Crucial insight from the Croner-i in-house team of tax writers

Autumn Budget 2017 -
Rather more than first meets the eye: key tax measures

Foreword

Contributed by Paul Robbins

Welcome to the latest of our Budget briefings – the first published under the Croner-i banner and the first for an Autumn Budget.

Our in-house team of tax experts have analysed the announcements under the following headings:

- Summary
- Income tax
- Employment taxes
- Pensions tax
- Corporation tax
- Capital gains tax
- Stamp taxes
- Property taxes
- VAT
- Indirect taxes
- Excise duties
- Avoidance and evasion
- Administration

Based on the speech you would be forgiven for thinking that there was hardly any tax in the Budget but, once again, the supporting documentation shows this to be far from the case.

I guess the headline-grabbers are the SDLT abolition for first-time buyers on properties worth up to £300,000, the removal of capital gains tax indexing for companies and the freezing of the VAT threshold while its effectiveness is assessed (when the Office of Tax Simplification had recently proposed a significant reduction). There are also some environmentally-driven changes to company cars and vehicle excise duty. And maybe a plastic tax one day. As ever there are a number of anti-avoidance measures which are considered in more detail by my colleagues below.

It is also important to place this Budget in its international context. Not only the continuing and all-pervasive uncertainty over Brexit (more money being put aside for this) but also the international effort to tackle the impact of digitalisation on the tax system. The Multilateral Instrument is a cornerstone of that BEPS project. Look out for a new edition of our Schwarz on Tax Treaties early in the new year which will examine this in detail.

In all my years of commenting on tax I cannot recall one as unpredictable and frankly ‘chaotic’ as 2017. It certainly feels peculiar to be contemplating 2018-19 tax changes whilst busily clearing all our 2017-18 tax books! Part of me hopes for a more stable 2018 (an odd wish for a tax publisher I admit) but the omens are not good.

The Chancellor’s string of gags and much front bench back-slapping, enthusiastic nodding and even the sharing of cough medicine (a joke) may seem a little hollow given the rumoured disagreements but they show the Government’s determination to present a united front to fend off another election. But who would rule that out?

It was also interesting to hear that the interim report into the gap between planning permissions and housing starts is to be delivered in time for the 2018 Spring Statement. Maybe that will end up containing policy announcements after all.

The next date for your diary is the 1 December when the Finance Bill 2018 is published. Finance Act 2018 is expected to get Royal Assent in Spring 2018. So the good news is that the 2018-19 editions of our annual tax books, including the Red and Green legislation compendiums, may be available at the start of the relevant tax year rather than half way through it has always been the case in the past.

Our new Tax Update weekly e-alert will keep you abreast of all the developments in the tax world during 2018. We also have big plans for our online database of tax commentaries, tools and source materials to help you to work with all the planned and unplanned changes to tax during 2018 as they happen.

Paul Robbins BA, ACA, CTA

Before joining Croner-i, Paul worked in the tax teams of two large accounting firms – subsequently absorbed into the Big 4.

He is the lead technical editor on the Red, Green and Purple Books and heads up the team of in-house tax writers and external contributors working across Croner-i’s range of tax services.

Additionally, Paul is responsible for the quality and development of the tax online and book portfolio.

Summary

Contributed by Mark Cawthron

'Spreadsheet Phil', 'Fiscal Phil', 'No Silver bullet Phil'. The big question was whether the Chancellor would make the transformation to 'Political Phil', with pre-Budget speculation that his continued tenure in that office depended on the presentation of bold or radical Budget measures.

Putting Brexit-related parliamentary manoeuvring to one side, the underlying objective behind this 'upping of stakes' for our Chancellor was to secure commitments from him that would improve the governing party's standing in the country. And in this respect, the two issues that seem to have been exercising MPs' minds, as they look to their personal parliamentary majorities, are 'the housing crisis' and 'an end to austerity'.

Of course Philip Hammond, whether of a 'naturally cautious' disposition or not, did not seem to have enormous room for manoeuvre. Whilst Government borrowing over the current year is down, and tax revenues somewhat up, a 'spanner in the works' seemed to be the previously trailed downgrades to 'productivity improvements' by the Office of Budget Responsibility (OBR). To which one might perhaps ask 'Why only now from the OBR?'

The usual escape route for Chancellors operating in an economic straightjacket is the announcement of bold spending measures that are for the future, taking an optimistic view of the revenue-raising potential of new measures on anti-avoidance and evasion, and pushing back the date for achieving fiscal balance on tax and spending.

This Budget possibly does two of those things, but 'Our Phil' was also clearly keen to show – despite one nervous reference to 'White van man and woman' – he knew families and, in particular, the young, need help. Thus specific announcements on Universal credit and the National Minimum Wage, as well as some vigorous proposals to get Britain building more houses (though not on the green belt). And for the young, there is the new Stamp Duty Land Tax exemption on residential purchases up to £500,000 (although the extension of the Railcard regime, and improvements to the administration of Student Loans, may prove of far greater benefit).

Mark Cawthron LLB, Solicitor, CTA

Mark is a tax lawyer. He was formerly a partner in the City office of law firm Pinsent Masons and its predecessor firms from 1990 to 2007 and of the US law firm, Bryan Cave, from 2007 to 2010.

He has wide experience of corporate and business tax fields, particularly in: M&A; corporate finance and corporate restructurings; private equity (for institutional investors and management teams); real estate investment and development; employee share incentives; employment arrangements and their termination.

Overall I'm not sure our Chancellor really achieves the transformation to 'Political Phil'. But presentational issues aside, this Budget actually covers considerable technical ground. Some of the main Budget tax announcements are summarised below. For detailed commentary on the changes to the tax rules, rates and allowances, see the sections that follow.

The economy

The Chancellor sought to paint an optimistic economic view. 600,000 extra people in work by 2022. Borrowing falling from £49.9bn in the current year to £25.6bn in 2022/23, to reach its lowest level for 20 years. Against this, the OBR's downward revisions to the outlook for productivity growth and GDP growth, with the latter falling from 1.5% in 2017 to 1.3% in 2019 and 2020, before recovering to 1.6% in 2022.

Income tax

There is what looks like a useful increase in the personal allowance and higher rate threshold for income tax, to £11,850 and £46,350 for the 2018/19 tax year – though as the Budget documents confirm, these changes are simply in line with CPI inflation.

Corporate tax

Some really significant changes here (albeit two of these are by way of embarking on Consultations):

- Consultation on the introduction of taxation of non-residents' gains on UK commercial real estate. This extends to certain real estate held indirectly (in property-rich entities), and the scope of the existing non-residents' charge on residential property gains is similarly to be widened.
- Consultation on 'Corporate tax and the digital economy': where the Government has issued a 'position paper' setting out its proposed approach for addressing the challenges posed by the digital economy.
- The extension (from April 2019) of withholding tax obligations to royalty payments made to low or no tax jurisdictions in connection with sales to UK customers.
- The freezing of the indexation allowance on corporate gains from 1 January 2018. This looks like a reasonable revenue-raiser, HMRC's impact summary suggesting an increased tax take of some £1.7bn over five years to 2023.

One of the other interesting developments, though in the specialised sector of oil and gas, is the introduction of the 'Transferable tax history' to facilitate the transfer of late life assets; there is also to be a Consultation on allowing a petroleum revenue tax deduction for decommissioning costs incurred by a previous licence holder. The North Sea sector is one that has in recent years had very considerable attention from Government.

The knowledge-intensive sector

In the early part of his speech the Chancellor said the world was 'on the brink of a technological revolution', and the UK must seize the opportunities. Relevant announcements here included:

- Increasing the R & D expenditure credit from 11% to 12%.
- Doubling the individual investment limit for individuals under the EIS (to £2m), provided any amount over £1m is invested in knowledge-intensive companies, and doubling the annual investment limit for knowledge-intensive companies raising EIS or VCT finance (to £10m).
- Reinforcing this push on the knowledge-intensive front, the venture capital schemes will on the other hand exclude companies and arrangements intended to provide capital preservation, presumably property-backed companies.

Smaller businesses

Smaller businesses will probably take a small measure of comfort from the changes to Business rates (see Property taxes below), but many will be relieved that the VAT registration threshold is not being reduced from its current turnover level of £85,000 (though perhaps this story, which had gained some profile in the Budget lead-up, was, deliberately or otherwise, given more 'legs' than it ever merited).

