UK Budget 2017

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On Wednesday 8 March 2017, the UK Chancellor of the Exchequer, Philip Hammond, gave the 2017 Budget Speech. This was the last Spring Budget as the government moves towards a single fiscal event each year; an Autumn Budget. Consequently, this was a relatively quiet Budget with more significant changes expected to be announced in the autumn.

Although there were no significant changes announced in this year's Budget 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 2017 Budget.

Changes affecting International Clients

The previously announced major reform to non-UK domicile (non-doms) taxation will come in to force in April 2017. Non-doms will be deemed UK domiciled for tax purposes after they have been UK tax resident for 15 of the past 20 tax years. The rules will apply for income tax, capital gains tax and inheritance tax.

Additionally, non-dom individuals who were born in the UK and who had a UK domicile of origin will revert to their UK domiciled status for tax purposes whilst resident in the UK.

We would recommend that any clients who will be affected by these measures get in touch with their usual SMP advisor or one of the contacts listed below. In some cases it may be advisable for clients who will become deemed UK domiciled under the 15 out of 20 year rule to put their assets into a trust before 6 April 2017.

UK residential property indirectly held through a foreign close company from 6 April 2017 will be within the scope of inheritance tax.

Where there is a trust in place, it may be advisable to consider reviewing the current UK residential property holding structure to exclude the settlor or to consider a distribution to beneficiaries.

Personal Tax

Income Tax

The previously announced changes to the personal allowance and higher rate threshold will come in to force in April 2017.

In 2017-18, the UK personal allowance will be £11,500 and the higher rate threshold will be £45,000. The additional 45% rate threshold remains unchanged at £150,000.

National Insurance

Class 2 National Insurance Contributions (NICs) will be abolished from April 2018.

The major announcement of this Budget was for Class 4 NICs for self-employed individuals to increase from 9% to 10% in April 2018, and to 11% in April 2019. However, these plans have since been dropped after being criticised for breaking a 2015 manifesto pledge.

Dividend allowance

The tax-free dividend allowance (separate to the personal allowance) will be reduced from £5,000 to £2,000 from April 2018.

Property Tax

Offshore property developers

The government will amend legislation to ensure that all profits realised by offshore property developers developing land in the UK, including those on pre-existing contracts, are subject to tax, with effect from 8 March 2017.

Non-resident companies chargeable to Income Tax and non-resident Capital Gains Tax

As announced at Autumn Statement 2016, the government will consult on bringing non-UK resident companies, who are currently chargeable to Income Tax on their UK taxable income, and to non-resident Capital Gains Tax (CGT) on certain gains, within the scope of Corporation Tax.

Under such a move, these companies would then be subject to the rules which apply generally for the purposes of Corporation Tax, including the limitation to corporate interest expense deductibility and loss relief rules.

Annual Tax on Enveloped Dwellings (ATED)

There have been no changes to the ATED rules. The rates for 2017-18 are between £3,500 and £220,350 depending on which band the value of the property falls into. The ATED returns and any payment for 2017-18 will be due by 30 April 2017.

Properties within ATED need to be revalued as at 1 April 2017 to determine which band they will be in for the five chargeable periods starting 1 April 2018.

Corporation Tax

Rates

As set out at Autumn Statement 2016, the government will cut the rate of corporation tax to 19% from April 2017 and then again to 17% in 2020.

VAT

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

Administration

Digital administration

The government will provide an extra year, until April 2019, before ‘Making Tax Digital’ is mandated for unincorporated businesses and landlords with turnover below the VAT threshold. Other businesses will still be subject to the new rules from April 2018.

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Avoidance

Promoters of Tax Avoidance Schemes (POTAS)

New legislation will ensure that promoters of tax avoidance schemes cannot circumvent the POTAS regime by re-organising their business by either sharing control of a promoting business, or putting a person or persons between themselves and the promoting business. This will ensure that HMRC can apply the POTAS regime as intended.

Strengthening tax avoidance sanctions and deterrents

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

Qualifying recognised overseas pension schemes (QROPS): introduction of transfer charge

The government will introduce a 25% charge on non-exempt transfers to QROPS under defined conditions. This charge is targeted at those seeking to reduce the tax payable by moving their pension wealth to another jurisdiction.

So what can we take away from this budget?

Reflecting the move to a single major fiscal event in the autumn, no major tax changes were announced in the 2017 Budget. The absence of any mention of Brexit suggests a continuation of the government's caution to reveal anything that may jeopardise the negotiating process with the European Union.

The previously announced reforms to the taxation of non-domiciles and inheritance tax for UK residential property will come in from April 2017. However, please note that many aspects of these reforms are still under consultation and therefore some details remain unconfirmed. Additional information may be forthcoming when the draft 2017 Finance Bill is published.

If you are concerned about your or your client's position post 6 April 2017, or if you have any questions on the 2017 Budget or any other tax matters, please contact your usual SMP adviser or one of the contacts below.

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