UK Autumn Budget 2017

At a Glance

Earlier today the Chancellor delivered his first UK Autumn Budget with a particular emphasis on building an economy that is 'fit for the future', which will be no mean feat given the continuing uncertainty around what a post Brexit world might look like.

While there were no major surprises in the Budget, a number of significant tax changes (effective from April 2019) were highlighted in the context of a fairer and more sustainable tax system. These include in particular a major change to the tax regime for non-resident investors in UK immoveable property, along with other anti-avoidance measures (the accompanying budget materials acting as a reminder that over 100 such measures have been introduced in the UK since 2010).

From a Northern Ireland perspective, and in keeping with the theme of fit for the future, there was a welcome announcement that talks are to open on a Belfast City Region Deal, as part of the UK government's commitment for a comprehensive and ambitious set of city deals across Northern Ireland. This will be critically important in terms of securing additional investment in infrastructure, innovation, skills and employability all aimed at improving productivity.

The UK government also confirmed its commitment to an impact review of VAT and APD on the tourism sector in NI and to an announcement during 2018–19 of implementation of the 12.5% corporation tax rate regime in NI, subject to a restored Executive demonstrating that its finances are on a sustainable footing. It is important that we recover the momentum behind the one area where there has been local political consensus in recent years and support from across the business community.

KPMG's tax team in Northern Ireland has prepared a concise overview of the day's main 'UK Autumn Budget 2017' announcements affecting businesses and individuals.

If you require any further information please do not hesitate to get in touch with me or your usual KPMG contact.

Johnny Hanna
Partner and Head of Tax
KPMG in Northern Ireland

Businesses

Phillip McMaw
Partner

- Commitment to implement a reduced rate of corporation tax for Northern Ireland (with an announcement considered in 2018-19) was reaffirmed along with the caveat that it is subject to a restored Executive demonstrating that its finances are on a sustainable footing.
- No change to the planned reduction in the UK main rate of corporation tax from 19% to 17% in April 2020.
- The rate of Research & Development Expenditure Credit (RDEC) claimed by large companies on qualifying expenditure will be increased from 11% to 12% for costs incurred on or after 1 January 2018. An advance clearance service for RDEC claims is also to be piloted.
- With effect from April 2019, UK withholding tax will be applied (current rate is 20%) to royalty payments made to low or nil tax jurisdictions in connection with sales made to UK-based customers. The tax will be applied regardless of where the payer is located and a consultation paper is to be published on 1 December 2017 to review how non-UK companies providing digital services to UK customers should be taxed.
- The Capital Gains Tax indexation allowance for inflation will be frozen at the December 2017 amount for corporate disposals of chargeable assets on or after 1 January 2018.
- Consultations will be launched to review the operation of the Intangible Fixed Asset regime and to consider the corporation tax treatment of payments made under lease agreements.

Individuals

Philip Caughey
Director

- No change to rates of income tax.
- The income tax personal allowance will be increased to £11,850 and the basic rate limit will also be increased to £34,500.
- The capital gains tax annual exempt amount will increase to £11,700 for individuals and £5,850 for most trustees of a settlement.
- The limit on the amount an individual may invest under the Enterprise Investment Scheme (EIS) in a tax year will rise 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.
- A new condition will be added to the EIS, Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trust (VCT) rules to exclude tax motivated investments. The condition depends on taking a 'reasonable' view as to whether an investment has been structured to provide a low risk return for investors.
- Rent-a-room relief to be reviewed to check whether or not it is consistent with the government's policy to support longer-term lettings.
- The government will publish a consultation in 2018 on the reform of taxation of trusts.

Employment

Eunan Ferguson
Director

- Further consultation has been announced in relation to both the introduction of IR35 off-payroll working rules to the private sector and consideration of employment practices in the modern economy. Whilst the introduction of new rules in these areas may appear inevitable it is reassuring for businesses and contractors that the government intends to draw on further experience, particularly the public sector implementation in relation to off-payroll working, before introducing any significant changes.
- With the proposed introduction of a National Insurance Contributions Bill in 2018 it was confirmed that the measure it will implement in relation to the NIC treatment of termination payments will now take effect one year later, from April 2019.
- From April 2018 the company car tax diesel supplement will increase to 4% from 3% for diesel cars that do not meet emission standards, while cars that do meet the standards will not be subject to the diesel supplement and will instead be charged at the same rate as their petrol equivalent.
- The van and car fuel benefit charges and the van benefit charge will be increased by RPI from 6 April 2018.
- It was announced that, from April 2018, staff will not incur benefit in kind tax charges for electricity that employers provide to allow employees to recharge their electrical vehicles at work.
- Further measures have been introduced to tackle existing, and prevent future use of, disguised remuneration tax avoidance schemes.