The £85,000 threshold figure will though remain fixed for two years from April 2018, and the Government will consult generally on the design of the threshold.

Property taxes

In recent years Business rates have almost assumed centre stage in the tax world. The Government said that over the next five years it would provide £2.3bn of support, and 'improve the fairness of the system', including by:

- Bringing forward to 1 April 2018 the planned switch in indexation from RPI to the main measure of inflation (currently CPI).
- Legislating retrospectively to address the 'staircase tax' (by reinstating the previous valuation practice in multi-occupancy buildings, prior to a recent Supreme Court judgment).
- Moving to revaluations every three years (in place of five), following the next revaluation, currently due in 2022.

In their Budget speeches, Chancellors always keep a popular tax measure back as their final announcement. The Chancellor duly obliged by announcing that first-time residential buyers would be exempt from Stamp duty land tax on purchases up to £300,000; whilst such purchases up to a price of £500,000 would be exempt on the first £300,000 (saving £5,000).

Anti-avoidance

The Budget in fact contained a rather extensive list indeed of anti-avoidance and evasion measures. Two that perhaps stand out are:

- Following its perceived success with the reforms to ‘off-payroll working’ in the public sector (referable particularly to the use of PSCs (personal service companies) by contractors and freelancers), the Government says it will ‘carefully consult’ on how to tackle non-compliance in the private sector.
- The extension of the scope of existing joint and several liability rules to hold online marketplaces liable for VAT that UK businesses, and certain non-UK businesses, fail to account for. This looks like one that could generate some push-back from the platforms.

Concluding comment

A National Statistics Office report was issued the day before the Budget, and is interesting reading. HMRC collected £569.3 billion in taxes in 2016-17; a substantial increase over the ‘boom years’ of the last decade, before the financial crash (in the three years up to 2007/08, HMRC tax receipts averaged some £440 billion). The report sets out that over the last decade Income tax, Capital Gains Tax and National Insurance Contributions combined made up on average 56% of total receipts. Value Added Tax, and (together) Corporation Tax, Bank Levy and Petroleum Revenue Tax, are the next biggest, contributing an average 20% and 9% of total receipts respectively. Stamp taxes come in at an average 2% (though in each of the last four years in fact running at 3%).

These increasing tax receipts are of course never enough. Whilst the Chancellor’s speech was, itself, relatively quiet on tax measures, there was as noted actually considerable substance in the accompanying Budget materials. And arguably one of the major themes here is that a number of the measures have their focus firmly on raising more tax revenues from overseas companies and investors.

Income tax

Contributed by Julie Clift

Income tax

Personal allowance and higher rate threshold

The Government is committed to raising the personal allowance to £12,500 and the higher rate threshold to £50,000 by 2020. The Chancellor has announced that in 2018-19, the income tax personal allowance and higher rate threshold will increase further to £11,850 and £46,350 respectively. This will mean that in 2018-19 a typical taxpayer will pay at least £1,075 less tax than in 2010-11. The Government state that successive increases in the personal allowance and higher rate threshold have allowed over 31 million working people to keep more of what they earn, and have taken over a million people out of paying income tax altogether.

Marriage allowance: allowing claims on behalf of deceased spouses or civil partners

The Marriage Allowance allows taxpayers to transfer up to 10% of their unused PA to their partner, reducing their tax bill by up to £230 a year in 2017-18. The Government has announced it will now allow claims in cases where a partner has died before the claim was made. These claims will be able to be backdated by up to 4 years. The measure will come into effect from 29 November 2017.

Income tax: mileage rates for unincorporated property businesses

The Government has announced that from 6 April 2017 it will allow 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. This 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. Transitional arrangements will allow landlords who previously claimed mileage rates under the Extra Statutory Concession to start using mileage rates again, from 6 April 2017, without having to wait to acquire a new vehicle.

Julie Clift BA, CTA

Julie is a tax writer for Croner-i and has worked on some of our leading tax products including Tax Reporter, Quick Overview, Tax Guide and Tax Adviser.

Julie began her career at Arthur Andersen before joining Ernst & Young where she specialised in personal tax. She was deputy editor of the Tax Journal before returning to practice as a tax editor in the Deloitte Tax Policy Group.

Offshore trusts: anti-avoidance rules

Following consultation, the Government will legislate in Finance Bill 2018 to introduce new anti-avoidance rules that relate to the taxation of income and gains accruing to offshore trusts. This measure ensures that payments from an offshore trust intended for a UK resident individual do not escape tax when they are made via an overseas beneficiary or a remittance basis user.

Minor changes have been made to the legislation following consultation, including to ensure that the onward gift rules can apply if the close family member rule applies, to clarify the position in the year of the settlor's death and in relation to onward gifts to multiple recipients.

The changes will have effect on and after 6 April 2018.

Royalties withholding tax

The Government will publish a consultation on 1 December 2017 on the design of rules expanding the circumstances in which a royalty payment to persons not resident in the UK has a liability to Income Tax. Legislation will be introduced in 'Finance Bill 2018-19', and the changes will have effect from April 2019.

Taxation of trusts

As announced at Autumn Budget 2017, the Government will publish a consultation in 2018 on how to make the taxation of trusts simpler, fairer and more transparent.

Partnership taxation: proposals to clarify tax treatment

As announced at Budget 2016, the Government will legislate in Finance Bill 2018 to clarify in particular circumstances where the current rules for partnerships are seen as creating uncertainty, and will reduce the scope for non-compliant taxpayers to avoid or delay paying tax.

Following consultation, the legislation has been revised to be more compatible with commercial arrangements for allocating shares of profit and to avoid additional administrative burdens for customers. The changes will have effect for the tax year 2018-2019 and subsequent tax years.

Venture capital trusts (VCTs): effect of anti-abuse provisions on commercial mergers

The Government has announced it will legislate in Finance Bill 2018 to limit the application of an anti-abuse rule relating to mergers of VCTs. The rule restricts relief for investors who sell shares in a VCT and subscribe for new shares in another VCT within a six month period, where those VCTs merge. This rule will no longer apply if those VCTs merge more than two years after the subscription, or do so only for commercial reasons. The change will have effect for VCT subscriptions made on or after 6 April 2014.

Venture capital schemes: risk to capital condition

In response to the Patient Capital Review the Government has announced it will legislate in Finance Bill 2018 to ensure the Venture Capital Schemes (the Enterprise Investment Scheme (EIS), Seed EIS and VCTs) are targeted at growth investments. Relief under the schemes will be focused on companies where there is a real risk to the capital being invested, and will exclude companies and arrangements intended to provide ‘capital preservation’.

The changes will have effect for investments made on and after Royal Assent of Finance Bill 2018. Detailed guidance will be issued shortly after the publication of Finance Bill 2018. HMRC will cease to provide advance assurances for investments that appear not to meet this condition on and after the date of publication of the guidance where it would be reasonable to conclude that a company appears to be intending to carry out capital preservation activities. This deadline will apply also to advance assurance applications received before that date.

Venture capital trusts (VCTs): other reforms

In response to the Patient Capital Review the Government has announced it will legislate in Finance Bill 2018 to move VCTs towards higher risk investments by:

- removing certain ‘grandfathering’ provisions that enable VCTs to invest in companies under rules in place at the time funds were raised, with effect on and after 6 April 2018;
- requiring 30% of funds raised in an accounting period to be invested in qualifying holdings within 12 months after the end of the accounting period, with effect on and after 6 April 2018;
- increasing the proportion of VCT funds that must be held in qualifying holdings to 80%, with effect for accounting periods beginning on and after 6 April 2019;
- increasing the time to reinvest the proceeds on disposal of qualifying holdings from six months to 12 months for disposals on or after 6 April 2019;
- introducing a new anti-abuse rule to prevent loans being used to preserve and return equity capital to investors, with effect on and after Royal Assent of Finance Bill 2018.

EIS and Venture capital trusts: increased limits for investments in knowledge intensive companies

In response to the Patient Capital Review the Government will legislate in Finance Bill 2018 to encourage more investment in knowledge-intensive companies under the EIS and VCT scheme.

