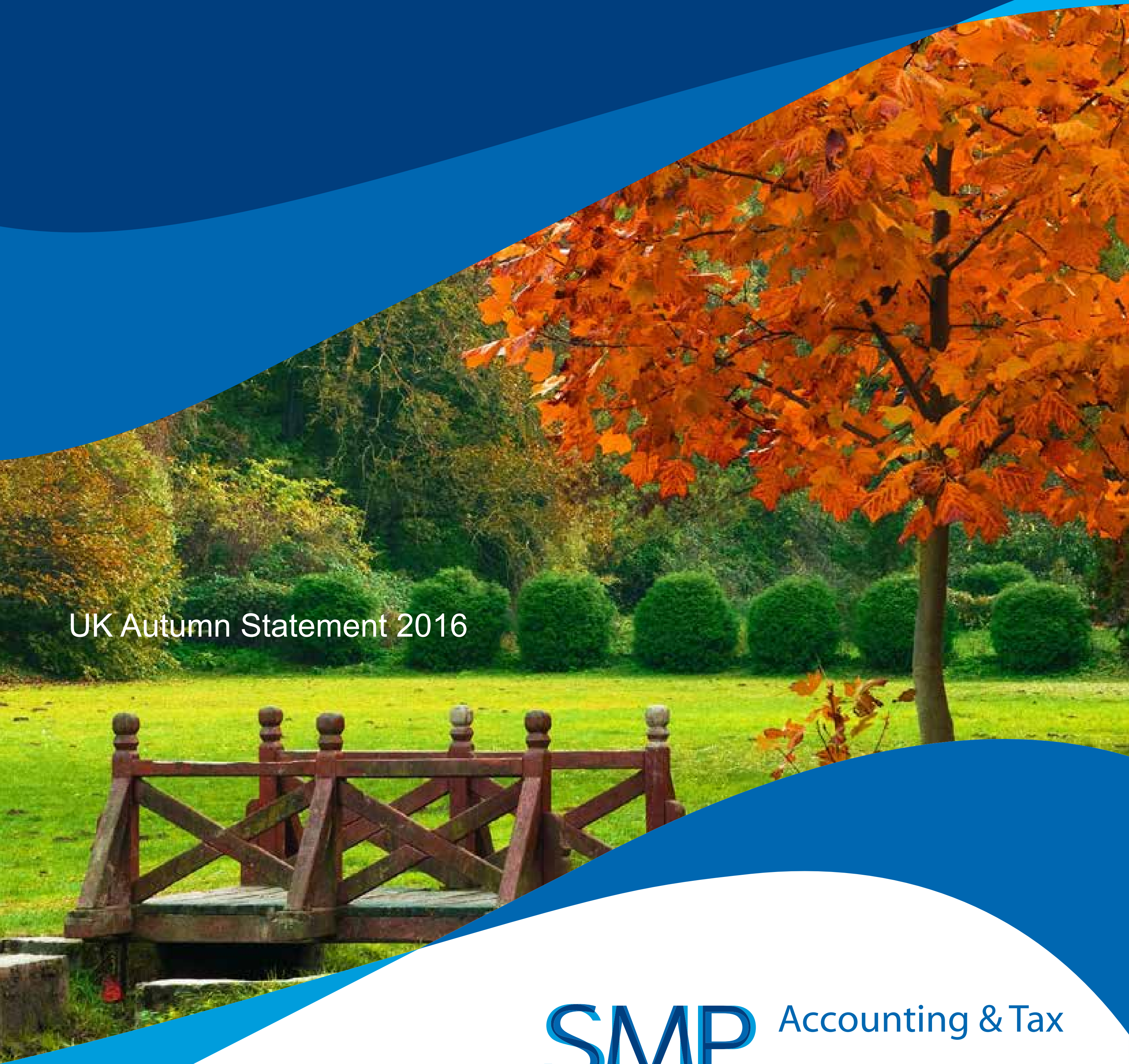
UK Autumn Statement 2016



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UK Autumn Statement 2016

Introduction

On Wednesday 23rd November Phillip Hammond issued his first UK Autumn Statement.

Although there were no significant changes announced in this year's Autumn Statement which will affect our International Clients, there have been several important changes announced within recent years which have either already come into effect, or will do so in April 2017.

We have provided a summary of some of these key changes along with some of the other key points from the Autumn Statement.

