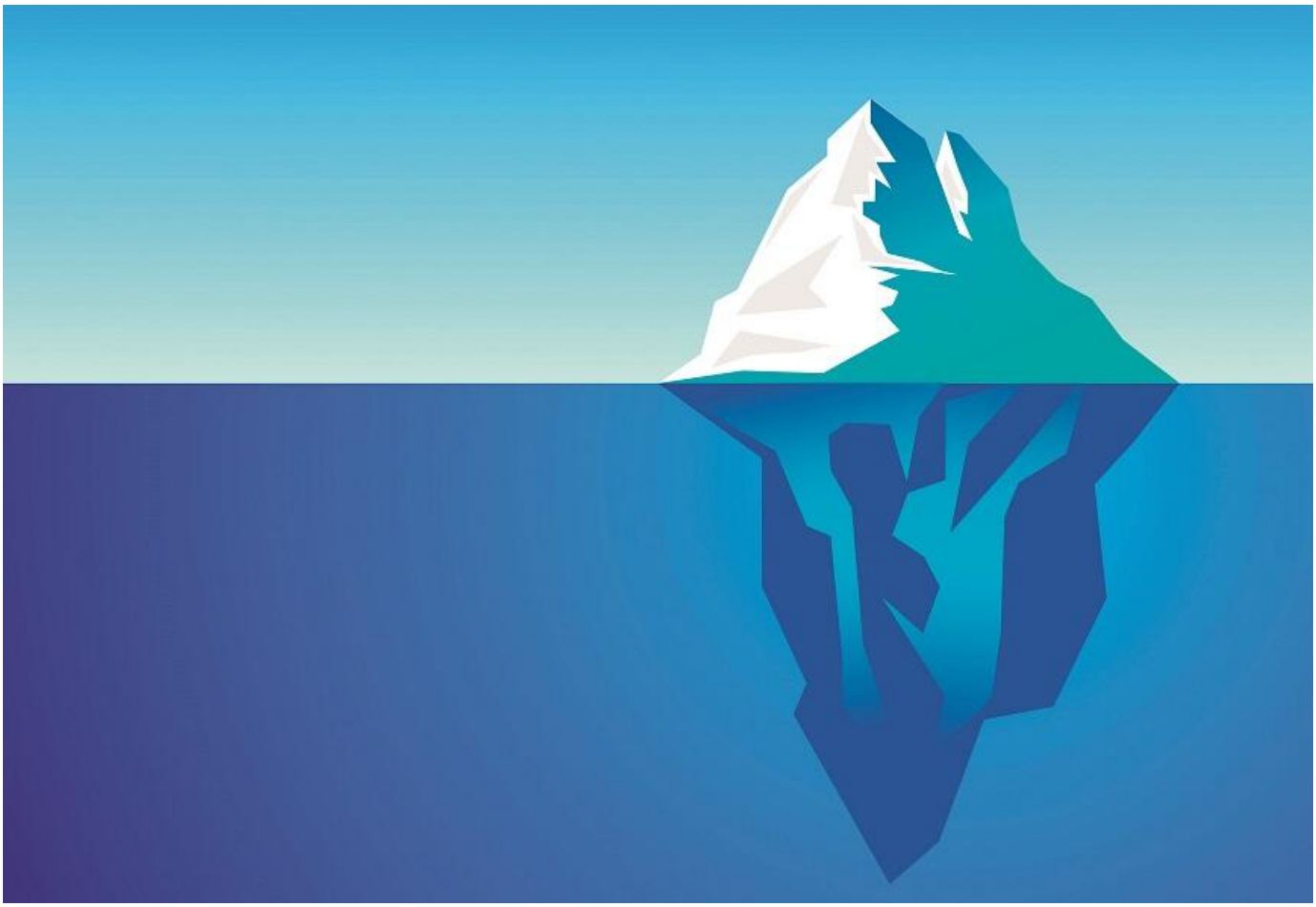
The iceberg Budget

International Tax | Large Corporate | OMB | Personal tax



01 December 2017

Bill Dodwell considers the key measures

The Chancellor had a difficult path to tread in putting together his first Autumn Budget. Overall, the announcements have a small impact on the Exchequer, with changes averaging less than £2 billion on tax receipts of over £725 billion. However, there are significant changes lurking beneath the surface.