The Government will legislate to:

- double the limit on the amount an individual may invest under the EIS in a tax year to £2 million from the current limit of £1 million, provided any amount over £1 million is invested in one or more knowledge-intensive companies;
- raise the annual investment limit for knowledge-intensive companies receiving investments under the EIS and from VCTs to £10 million from the current limit of £5 million. The lifetime limit will remain the same at £20 million;
- allow knowledge-intensive companies to use the date when their annual turnover first exceeds £200,000 in determining the start of the initial investing period under the permitted maximum age rules, instead of the date of first commercial sale.

The changes will have effect on and after 6 April 2018.

EIS and venture capital trusts: relevant investments

The Government has announced it will legislate in Finance Bill 2018 to ensure all risk finance investments, whenever made, will count towards the lifetime funding limits for companies receiving investments under the EIS and VCT scheme. The current rules exclude certain investments made before 2012. The changes will have effect for investments made on and after 1 December 2017.

Qualifying care relief for self-funded shared lives payments

Qualifying care relief is an optional tax simplification scheme available to those providing care under Shared Lives schemes which provides a standard relief instead of deductions for their actual expenses, allowing them to keep simpler records. Shared Lives care can be paid for in many ways and one method is self-funded payments. This is where the person receiving Shared Lives care uses their own finances to meet their support costs. The Government intends to expand the scope of qualifying care relief to cover payments made from individuals that self-fund care they receive through a Shared Lives scheme. Legislation will be introduced by statutory instrument to allow payments made by the care recipient through the Shared Lives scheme to qualify for the relief. The measure will take effect from tax year 2017-18.

National Insurance Contributions Bill

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.

Also, as previously announced, 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.

Savings tax

The band of savings income that is subject to the 0% starting rate will be kept at its current level of £5,000 for 2018-19.

Individual Savings Account (ISA) annual subscription limits – The ISA annual subscription limit for 2018-19 will remain unchanged at £20,000. The annual subscription limit for Junior ISAs and Child Trust Funds for 2018-19 will be uprated in line with CPI to £4,260.

Social Investment Tax Relief care homes accreditation

At Autumn Statement 2016, the Government announced an intention to introduce an accreditation system to allow investment in care homes under Social Investment Tax Relief. The Government intends that the design for the system will include a minimum proportion of Local Authority funded beds. The Government will engage with stakeholders to test and develop the proposed design.

Simplification of gift aid donor benefit rules for charities

The Government will legislate to simplify the donor benefit rules that apply to charities that claim Gift Aid tax relief on donations. Currently there are a mix of monetary and percentage thresholds that charities have to consider when determining the value of benefit they can give to their donors in consequence of a donation on which Gift Aid can be claimed.
These will be replaced by two percentage thresholds:

- the benefit threshold for the first £100 of the donation will remain at 25% of the amount of the donation;
- for larger donations, charities will be able to offer an additional benefit to donors up to 5% of the amount of the donation that exceeds £100.

The total value of the benefit that a donor will be able to receive remains at £2,500. Four extra statutory concessions that currently operate in relation to the donor benefit rules will also be brought into legislation.

A summary of responses to a consultation on simplifying the Gift Aid donor benefit rules will be published on 1 December 2017.

The changes will have effect on and after 6 April 2019.

Profit fragmentation

The Government has announced it will consult on the best way to prevent UK traders or professionals from avoiding UK tax by arranging for UK trading income to be transferred to unrelated entities. This will include arrangements where profits accumulate offshore and are not returned to the UK.

Call for evidence on rent-a-room relief

The Government has announced it will publish a call for evidence on 1 December 2017 to build the evidence base around the usage of rent-a-room relief and to help establish whether it is consistent with the original policy rationale to support longer-term lettings.

Venture capital schemes: streamlining the advanced assurance service

As announced at Autumn Statement 2016, a consultation document titled 'Tax-advantaged venture capital schemes - streamlining the advance assurance service', was published on 5 December 2016. A summary of responses was published on 20 March 2017. The Government response will be published on 1 December 2017.

Consultation on an innovative EIS fund

In response to the Patient Capital Review the Government will consult in 2018 on the introduction of a new knowledge intensive EIS fund structure in which funds would have flexibility to deploy capital raised over a longer period.

Employment taxes

Contributed by Julie Clift

Armed forces: accommodation allowance

The Government has announced it will legislate in Finance Bill 2018 to introduce an income tax exemption for certain allowances paid to Armed Forces personnel for renting or maintaining accommodation in the private market. A Class 1 National Insurance Contributions disregard will also be introduced through regulations. This will support the Ministry of Defence's aim to provide a more flexible, attractive and better value-for-money approach to accommodation.

The change will have effect on and after Royal Assent of Finance Bill 2018, once regulations have been laid.

Extending seafarer's earnings deduction to the Royal Fleet Auxiliary

Legislation in Finance Bill 2018 will extend the Seafarers' Earnings Deduction from income tax to cover the Royal Fleet Auxiliary. This places the existing extra-statutory treatment on to a statutory footing.

The change will have effect on and after Royal Assent of Finance Bill 2018.

Termination payments: removal of foreign service relief

As announced at Budget 2016 and confirmed at Spring Budget 2017, the Government will legislate in Finance Bill 2018 to ensure employees who are UK resident in the tax year their employment is terminated will not be eligible for foreign service relief on their termination payments. The existing Statutory Residency Test will be used to determine whether employees are UK resident in the tax year they receive their termination award. Reductions in the case of foreign service are retained for seafarers.

Draft legislation was published on 13 September 2017. Following consultation, the legislation remains unchanged. The changes will have effect on and after 6 April 2018 and apply to those who have their employment contract terminated on and after 6 April 2018.

Julie Clift BA, CTA

Julie is a tax writer for Croner-i and has worked on some of our leading tax products including Tax Reporter, Quick Overview, Tax Guide and Tax Adviser.

Julie began her career at Arthur Andersen before joining Ernst & Young where she specialised in personal tax. She was deputy editor of the Tax Journal before returning to practice as a tax editor in the Deloitte Tax Policy Group.

Tackling disguised remuneration

As announced at Budget 2016, the Government will legislate in Finance Bill 2018 to tackle existing, and prevent future use of, disguised remuneration tax avoidance schemes. The majority of the changes announced at Budget 2016 have been enacted.

Following consultation on draft legislation published on 13 September 2017, the Government will legislate in Finance Bill 2018 to:

- introduce the close companies' gateway, to tackle disguised remuneration avoidance schemes used by close companies to remunerate their employees, and directors, who have a material interest. This change will have effect on and after 6 April 2017;
- require all employees, and self-employed individuals, who have received a disguised remuneration loan to provide information to HMRC by 1 October 2019.

This information will help HMRC ensure the loan charge is complied with. This change will have effect on and after Royal Assent of Finance Bill 2018.

The Government will also legislate in Finance Bill 2018 to:

- put beyond doubt, with effect from 22 November 2017, that ITEPA 2003; PE.7A applies regardless of whether contributions to disguised remuneration avoidance schemes should previously have been taxed as employment income - this change will have effect on and after 22 November 2017;
- ensure the liabilities arising from the loan charge are collected from the appropriate person where the employer is located offshore - this change will have effect on and after Royal Assent of Finance Bill 2018.

Further details on the changes can be found in the 'tackling disguised remuneration' technical note.

Off payroll working reform: extension to the private sector

The Government has announced it will consult in 2018 on how to tackle non-compliance with the intermediaries legislation (commonly known as IR35) in the private sector. The legislation ensures individuals who effectively work as employees are taxed as employees, even if they choose to structure their work through a company.

A possible next step would be to extend the recent public sector reforms to the private sector. The Government recognises the importance of taking account of the needs of businesses and individuals who would implement any change. The consultation will draw on the experience of the public sector reforms, and external research already commissioned by the Government and due to be published in early 2018.

Cars: increasing the diesel supplement

The Government will legislate in Finance Bill 2018 to increase the diesel supplement, from 3% to 4%. The diesel supplement is used to calculate company car tax and car fuel benefit charge, where the employer provides the employee with a diesel car that is made available for private use.

