Capital Gains Tax Rates		
- Basic rate taxpayer	10%	10%
- Higher/Additional rate taxpayer	20%	20%
- Trusts	20%	20%
Rates for individuals (for gains on residential property not eligible for Private Residence Relief) and carried interest	18% / 28%	18% / 28%
Rate for trustees and personal representatives (for gains on residential property not eligible for Private Residence Relief)	18% / 28%	18% / 28%

1. The Scottish Rate of Income Tax only applies to earned income and rental income. It does not apply to investment and savings income.
2. Apply to non-dividend income, including income from savings, employment, property or pensions. From 2017-18, the main rates will be separated into the main rates, the savings rates and the default rates
3. Apply to dividend income received above the £5,000 tax-free Dividend Allowance, introduced in April 2016 to replace the Dividend Tax Credit
4. Apply to non-savings, non-dividend income, including income from employment, property or pensions not subject to the Scottish Rate of income tax
5. Apply to savings income
6. Apply to dividend income received above the £5,000 tax-free Dividend Allowance, introduced in April 2016 to replace the previous Dividend Tax Credit
7. Apply to non-savings and non-dividend income of any taxpayer that is not subject to either the Main rates or the Scottish Rates of income tax
8. The Personal Allowance reduces where the income is above £100,000 – by £1 for every £2 of income above the £100,000 limit. This reduction applies irrespective of date of birth
9. This age-related allowance is reduced by £1 for every £2 of income over this limit
10. This transferable allowance is available to married couples and civil partners who are not in receipt of married couple’s allowance. A spouse or civil partner who is not liable to income tax; or not liable at the higher or additional rates, can transfer this amount of their unused personal allowance to their spouse or civil partner. The recipient must not be liable to income tax at the higher or additional rates
11. The relief for this allowance is given at 10%.
12. From April 2016, the new Dividend Allowance means that individuals will not have to pay tax on the first £5,000 of dividend income they receive
13. From April 2016, the new Personal Savings Allowance means that basic rate taxpayers will not have to pay tax on the first £1,000 of savings income they receive and higher rate taxpayers will not have tax to pay on their first £500 of savings income.
14. Uprated by CPI
15. Autumn Statement 2016 announced that the Secondary Threshold would be aligned with the Primary Threshold. From April 2018 onwards, it will be uprated in line with CPI
16. These thresholds are uprated in line with the Higher Rate Threshold to maintain alignment between the Upper Earnings Limit and Higher Rate Threshold
17. The limits are defined as LEL - Lower Earnings Limit; PT - Primary Threshold; and UEL - Upper Earnings Limit
18. No National Insurance contributions (NICs) are actually payable but a notional Class 1 NIC is deemed to have been paid in respect of earnings between the LEL and PT to protect contributory benefit entitlement.
19. The limit is defined as ST – Secondary Threshold
20. The limit is defined as UST – Upper Secondary Threshold
21. The limit is defined as AUST – Apprentice Upper Secondary Threshold
22. The Limit is defined as SPT – Small Profits Threshold
23. Class 2 NICs are liable to be paid by all self-employed persons with profits above the Small Profits Threshold (SPT). The self-employed may choose to pay Class 2 if their profits are below the SPT
24. Class 3 NICs can be paid by contributors to make the year a qualifying year for the basic State Pension (new State Pension from 6 April 2016) and Bereavement Benefit purposes
25. These limits are defined as LPL – Lower Profits Limit; and UPL – Upper Profits Limit

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