Indirect Taxes

Frankie Devlin
Partner

- **VAT fraud in construction sector:** The government will publish a technical consultation on draft legislation for a domestic VAT reverse charge to tackle VAT fraud in construction supply claims. Changes will have effect on or after 1 October 2019 and businesses in the sector will need to prepare for the changes.
- **VAT and Vouchers:** The government will legislate in Finance Bill 2018-2019 to ensure that when customers pay with vouchers, businesses account for the same amount of VAT as when other means of payment are used.
- **VAT and Air Passenger Duty (APD) in Northern Ireland:** The government will consider further in 2018 the impact of VAT and APD on the tourism sector in Northern Ireland. This follows calls in recent years for a reduction of VAT in the tourism and leisure sector to 9% and abolition of APD to allow Northern Ireland to compete on a level playing field with the Republic of Ireland and to further promote the whole island as one tourism destination.
- **Import VAT – Post Brexit:** The government has agreed to consider options to mitigate cash flow impacts for importers when the UK leaves the EU. This could involve some form of reverse charge accounting but the government has made no commitments at this stage.
- **VAT grouping:** Following consultation on the UK's VAT grouping structure, the government will summarise responses on 1 December 2017. The government has at this stage only said they will consider further the scope of VAT grouping and the issues raised.
- **Excise Duty:** Duties on beers, wines and spirits will be frozen (except cheap high strength ciders) for tax year 2018 – 2019.
- **Gaming duty:** The government will publish a consultation in early 2018 on gaming duty return periods to seek to bring gaming duty more into line with other gambling duties. It will also seek views on removal of the requirement to make payments on account.

Property

Mat Scott
Partner

- There are significant tax changes ahead for non-resident investors in UK property. A consultation paper has been issued with a range of proposals.
- Currently, non-resident investors are subject to UK tax only on UK residential property if they are individuals, trusts, partnerships or closely held companies. From April 2019, this is extended to include all non-resident companies. In addition, for the first time, non-residential UK property held by non-residents will also be taxable in the UK.
- UK tax is likely to arise where there is a direct or indirect disposal – a further extension of the scope of UK tax. An indirect disposal is the disposal of a "property rich" envelope (eg a company) which derives substantially (proposed to be 75%) all of its value from UK immovable property. The test is a gross assets test based on market values. An indirect disposal is caught if the non-resident holds at least 25% of the envelope or has done so in the previous 5 years.
- UK land that is caught by these new rules will be rebased as at April 2019 so it will only be subsequent gains that are taxed. For direct disposals, rebasing is not mandatory and might not be followed, for example, if the property is standing at a loss.
- From April 2020, non-resident corporate landlords will be subject to UK corporation tax rather than income tax on their rental income. This is forecast to increase tax yields as newly introduced corporate interest restriction rules and corporate loss relief rules will apply.
- First time house buyers will benefit from relief from Stamp Duty Land Tax on the first £300,000 of consideration on properties costing up to £500,000.

Anti-avoidance

Mark Hood
Director

- **Extension of time limits for assessment of non-deliberate offshore tax non-compliance:** time limit increased from 4 years to 12 years. Consultation to be carried out in spring 2018 ahead of legislation.
- **CGT on 'carried interest':** certain transitional provisions (re disposal of partnership assets and application of disguised investment management fee rules) which were put in place when new carried interest rules were introduced on 8 July 2015 will no longer apply to carried interest arising on or after 22 November 2017.
- **Hybrid mismatch rules:** certain changes have been made to the hybrid mismatch rules for corporation tax, including measures to disregard taxes charged at a nil rate in an overseas jurisdiction, when determining whether there is a mismatch between a deduction claimed by the payer and income subject to tax for the recipient.
- **Depreciatory transactions:** the 6-year 'look back' period for depreciatory transactions within groups is removed, meaning that any loss claimed will be in line with actual economic loss.
- **Disguised remuneration:** further strengthening of legislation, including provisions to introduce a 'close companies gateway' in order to combat avoidance schemes used in respect of remuneration of employees and directors who have a material interest in their close company employer.
- **Intangible assets:** a licence granted by a company to a related party will be subject to market value rules, in the same way that the transfers of an intangible assets from a company to a related party is already subject to those rules.

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