This will apply to all diesel cars registered on and after 1 January 1998 that do not meet the Real Driving Emissions Step 2 (RDE2) standards. This has the effect of increasing the level of the taxable benefit for diesel cars, which produce a higher level of harmful particulates such as nitrous oxide, and is intended to have a positive impact on air quality

There is no change to the current position that the diesel supplement does not apply to hybrid cars.
The change will have effect on and after 6 April 2018.

Company car tax and vehicle excise duty (VED): carbon dioxide emission regime

Legislation in Finance Bill 2018 will confirm that carbon dioxide figures compatible with the current New European Driving Cycle test procedure will be used by HMRC for the purposes of collecting company car tax until April 2020.

The Government will however also take forward legislation in a future Finance Bill that will change the system for measuring carbon dioxide emissions to the Worldwide Harmonised Light Vehicle Test Procedure from April 2020.
Similar legislation will be introduced in respect of VED.

Benefits in kind – electric vehicles

The Government has announced that from April 2018, there will be no benefit in kind 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:

- Self-funded training – The Government will consult in 2018 on extending the scope of tax relief currently available to employees and the self-employed for work-related training costs.
- 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.

Employment status discussion paper

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.

Save-As-You-Earn pause

The Government will allow employees on maternity and parental leave to take a pause of up to 12 months from saving into their Save-As-You-Earn employee share scheme. Employees can currently pause saving for 6 months. This increase is to allow employees on maternity and parental leave to continue saving into the scheme.

Van benefit charge (VBC) and van and car fuel benefit charge

The Government will increase VBC and the van and car fuel benefit charges by the September 2017 Retail Price Index. The change will have effect on and after 6 April 2018. The Government will legislate by statutory instrument in December 2017 to ensure the changes are reflected in tax codes for 2018-19.

Legislate existing overseas scale rates for accommodation and subsistence

The Government will legislate in Finance Bill 2018-19 so the existing concessionary travel and subsistence overseas scale rates will be placed on a statutory basis on and after 6 April 2019. Employers will only be asked to ensure that employees are undertaking qualifying travel. This follows the call for evidence on the taxation of employee expenses published on 20 March 2017.
The Government response will be published on 1 December 2017.

Abolition of receipt checking for subsistence benchmark scale rates

The Government will legislate in Finance Bill 2018-19 so employers will no longer be required to check receipts when making payments to employees for subsistence using benchmark scale rates. This administrative easement applies to standard meal allowances paid in respect of qualifying travel and the newly legislated overseas scale rates. Employers will only be asked to ensure that employees are undertaking qualifying travel.

The change will have effect from April 2019. Abolition of receipt checking does not apply to amounts agreed under bespoke scale rates or industry wide rates. This follows the call for evidence on the taxation of employee expenses published on 20 March 2017.

The Government response will be published on 1 December 2017.

Taxation of employee expenses and process for claiming tax relief on non-reimbursed expenses

HMRC will work with external stakeholders to explore improvements to the guidance on employee expenses, particularly on travel and subsistence, and the claims process for tax relief on employment expenses. This programme of work will also increase simplicity around the process for claiming tax relief and will take action to improve awareness of the process and the rules. This follows the call for evidence on the taxation of employee expenses published on 20 March 2017.

The Government response will be published on 1 December 2017.

Consultation on extending the scope to claim tax relief on self-funding training

The Government will consult in 2018 on extending the scope of tax relief currently available to employees and the self-employed for work-related training costs. This follows the call for evidence on the taxation of employee expenses published on 20 March 2017.

The Government response will be published on 1 December 2017.

Pensions tax

Contributed by Stephen Relf

Master trust tax registration

As previously announced, Finance Bill 2018 will include legislation to give HMRC the power to register and de-register master trust pension schemes and schemes for dormant companies. The rules will apply from 6 April 2018.

Draft legislation was published in 13 September 2017; the Government has announced that this is unchanged following consultation.

Lifetime allowance: ongoing Consumer Prices Index increase

The lifetime allowance for pension savings will be set at £1,030,000 for 2018/2019.

Widening the tax exemption for employer premiums paid into life assurance and overseas pension schemes

Legislation will be included in Finance Bill 2019 to modernise the tax rules for employer premiums paid into life assurance products or certain overseas pension schemes.

The intention is to extend the existing exemption to cover policies when an employee nominates any individual or registered charity to be their beneficiary.

The legislation will apply from 6 April 2019.

Stephen Relf MPhil, FCA, CTA

Stephen is a Chartered Accountant and Chartered Tax Adviser. Stephen has written extensively on tax in recent years, contributing to a number of publications including Tax Reporter and Tax Planning.

Prior to joining Croner-i, Stephen led the Chartered Institute of Taxation's (CIOT's) technical team. This involved engaging with the UK Government and others through written submissions and face-to-face meetings with a view to improving the UK's tax system.

Stephen continues to be involved with the CIOT on a volunteer basis and is Chair of the CIOT's Working Together Sub-committee.

Corporation tax

Contributed by Paul Davies

Corporation tax rates

The corporation tax rate will remain unchanged as follows:
Financial year 2018 (from 1 April 2018) 19%
Financial year 2019 (from 1 April 2019) 19%
Financial year 2020 (from 1 April 2020) 17%

The R&D expenditure credit is increased from 11% to 12%, effective 1 January 2018.

Corporation tax measures

Indexation allowance on chargeable gains

This measure prevents the further accrual of indexation allowance on chargeable gains beyond December 2018. The legislation achieves this by changing the indexation allowance calculation so that, for disposals of assets on or after 1 January 2018, indexation allowance will be calculated using the Retail Price Index for December 2017, irrespective of the date of disposal of the asset.

Property income and gains of non-resident companies

Income received from, and gains arising on the disposal of, UK property by non-resident companies will be chargeable to corporation tax rather than income tax. This measure will be effective from 1 April 2020.

Zero-emission goods vehicles and gas refuelling equipment

The measure extends, for a further 3 years, the 100% first year allowance for businesses purchasing zero-emission goods vehicles or gas refuelling equipment.

For zero-emission goods vehicles, the three year extension will apply to qualifying expenditure incurred on or after 1 April 2018 (corporation tax) and 6 April 2018 (income tax) and will end on 31 March 2021 (corporation tax) and 5 April 2021 (income tax).

For gas refuelling equipment the three year extension will apply to expenditure incurred on or after 1 April 2018 and will end on 31 March 2021 for both corporation tax and income tax purposes.

Paul Davies MA (Cantab), ACA

Paul qualified as a Chartered Accountant with PWC gaining experience of audit and business advisory services before specialising in advising corporates.

Paul gained significant financial sector experience at Northern Rock where he was Head of Tax for 16 years after which he managed the worldwide tax affairs of a fast growing hi-technology SME in the telecommunications sector.

Paul continues to specialise in corporation tax but has a wide range of experience in other areas of tax ranging from employee share schemes to VAT partial exemption issues. He is a former North East Tax Advisor of the Year.

Bank Levy

As previously announced at Summer Budget 2015 and Autumn Statement 2016, the Government will go ahead with changes to the scope of the bank levy so that UK headquartered banks are only charged by reference to their UK balance sheet liabilities.

Legislation to that effect, and also to implement minor administrative changes, was published on 13 September 2017. Following further consultation, additional changes to the draft legislation were announced which will amend the technicalities of the bank levy calculation.

The scope changes will take effect for chargeable periods ending on and after 1 January 2021. Other changes will be effective from Royal Assent of Finance Bill 2018 or for chargeable periods ending on and after 1 January 2018.

Corporate interest restriction

Within days of the original corporate interest restriction rules receiving Royal Assent in Finance (No. 2) Act 2017 on 16 November 2017, legislation will be introduced in Finance Bill 2018 to make technical amendments to the rules in TIOPA 2010, Part 10 to ensure they operate as intended.
Amendments will be made to:

- the rules about relevant derivative contract debits and credits to ensure that derivatives hedging a financial trade that is not a banking business are not inappropriately excluded from the rules
- the calculation of group-earnings before interest, tax, depreciation and amortisation (EBITDA), to align the treatment of R&D expenditure credits with the approach taken in the calculation of tax-EBITDA
- the infrastructure rules, to ensure that insignificant amounts of non-taxable income do not affect their operation
- the infrastructure rules, so that the time limit for making an election to be a qualifying infrastructure company is changed to the last day of the accounting period where the election first applies
- the infrastructure rules, so that a third party which acquires an asset from a qualifying infrastructure company is not automatically treated as making an election to be a QIC
- the infrastructure rules, so that the limitation on relief for related party interest cannot be avoided by using a conduit company to provide the finance
- the definition of a group, to align it with accounting standards and to ensure that asset managers do not cause otherwise unrelated businesses to be grouped together
- the administrative rules, so that when an interest restriction return is submitted, companies will be required to amend their company tax returns if their tax position is changed

Some of the changes will be backdated to 1 April 2017, the commencement date for the new rules generally, and others will be effective from 1 January 2018.