Changes affecting International Clients

Changes to the UK Non Domicile regime

As previously announced, the Government will end the permanency of the UK Non Domiciled status. From April 2017, UK resident individuals who have either been UK tax resident for 15 out of the previous 20 tax years, or those who were born in the UK with a UK domicile of origin, will become deemed UK domiciled for all tax purposes.

These individuals will become subject to UK Inheritance tax on their worldwide assets and will no longer be able to use the remittance basis of taxation. They will be taxed on their worldwide income and gains along with worldwide income and gains that are attributed to them from a trust or company structure.

However, the UK Government have confirmed that a deemed domiciled individual who has set up a non-UK resident trust before he or she has become deemed domiciled, will not be taxable on income and gains arising outside of the UK and retained in the trust.

Changes to the UK Inheritance Tax (IHT) rules

Currently a non-UK domiciled individual, or a non-UK resident trust that was set up by a non-UK domiciled individual, will not pay UK IHT on a UK residential property held through a non-UK company.

From April 2017 UK residential properties held in this manner will no longer benefit from this treatment and will be brought within the UK IHT rules. This is because under the new rules a closely held non-UK company or similar entity will not be an excluded asset for IHT purposes to the extent that the company's value is attributed to the UK residential property.

An individual who directly holds the non-UK company owning UK residential property will, from April 2017, be subject to IHT on the value of the shares attributable to UK residential property. This will be at a rate of 40% on death (applied to their estate), or at a rate of 20% for a chargeable lifetime transfer (e.g. a transfer into a trust of shares of a non-UK company owning UK residential property).

An offshore trust (settled by a non-UK domiciled individual) which holds the non-UK company owning UK residential property will, from April 2017, be subject to IHT on the value of the shares attributable to UK residential property. This will be at a rate of up to 6% every 10 years or up to 6% if the relevant shares and/or the relevant property are distributed out of the trust. Also there will be a 40% charge on the death of the settlor if the trust is a settlor interested trust.[1]

The Government also previously announced that related party loans will be disregarded, so will not reduce the value of the UK residential property subject to IHT.

[1] A trust will be a settlor interested trust unless the settlor is specifically irrevocably excluded from the trust.

Business Investment Relief

The Government will change the rules for the Business Investment Relief (BIR) scheme from April 2017 to make it easier for remittance basis users to bring money into the UK for the purpose of investing in UK businesses.

Property taxation

Annual Tax on Enveloped Dwellings

The ATED charge will increase by inflation for the 2017-18 chargeable period.

Extension of the Corporation Tax regime to non-resident companies

The Government is considering bringing all non-resident companies, receiving taxable income from the UK, into the corporation tax regime. This would include Non-Resident Landlord companies.

Government's intention is to provide equal tax treatment to resident and non-resident companies, including the new limitation of corporate interest deductibility rules and the reduced corporation tax rates.

Personal Taxation

- The 2017-18 personal allowance will be £11,500 and the higher rate threshold will be £45,000.
- By the end of this Parliament the personal allowance will rise to £12,500 and the higher rate threshold to £50,000.
- Class 2 NIC's will be abolished from April 2018.
- The Government are making significant changes to the operation of; salary sacrifice schemes, the valuation of benefits in kind and employee business expenses.
- There will be a new £1,000 tax allowance for property income and a £1,000 allowance for trading income.

Corporate Taxation

- The UK Government is committed to cutting the rate of corporation tax to 17% by 2020.
- From April 2017 the rate will fall to 19%.
- From April 2017 the Government will introduce rules that limit the UK corporate tax deductions that large groups can claim for their interest expense.

Offshore funds

UK taxpayers invested in offshore reporting funds pay tax on their share of a fund's reportable income, and Capital Gains Tax (CGT) on any gain on disposal of their shares or units.

The Government will legislate to ensure that performance fees incurred by such funds, and which are calculated by reference to any increase in the fund's value, are not deductible against reportable income from April 2017 and instead reduce any tax payable on disposal gains.

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Avoidance and Evasion

- There will be a new penalty for enablers of tax avoidance arrangements that are later defeated by HMRC. Details will be provided in draft legislation shortly.

- Requirement to correct - The Government will introduce a new legal requirement to correct a past failure to pay UK tax on offshore interests within a defined period of time, with new sanctions for those who fail to do so.

- Requirement to register offshore structures – The Government will consult on a new legal requirement for intermediaries arranging complex structures for clients holding money offshore to notify HMRC of the structures and the related client lists.

If you have any questions on the 2016 Autumn Statement or any other tax matters, please contact your usual SMP adviser or one of the contacts below.

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