First-time buyers receive a welcome benefit in the form of an SDLT cut, worth up to £5,000 on the purchase of properties up to £500,000. Wales gets control of SDLT from April 2018 and had already announced an increased zero-rate band – up to

£150,000. The Scottish Government will no doubt consider whether to respond in their draft Budget on 14 December 2017.

There had been speculation that the Government would cut the VAT registration threshold, following a report from the Office of Tax Simplification. In the end, the Chancellor chose to freeze the threshold at £85,000 for the next two years, which is estimated to bring an additional 4,000 businesses into VAT per year – and raise £15 million, raising to over £150 million in three years. There will be a consultation on possible cuts to the threshold. It's clear that a high threshold can incentivise business structures to avoid registration – but equally, it reduces costs and administration for the UK's smallest businesses.

The Chancellor has picked up two issues in the public eye. There is a position paper on digital businesses, which suggests introducing turnover tax on models that rely on the collection of information from 'users' as a driver of value for the business. It will be essential to ensure that any changes do not disadvantage smaller, growing businesses which often make losses initially. Acting in accordance with a global consensus would be the most effective way to levy tax; the Digital Economy Taskforce will report to the G20 in April 2018.

In addition, there will be a consultation on a 20% royalty withholding tax where royalties end up in a zero-tax location. This aimed at overseas businesses selling into the UK where that overseas business pays royalties to a zero-tax location. In concept this is similar to the withholding tax element of Australia's Multinational Anti-Avoidance Law. The legal basis of enforcing a levy will no doubt be part of the consultation.

Foreign owners of commercial property will in future be liable to UK capital gains tax on gains accruing from April 2019. The government will consult on the scope of the measure and suggests it will not apply to foreign pension funds and certain institutional investors. In the UK, real estate investment trusts and pension funds are not taxed on property investment gains. A separate measure will apply corporation tax to non-resident landlords from April 2020. This will reduce their tax rate from the current 20% to 17%, but introduce limits on interest deductions.

There's a focus on supporting technology in this Budget. The Research & Development Expenditure Credit (RDEC) for large companies will become more generous, with the rate set to rise from 11% to 12% from 1st January 2018. This

change will increase the after-tax benefit of RDEC claims from 8.91% of amounts qualifying for RDEC to 9.72%. The reduction in the corporation tax rate in April 2020 will further boost the after-tax benefit to 9.96%.

There will be a new consultation on broader reliefs for investment in intangible assets. The current regime was introduced in 2002 and the Office of Tax Simplification has recommended changes to modernise it. Further, the EIS investment limit for high tech and knowledge based start-ups is being doubled from £1 million to £2 million – although additional anti-avoidance will be added.

The public sector has been required since April 2017 to assess whether freelancers should be taxed as quasi-employees or as self-employed service providers. PAYE and national insurance must be deducted by engages from payments to personal service companies. The government will consult in 2018 on extending this requirement to the private sector. It is to be hoped that any change would not be introduced too rapidly as the systems changes needed are complicated. HMRC’s own employment status checker would also benefit from improvement. When introduced the measure is likely to bring in over £1 billion.

There is a very useful new tax relief for employee incurred costs on personal training. As the economy changes and we all need to learn new skills supporting this through the tax systems helps defray the cost. Employers will benefit from a deregulatory change on travel and subsistence expenses where receipts will not be needed after April 2019 for expenses within approved limits.
After above-inflation increases to the personal allowance the Chancellor has decided this year simply to increase it by CPI inflation. The 2018/19 allowance will be £11,850. The higher rate threshold will rise to £46,350 although the Scottish equivalent will be announced by the Scottish government on 14th December 2017.

The themes from the Chancellor’s speech were housing, supporting technology and preparing the economy for leaving the EU. There is, however, much more detail not mentioned in the speech leaving plenty for tax adviser to pore over.