Hybrid and other mismatches

This measure introduces a small number of changes to the hybrid and other mismatches rules designed to ensure that the regime operates as intended. The hybrid and other mismatches rules are found in TIOPA 2010 Part 6A and deal with mismatches involving entities, permanent establishments and financial instruments.

It includes a number of technical changes to the rules which have been identified following extensive informal consultation with stakeholders to determine the practical impact of the regime and the extent to which specific rules and conditions within the legislation might give rise to results which were out of line with the original policy intentions.

Oil and gas taxation: tariff receipts

This measure clarifies that activities by petroleum licence holders in the UK, and on the UK Continental Shelf, which give rise to tariff income, in relation to UK oil and gas assets, are oil extraction activities.

This means profits from these activities are subject to the ring fence corporation tax charge of 30% and the supplementary charge of 10%. It amends the definition of tariff receipts to make it clear that there is no distinction for ring fence or supplementary charge purposes between the treatment of third party income arising from old (PRT) and new (non-PRT) oil fields.

The changes will take effect from 1 January 2018.

Withholding tax exemption for debts traded on a multilateral trading facility

This measure removes the requirement to withhold income tax at source from interest on debt issued on a multilateral trading facility operated by an EEA-regulated recognised stock exchange. It also widens the definition of alternative finance investment bonds, Shari'a-compliant financial instruments also known as sukuk, to include securities admitted to trading on such a multilateral trading facility.

Northern Ireland Education Authority

This measure provides a corporation tax exemption for the Education Authority (Northern Ireland) in order to ensure consistency of treatment with equivalent bodies providing state-funded education across the UK. It will be effective retrospectively from 1 April 2015 when the Education Authority was established.

Double taxation: powers to implement Multilateral Instrument

This measure ensures that the UK can give full effect to the provisions of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting, signed on 7 June 2017. The Multilateral Convention was drawn up by a group of over 100 jurisdictions to ensure that changes to double tax agreements as a consequence of the Base Erosion and Profit Shifting Project can be made as quickly as possible. It was adopted in November 2016 by over 70 countries, including the UK.

R&D expenditure credit

To increase certainty for large businesses an advanced clearance service will be introduced to provide pre-filing agreement for three years. There will also be a campaign to increase awareness among small and medium-sized businesses.

Disincorporation relief

The disincorporation relief introduced in Finance Act 2013 will not be extended beyond 31 March 2018.

Debt in insolvency

The Finance Bill 2018 will extend the existing security deposit legislation to include corporation tax and construction industry scheme deductions. A consultation will be held to determine the most effective way of making these changes.

Accounting changes for leasing: tax responses

Following the introduction of IFRS 16 the Government will consult on the tax changes needed to ensure that the income and corporation tax rules for leased plant and machinery continue to work as they do now and on the options for bringing the corporation tax treatment of lease payments within the new corporate interest restriction rules.

Energy technology list and first year credits

With effect from 1 April 2018 first year tax credits are to be extended for five years with the percentage rate of the claim reducing to two-thirds of the corporation tax rate. In addition three new technologies will be added to the list:

- Evaporative air coolers;
- Saturated steam to electricity conversion; and
- White LED lighting modules for backlit illuminated signs

and nine existing items will be modified.

Oil and gas: transferable tax history

Transferable tax history for oil and gas companies will be introduced in Finance Bill 2018 with effect from 1 November 2018. A Government document ‘An Outline of Transferable Tax History’ explains how this will work.

PRT: treatment of retained decommissioning liabilities

The petroleum revenue tax rules are to be amended in Finance Bill 2018 to enable more flexibility over retention of decommissioning. A consultation will be held in spring 2018.

Anti-avoidance measures with immediate effect

Depreciatory transactions

The 6-year limit on the look-back period within which a company must adjust the capital loss on sale of the shares in a subsidiary company to account for earlier depreciatory transactions is removed. This will affect any company that disposes of shares in a subsidiary company more than 6 years after a transaction that has materially reduced the value of those shares. It applies for disposals made on or after 22 November 2017.

Double tax relief and permanent establishment losses

This measure affects companies with an overseas permanent establishment (PE) where losses of the PE have been relieved against non-PE profits in the overseas jurisdiction. It restricts the amount of credit allowed or deduction given in the UK. It applies for accounting periods ended on or after 22 November 2017 with a transitional rule for straddling accounting periods.

Intangible fixed assets - related party step-up scheme

This measure affects companies that dispose of intangible fixed assets for consideration other than cash, and companies entering into licensing arrangements with related parties in relation to intangible fixed assets. The measure will address avoidance involving net book value accounting, including licensing arrangements between related parties, where a disposal is accounted for at cost (the book value of the asset disposed of) rather than the actual value of what has been disposed of. This measure counters step-up avoidance by ensuring all non-cash disposals and related party licensing arrangements are taxed fairly and consistently and in line with cash transactions. It is effective for disposals made on or after 22 November 2017.

Other announcements

Intangible fixed asset regime consultation

In 2018 the Government will consult on the intangible fixed assets regime to assess if it can be changed to better support UK companies investing in intellectual property.

The digital economy

The Government published a position paper setting out the challenges posed by the digital economy for the international corporate tax framework and its proposed approach for addressing these challenges.

Corporate capital gains

The Government also announced it will amend the substantial shareholding exemption rules and the share reconstruction rules to avoid unintended chargeable gains being triggered where a UK company incorporates foreign branch assets in exchange for shares in an overseas company.

Capital gains tax

Contributed by Stephen Relf

Taxation of carried interest

Finance Bill 2018 will include legislation to ensure that asset managers receiving carried interest pay CGT on the full economic gain. It is intended that these changes will remove the special treatment afforded to carried interest that arises in connection with disposals of assets before certain dates in 2015.

The changes have immediate effect (ie from 22 November 2017).

Corporation Tax: Capital gains depreciatory transactions

With immediate effect, the time limit of six years within which companies must adjust for any depreciatory transactions when claiming a capital loss on the disposal of shares in a group company is removed. The relevant legislation will be included in Finance Bill 2018.

The policy objective is to prevent companies from exploiting the 6-year time limit in order to avoid the impact of the depreciatory transactions rules. However, this is unlikely to be of wide interest - the Government estimates that the measure will generate additional revenues of only £10 million per year.

Corporation Tax: Corporate capital gains indexation allowance

Indexation allowance reduces the gain arising on the disposal of a chargeable asset (for example, land and buildings) by a company. For disposals on or after 1 January 2018, indexation allowance will be frozen at the amount that would be due based on the Retail Price Index for December 2017.

The Government has stated that this change is being made to align the rules for companies and individuals, and to simplify tax computations. However, it is unlikely that this announcement will be welcomed by companies – by 2022/23, it is expected to have created additional revenues of over £1.7bn for the Government.

This is a significant change affecting all companies holding capital assets. Legislation providing for this change will be included in Finance Bill 2018.

Stephen Relf MPhil, FCA, CTA

Stephen is a Chartered Accountant and Chartered Tax Adviser. Stephen has written extensively on tax in recent years, contributing to a number of publications including Tax Reporter and Tax Planning.

Prior to joining Croner-i, Stephen led the Chartered Institute of Taxation's (CIOT's) technical team. This involved engaging with the UK Government and others through written submissions and face-to-face meetings with a view to improving the UK's tax system.

Stephen continues to be involved with the CIOT on a volunteer basis and is Chair of the CIOT's Working Together Sub-committee.

Corporation Tax: Capital Gains - postponement of gains on branch assets on incorporation

The Government will act to correct an anomaly whereby a postponed tax charge may become payable when a new holding company is inserted directly above an overseas company to which a UK company has previously transferred the trade and assets of a foreign branch in return for shares.

This measure is intended to remove an unintended tax barrier to commercial restructuring of corporate groups. It will be included in Finance Bill 2018 and will apply for disposals made on and after 22 November 2017.

Capital gains tax: annual exempt amount

The CGT annual exempt amount for 2018/19 will be as follows:

- £11,700 for individuals and personal representatives; and
- £5,850 for most trustees of a settlement.

CGT payment window

The Government had intended to introduce a 30-day payment window for gains on residential property disposals from April 2019. This has been pushed back to April 2020.

Taxing non-residents’ gains on immovable property

The Government has published a consultation on taxing non-residents’ gains on immovable property; for example, UK commercial property. This follows on from legislation included in Finance Act 2015 which taxes non-residents on gains on UK residential property.

Legislation will be introduced in Finance Bill 2019 with the changes expected to apply from 1 April 2019 for companies and from 6 April 2019 otherwise. An anti-forestalling measure has immediate effect.

CGT: Entrepreneurs’ relief - relief after dilution of holdings

Early next year, the Government will consult on how access to entrepreneurs’ relief might be given where the shareholding is reduced below the normal 5% qualifying level as a result of raising funds for commercial purposes by means of issues of new shares.

Stamp taxes

Contributed by Stephen Relf

(See the PROPERTY TAXES section below for the main SDLT changes)

Stamp Duty, Stamp Duty Reserve Tax (SDRT) and SDLT: resolution of financial institutions

Legislation will be included in Finance Bill 2019 to ensure that Stamp Duty, SDRT and SDLT are not chargeable on the exercise of resolution powers under the UK special resolution regime for managing failing financial institutions.

The change will have effect on and after Royal Assent of Finance Bill 2019.

Stamp Duty and Stamp Duty Reserve Tax: 1.5% charge on the issue of shares

The Government has confirmed that it will continue not to apply the Stamp Duty and SDRT 1.5% charge on the issue of shares (and transfers integral to capital raising) into overseas clearance services and depositary receipt issuers following the UK's exit from the European Union.

This follows recent decision of the European Court of Justice and the First-tier Tribunal that the charge is incompatible with the Capital Duty Directive.

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Property taxes

Contributed by Stephen Relf

CGT: Taxing non-residents' gains on immovable property

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Legislation will be introduced in Finance Bill 2019 with the changes expected to apply from 1 April 2019 for companies and from 6 April 2019 otherwise. An anti-forestalling measure has immediate effect.

Stamp Duty Land Tax (SDLT) relief for first-time buyers

In a key announcement, the Government has introduced a new relief from SDLT for first-time buyers in England, Wales and Northern Ireland.
The relief works as follows:

- consideration is £300,000 or less - no SDLT is payable;
- consideration is between £300,001 and £500,000; no SDLT on the first £300,000 and SDLT at 5% payable on the balance; and
- consideration exceeds £500,000 – no relief.

The relief has immediate effect, applying to transactions with an effective date on or after 22 November 2017. Legislation will be included in Finance Bill 2018.

The Government has defined a first-time buyer as "an individual or individuals who have never owned an interest in a residential property in the United Kingdom or anywhere else in the world and who intends to occupy the property as their main residence".

Stephen Relf MPhil, FCA, CTA

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SDLT Higher Rates

Higher rates of SDLT apply in certain circumstances; for example, on the purchase of a second home. To improve the operation of these rates, legislation will be included in Finance Bill 2018 to grant relief from tax where:

- a court order issued on a divorce or dissolution of a civil partnership prevents someone from disposing of their interest in a main residence;
- a spouse buys property from their spouse;
- a person buys a property in a child's name or on a child's behalf, where they are doing so in their capacity as the deputy of that child; and
- a purchaser adds to their interest in their main residence.

To prevent abuse of the relief for the replacement of the purchaser's only or main residence, the rules will be amended to require the purchaser to dispose of the whole of their interest in their former main residence, and to do so to someone who is not their spouse.

Again, the changes have immediate effect.

SDLT: changes to the filing and payment process

The Government has previously announced that the SDLT filing and payment window will be reduced from 30 days to 14 days. The Government has now confirmed that the 14 day filing and payment window will apply to land transactions with an effective date on and after 1 March 2019.
Improvements will be made to the SDLT return in order to facilitate compliance with the reduced time limit.

Annual tax on enveloped dwellings (ATED) - 2018 to 2019 annual chargeable amounts

The ATED annual charges will rise 3% from 1 April 2018 to:

- £3,600 where the property value is £500,001 to £1,000,000;
- £7,250 where the property value is £1,000,001 to £2,000,000;
- £24,250, where the property value is £2,000,001 to £5,000,000;
- £56,550 where the property value is £5,000,001 to £10,000,000;
- £113,400 where the property value is £10,000,001 to £20,000,000; and
- £226,950 where the property value is £10,000,001 and over.

The ATED applies where a non-natural person (for example, a company) owns an interest in UK residential property valued at more than £500,000 and where a relief is not due.

Business rates

Following on from announcements made at Budget 2016 and Spring Budget 2017, the Government has announced an additional £2.3 billion of support to businesses. The relevant measures include:

- bringing forward to 1 April 2018 the planned switch in indexation from RPI to CPI;
- legislating retrospectively to address the so-called “staircase tax”;
- continuing the £1,000 business rate discount for public houses with a rateable value of up to £100,000, subject to state aid limits for businesses with multiple properties, for one year from 1 April 2018; and
- increasing the frequency with which the VOA revalues non-domestic properties by moving to revaluations every three years following the next revaluation, currently due in 2022.

The Government has confirmed that local Government will be fully compensated for the loss of income as a result of these measures.

VAT

Contributed by Stanley Dencher

Extension of JSL on online marketplaces

The Finance Bill 2018 extends the scope of existing joint and several liability (JSL) rules to hold an online marketplace jointly and severally liable for:

- any future VAT that a UK business selling goods via the online marketplace fails to account for after HMRC issued a notice to the online marketplace; and
- any VAT that a non-UK business selling goods via the online marketplace fails to account for, where the business was not VAT registered in the UK and that online marketplace knew, or should have known, that that business should be VAT registered in the UK.

Also, online marketplaces must ensure that VAT numbers displayed for third-party sellers on their websites are valid. They must display a valid VAT number when they are provided with one by a third-party seller operating on their platform. These requirements can be enforced by a penalty.

The changes apply from Royal Assent of the Bill.

Refunds to combined authorities, fire and rescue authorities, the Scottish Fire and Rescue Service and the Scottish Police

The Finance Bill 2018 amends VATA 1994, s. 33(3) to include from Royal Assent the following for refunds:

- The Scottish Police Authority
- The Scottish Fire and Rescue Service
- Combined Authorities and
- Fire and Rescue Service Bodies, which become a function of Police and Crime Commissioners (PCC).

VAT groups

Following the consultation on whether to change UK VAT grouping provisions, a summary of the responses will be published on 1 December 2017. The Government will consider the scope of VAT grouping, the issues raised and the impact of any potential changes.

Stanley Dencher, Bcom, FCA, CTA (Fellow), AIIT

Stanley was a practitioner for nine years before joining Croner-i as a technical editor in 1984, working primarily on VAT publications. He wrote Personal Trading Losses and is co-author of Company Cars, both published by CCH.

For many years Stanley presented tax seminars for the ICAEW and CIOT and for training organisations all over the UK.

Office of Tax Simplification VAT review

The Office of Tax Simplification (OTS) published their review of the VAT regime on 7 November 2017. The Chancellor has written to the OTS setting out how the Government will respond to the recommendations.

No change in registration and deregistration thresholds

The VAT registration and deregistration thresholds will not be changed before 1 April 2020. The Government will consult on the design of the VAT threshold.

VAT fraud in labour provision in the construction sector

There will be consultation on draft legislation for a VAT reverse charge. A final draft of the legislation and guidance will be published by October 2018. This follows the consultation announced at Spring Budget 2017, a summary of responses to which will be published on 1 December 2017.

The measure shifts responsibility for paying the VAT along the supply chain to remove the opportunity for it to be stolen. The changes apply on and after 1 October 2019.

Split payment for online payments

The Government will publish on 1 December 2017 a response document to the call for evidence to develop a split payment model. A split payment model allows VAT to be extracted from online payments in real time. A full consultation is due in 2018.

VAT and vouchers

The Finance Bill 2019 changes the VAT treatment of vouchers with effect from 1 January 2019. This aims to simplify the treatment of vouchers, including when they become subject to VAT, and in some cases their value for taxation. A consultation paper will be published on 1 December 2017.

VAT and Air Passenger Duty on tourism in Northern Ireland

The Government will call for evidence in early 2018 on the impact of VAT and Air Passenger Duty (APD) on tourism in Northern Ireland, to report at Budget 2018.

VAT: imports - postponed accounting

Businesses currently benefit from postponed accounting for VAT when importing goods from the EU, e.g. due to the cash-flow advantage. The Government will take this into account when considering potential changes following EU exit.

Indirect taxes

Contributed by Stanley Dencher

Landfill Tax reform

The Finance Bill 2018 will change from 1 April 2018 the criteria determining when Landfill Tax (LFT) is due, and extend the scope of LFT to disposals of material at sites operating without authorisation.

To align the legislation with environmental law, operators of quarries will not be required to register for LFT.

The changes apply to sites in England and Northern Ireland. LFT was devolved to the Scottish Parliament in April 2015 and will be devolved to the Welsh Assembly from April 2018.

Climate Change Levy: main rates

The Climate Change Levy (CCL) main rates for 2020-21 and 2021-22 will be set at Budget 2018, with the exception of the rate for liquefied petroleum gas. This rate is frozen at the tax year 2019-20 level in 2020-21 and 2021-22.

This follows the announcement at Budget 2016 that main rates of CCL increase from 1 April 2019 to recover the revenues lost by closing the Carbon Reduction Commitment energy efficiency scheme, with changes to the reduced rates payable by businesses in the Climate Change Agreement scheme.

It was also announced that the balance between rates on taxable commodities would be updated to reflect changes in the fuel mix used in electricity generation, starting with an adjustment of the current electricity to gas ratio of 2.9:1 to 2.5:1 in the tax year 2019-20. The Government also announced its intention to re-balance the rates to an electricity to gas ratio of 1:1 by 2025.

CCL: exemptions for mineralogical and metallurgical processes

The Finance Bill 2019 will amend the way the exemptions from Climate Change Levy (CCL) for energy used in mineralogical and metallurgical processes are defined.

The scope remains unchanged, but the changes ensure the exemptions remain operable after EU exit and address concerns about how the exemptions apply in landlord–tenant situations. The changes apply from spring 2019.

Stanley Dencher, Bcom, FCA, CTA (Fellow), AIIT

Stanley was a practitioner for nine years before joining Croner-i as a technical editor in 1984, working primarily on VAT publications. He wrote Personal Trading Losses and is co-author of Company Cars, both published by CCH.

For many years Stanley presented tax seminars for the ICAEW and CIOT and for training organisations all over the UK.

Aggregates Levy: rates

The rate of Aggregates Levy (AL) is frozen for 2018-19. The rate has been frozen since 2009. Index linking of AL will return in the longer term. This follows the announcement at Spring Budget 2017 that the AL rate remains at £2 per tonne in 2017-18.

AL: consultation on exemption for laying underground utility pipes

The Government has rejected the case for a new Aggregates Levy (AL) exemption for aggregate that is an unavoidable by-product when laying underground utility pipes.

Landfill Communities Fund for 2018 to 2019

The value of the Landfill Communities Fund for 2018-19 is set at £33.9 million, with the cap on contributions by landfill operators remaining at 5.3% of their Landfill Tax (LFT) liability.

Landfill Tax: rates for 2019-20

The Finance Bill 2019 will increase the standard and lower rates of Landfill Tax (LFT) to £91.35 and £2.90 from 1 April 2019 in England and Northern Ireland.

Call for evidence on single-use plastics waste

The Government will call for evidence in early 2018 on how the tax system or charges could help to reduce the amount of single-use plastic waste.

Carbon Price Support rates for 2020-21

Revised indicative Carbon Price Support rates have been published for 2020-21.

Excise duties

Contributed by Stanley Dencher

Vehicle excise duty

The Finance Bill 2018 increases vehicle excise duty (VED) rates for motorcycles and vans, and cars registered before 1 April 2017 and First Year Rates for cars under the post April 2017 VED system, by the Retail Price Index from 1 April 2018.

Zero-emission capable taxis will be exempt from the Vehicle Excise Duty (VED) supplement that applies to expensive cars. The Government will consult on how to define zero-emission capable taxis, ahead of implementation in April 2019.

Diesel cars

The Finance Bill 2018 applies a supplement to new diesel cars registered on and after 1 April 2018, so that the First Year Rate of VED for a new diesel car rises by one band. The change applies to all new diesel cars that do not meet the Real Driving Emissions Step 2 (RDE2) standards.

The Company Car Tax diesel supplement rises from 3% to 4% from 6 April 2018 for diesel cars that do not meet the RDE2 standards.

Air Passenger Duty

The Finance Bill 2018 increases the Air Passenger Duty (APD) long-haul standard rate to £172 and the long-haul higher rate to £515 on and after 1 April 2019. Short haul rates, and the long haul reduced rate for economy passengers are frozen at the tax year 2018-19 levels. Rates for 2020-21 will be set at Budget 2018.

Tobacco Duty rates

The Finance Bill 2018 increases:

- the duty rates for all tobacco products by 2% above Retail Price Index inflation from 6pm on 22 November 2017 and
- duty for hand-rolling tobacco by an additional 1% above this 2% increase, to 3% above retail price from 6pm on 22 November 2017.

Tobacco duty rates will increase by a minimum of 2% above inflation until the end of this Parliament.

Tobacco Minimum Excise Tax

The Finance Bill 2018 sets the Minimum Excise Tax at £280.15 per 1,000 cigarettes from 6pm on 22 November 2017.

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For many years Stanley presented tax seminars for the ICAEW and CIOT and for training organisations all over the UK.

Heavy Goods Vehicle (HGV) VED and HGV Levy

The rates of VED for heavy goods vehicles (HGVs) are frozen for 2018-19, which includes all rates linked to the basic goods rate. HGV Levy rates are also frozen for that year. The Government will also call for evidence on updating the existing HGV Road User levy.

Fuel duty rates

Fuel duty rates remain frozen for 2018-19.

Rural fuel duty rebate scheme

The rural fuel duty rebate scheme for the Scottish Islands and Isles of Scilly is extended until 31 October 2023

Alternative fuels

The Government will review whether existing fuel duty rates for alternatives to petrol and diesel are appropriate. In the meantime, the Government will no longer be bound by the duty escalator policy for liquefied petroleum gas road fuel.

Alcohol duty rates

The Government will freeze all alcohol duty rates.

New cider duty band

A new duty band will apply on and after 1 February 2019 for still cider of a strength of at least 6.9% but not exceeding 7.5% alcohol by volume. Legislation will be in Finance Bill 2019.

Wine dilution

HMRC are reviewing the practice of diluting wine and made-wine after excise duty has been calculated. The aim is to stop wine producers from reducing the excise duty payable on the larger volume of diluted product, and create consistency with all other alcohol sectors.

Gaming duty

There will be consultation in early 2018 on gaming duty return periods to seek views on bringing the administration of gaming duty more into line with the other gambling duties. It will also seek views on removal of the requirement to make payments on account.

Avoidance and evasion

Contributed by Meg Wilson

Meg Wilson BA (Hons), CTA

Meg is a technical tax writer at Croner-i. She currently writes in-depth and quick overview commentary about the management of taxes and National Insurance contributions. Meg also prepares case reports for tax decisions released by the tribunals and courts.

Meg has worked in tax for over 20 years, including working for KPMG and smaller accountancy firms.

Since 2010 the Government estimates that it has secured additional tax of almost £160bn because of action it has taken tackling tax evasion and avoidance, aggressive tax planning and non-compliance. Autumn Budget 2017 announcements are forecast to raise a further £4.8bn by 2022-23.

Tax avoidance

NICs employment allowance

The employment allowance enables employers to reduce their Class 1 secondary NICs by up to £3,000 a year. From 2018 the Government is to introduce a further measure to tackle apparent abuse of the allowance. This is to be done by HMRC requiring upfront security from employers with a history of avoiding paying the correct amount of NICs by abusing the employment allowance, often through the use of offshore arrangements.

Disguised remuneration

As part of measures to tackle disguised remuneration, the Government will introduce:

- the close companies' gateway, revised following consultation; and
- measures to ensure liabilities from the loan charge introduced by F(No.2)A 2017 are collected from the appropriate person.

Profit fragmentation

The Government is to consult in 2018 on how to prevent UK traders or professionals from avoiding UK tax by dividing their UK income between unrelated entities.

Intangible fixed assets: related party step-up schemes

The intangible fixed asset rules are to be updated with immediate effect, so that a licence between a company and a related party in respect of intellectual property is subject to the market value rule, and to ensure that the tax value of any disposal of a company's intangible assets is correct, even if the consideration is in something other than cash.

Depreciatory transactions

The Government will remove the 6-year time limit within which companies must adjust for transactions that have reduced the value of shares being disposed of in a group company. This measure aims to ensure that any losses claimed are in line with the actual economic loss to the group. This change applies to disposals of shares or securities in a company made on or after 22 November 2017.

Carried interest

To prevent the avoidance of legislation designed to ensure that asset managers receiving carried interest pay CGT on their full economic gain, the Government is removing the transitional commencement provisions with immediate effect.

DTR: changes to targeted anti-avoidance

The Government is to legislate in Finance Bill 2018 to make these two changes to the DTR Targeted Anti-Avoidance Rule (DTR TAAR):

1. To remove the requirement for HMRC to issue a counteraction notice before the DTR TAAR applies, effective from 1 April 2018.
2. To introduce a restriction to the relief for foreign tax incurred by an overseas branch of a company, where the company has already received relief overseas for the losses of the branch against profits other than those of the branch, effective immediately.

Online VAT fraud

The Government is to legislate in Finance Bill 2018 to:

- extend HMRC's powers to hold online marketplaces Jointly and Severally Liable (JSL) for the unpaid VAT of overseas traders on their platforms to include all (including UK) traders. This extension is aimed at helping tackle the UK hidden economy and eliminate the risk of overseas traders establishing a UK shell company simply to escape the existing JSL regime.
- extend HMRC's powers to hold online marketplaces JSL for any VAT that a non-UK business selling goods on their platforms fails to account for, where the business was not registered for VAT in the UK and that online marketplace knew or should have known that the business should be registered for VAT in the UK.
- require online marketplaces to ensure that VAT numbers displayed for businesses operating on their website are valid. They will also be required to display a valid VAT number when they are provided with one by a business operating on their platform.

These three measures are due to come into force when Finance Bill 2018 receives Royal Assent.

To reduce online VAT fraud and improve how VAT is collected, the Government is looking at a split payment model. In December, the Government will publish a response to the call for evidence it launched at Spring Budget 2017.

Tax evasion

Requirement to notify HMRC of offshore structures

On 1 December 2017 the Government will publish a response to the consultation carried out between December 2016 and February 2017 on a proposal to require businesses or intermediaries designing or promoting certain complex offshore financial arrangements to notify HMRC of these structures and the details of their clients using these arrangements.

The Organisation for Economic Co-operation and Development (OECD) and the European Union (EU) are considering whether multinational standards would be appropriate to tackle the use of such offshore structures for tax evasion purposes. The Government will therefore ensure the responses received for this consultation are fed into the OECD and EU.

Extending time limits for offshore non-compliance

The current time limits for assessing onshore and offshore non-compliance are the same. The time limits are generally 4, 6 or 20 years depending on the behaviour that led to the non-compliance. To allow HMRC more time to investigate offshore non-compliance the Government propose that the time limit for assessing all offshore cases will be at least 12 years, whatever the behaviour. The time limit for assessing cases involving offshore non-compliance where there is deliberate behaviour will remain 20 years. This measure will be consulted on in spring 2018.

VAT fraud in labour provision in the construction sector

From 1 October 2019, the Government is to introduce a VAT domestic reverse charge to prevent VAT losses in construction labour supply chains. This will shift responsibility for paying VAT along the supply chain to remove the opportunity for it to be stolen.

Hidden economy: conditionality

As part of the Government's commitment to tackling the hidden economy, it will make access to some public sector licences conditional on being properly registered for tax.

The Government is to publish a second consultation on conditionality in December 2017. This will set out sectors in which this could practically apply. It is unclear when this measure will be legislated, but it will not be until at least the Finance Bill 2019.

Administration

Contributed by Meg Wilson

The administration of the tax system is key to ensuring the correct tax revenues are collected as efficiently as possible. The Government has announced that to help with this HMRC are to be given a further £155m to invest in additional resources and new technology. It is estimated that this extra investment will help raise tax revenues by £2.3bn. One of the new initiatives is the setting up of a taskforce specifically designed to chase debts more than 9 months old.

Making Tax Digital

The Government has confirmed that:

- no business will be mandated to use Making Tax Digital (MTD) until at least April 2019;
- only businesses with a turnover above the VAT threshold (£85,000) will be mandated to use Making Tax Digital for Business (MTDfB) from April 2019, and then only to meet their VAT obligations;
- businesses with a turnover below the VAT threshold will not be required to use MTDfB from April 2019 but can choose to do so; and
- the scope of MTDfB will not be widened before the system has been shown to work well and not before April 2020 at the earliest.

An updated statement of impacts is to be published on 1 December 2017.

BEPS and domestic law

The Government is to legislate in Finance Bill 2018 to amend the powers by which double taxation arrangements with other territories are given effect in the UK. The changes are being made to ensure that the powers are sufficient to give full effect to the Multilateral Convention to Implement Tax Treaty Related Measures to prevent BEPS (the MLI), which was signed by the UK in June 2017. The changes are to have effect from Royal Assent of Finance Bill 2018.

Late submission and late payment sanctions

Late submission penalties

The Government are to introduce a new points-based system for penalising late or missing tax

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Meg has worked in tax for over 20 years, including working for KPMG and smaller accountancy firms.

returns. This announcement follows a series of consultations on late payment and late submission sanctions. Draft legislation is expected in summer 2018, with legislation to be included in a future Finance Bill.

Late payment sanctions

The Government will further consult on whether to simplify and harmonise penalties and interest due on late payments and repayments.

Certificates of Tax Deposit closure

The Government has decided that no new Certificates of Tax Deposit will be able to be purchased from 23 November 2017.
Existing Certificates will continue to be honoured for 6 years until 23 November 2023. Any certificates remaining after this date should be promptly submitted to HMRC for a refund. After that, HMRC will seek to repay the balance of any certificate that remains unpaid and unclaimed, and if unable to do so, the balance will be regarded as forfeit.

Self-Assessment debts

From 6 April 2019, HMRC are to use new technology to recover additional Self-Assessment debts in closer to real-time by adjusting the tax codes of individuals with PAYE income.

Securing debt in insolvency

From 6 April 2019, the Government is to expand existing security deposit legislation to corporation tax and Construction Industry Scheme deductions. These changes are to be legislated for in Finance Bill 2019.

The Government will also consider further means for tackling taxpayers who deliberately abuse the insolvency regime in trying to avoid or evade their tax liabilities, including through the use of phoenixism. A discussion document will be published in 2018.

Customs powers

Use of force

The Government plans to legislate in Finance Bill 2018 to clarify the powers that allow HMRC officers to use force to gain access to a locked vehicle, when stopping or searching it, which they suspect contains goods liable to forfeiture. The changes are to have effect from Royal Assent of Finance Bill 2018.

Examination powers

The Government plans to legislate in Finance Bill 2018 to extend the powers HMRC officers currently have so that an officer can move, open or unpack goods or containers, or require them to be opened or unpacked, and search the containers and anything in them, as well as mark them as necessary. The changes are to have effect from Royal Assent of Finance Bill 2018.

Encouraging compliance by users of digital platforms

The Government expects digital platforms to play a wider role in ensuring their users are compliant with the tax rules. The Government will publish a call for evidence in spring 2018 to explore what more digital platforms can do to prevent non-compliance among their users.

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