GMS Flash Alert

2017-048 | March 9, 2017

United Kingdom – In Budget, Some New Measures, Some Previously-Announced

In the Spring Budget, announced by the U.K. Chancellor of the Exchequer on 8 March 2017, there were a few announcements on various measures affecting individuals, including, for example, on the treatment of non-domiciled individuals, National Insurance Contributions paid by employees and the self-employed, the tax-free dividend allowance, and foreign pensions.[1] The announcements largely represent updates resulting from a number of ongoing consultations.

The focus of tax policy remains on closing the "tax gap," which is the difference between what the U.K. government believes it should collect and what is actually collected. It is for this reason policies around "Making Tax Digital" and "Tax Avoidance and Evasion" remain at the heart of the government's tax strategy.

WHY THIS MATTERS

For employers of globally mobile employees there was little that was new or unexpected.

The reduction of the tax-free dividend allowance from £5,000 to £2,000 will impact some assignees, making them potentially worse off.

The introduction of the "deemed-domicile rules" will come into effect on 6 April 2017, as planned and will impact the tax advantages enjoyed up to now by long-term-resident non-U.K.-domiciled individuals ("non-doms") living in the United Kingdom, and bring worldwide income and capital gains tax under the rules. Individuals who were born in the U.K. with a U.K. domicile or origin but have established a domicile overseas will also become deemed-domiciled in the United Kingdom.

Many assignees who let out their U.K. properties while on assignment might be relieved to learn there is a one-year delay to the requirement to report rental income and expenses quarterly under Her Majesty's Revenue & Customs' (HMRC) Making Tax Digital transformation.

Background

The Budget provides an update on the U.K. economy and fiscal policy. This will be the Chancellor's last Spring Budget as in future, the Budget will be held in late Autumn to provide a longer period of time to debate proposed new tax legislation and to try and limit the possibility of unintended consequences.

Overview of the Main Measures

Differences in National Insurance Contributions for Employed and Self-Employed

The government has started to tackle the difference in National Insurance Contributions paid by employees and the self-employed by announcing a rate increase for the self-employed from 9 percent to 10 percent from April 2018, and to 11 percent from April 2019.

KPMG NOTE

While the Chancellor announced the beginnings of an alignment in taxation between the employed and self-employed with a rise in the class 4 NIC rate from 9 percent to 10 percent from April 2018, a key aspect is employers' NIC which, as the name suggests, applies only to the employer. At 13.8 percent this is a material cost to employers at a time when automation and offshoring mean that jobs are increasingly under threat.

It is clear that with the rise of the 'gig' economy,[2] the differences between employment and self-employment are becoming harder and harder to discern.

KPMG LLP (U.K.) is hopeful that employers' NIC is something the government will consider further when the Taylor report[3] is published later this year.

Tax-Free Dividend Allowance

The tax-free dividend allowance of £5,000 which was introduced on 6 April 2016, is to be reduced to £2,000 from 6 April 2018.

KPMG NOTE

This is a measure targeting individuals who use a company to provide services and therefore pay a lower tax than employed or self-employed individuals. Employees who own shares in their employer's business or as part of a personal portfolio may also pay more tax on their dividend income as a result. This could increase taxes for affected individuals by up to £1,143.

Quarterly Reporting under "Making Tax Digital"

The government has announced a one-year delay, to 6 April 2019, of the introduction of quarterly reporting under

Making Tax Digital for businesses and landlords whose turnover is below the VAT exemption threshold, currently £85,000.

KPMG NOTE

Making Tax Digital is set to transform the U.K. tax system by 2020 and remove the annual requirement to file an income tax return. KPMG LLP (U.K.) has been liaising closely with the U.K. tax authorities on this together with other tax administrations that have been undertaking similar transformations. There have been some concerns about whether software providers would be ready to help support quarterly reporting by April 2018 and the additional burden of reporting that would be required.

Landlords will be required to report income and expenses quarterly within their Personal Tax Account, and so, many assignees who rent out their U.K. properties while on assignment will be impacted.

A one-year delay is a welcome announcement and should help foster more effective implementation.

Taxation of Non-Domiciled Individuals

In the Budget, the government has confirmed a couple of further easements in respect of non-domiciled individuals.

KPMG NOTE

For more details on the forthcoming changes, see GMS *Flash Alert 2016-146* (16 December 2016). One of these changes is the extension of the "cleansing" of mixed funds[4] to include funds built up prior to 6 April 2008, which will be welcomed.

Termination Payments

The changes to termination payments previously announced will come into effect from 6 April 2018. There will be alignment of the tax and employer (but not employee) NIC position for payments above £30,000 and Foreign Service Relief will be abolished (except for seafarers).

KPMG NOTE

For a more detailed analysis of the proposals, please refer to GMS *Flash Alert 2016-092* (17 August 2016). There have been some changes to the proposals since then, but the abolition of Foreign Service Relief will result in more complexity for termination payments related to U.K. service and more treaty relief claims.

Foreign Pensions

The government has indicated that it will legislate in Finance Bill 2017 to more closely align the treatment of foreign pensions with the U.K.'s domestic pension scheme. Following consultation, the legislation has been revised to set out the position for defined benefit specialist pension schemes for those employed abroad (section 615 schemes) and clarify that all lump-sums paid out of funds built up before 6 April 2017 will be subject to existing tax treatment.

KPMG NOTE

It is unclear whether this "grandfathering" is applicable only to section 615 schemes or will also apply to non-U.K. "employer-financed retirement benefit schemes." We await further clarity with the publication of Finance Bill 2017.

Transfers to Qualifying Recognised Overseas Pension Schemes

The government has announced that transfers to "qualifying recognised overseas pension schemes" (QROPS) requested on or after 9 March 2017, will be subject to a 25-percent tax charge, subject to certain exceptions, e.g., where the individual and the QROPS are both within the European Economic Area (EEA) or where both the individual and the QROPS are within the same non-EEA country. The U.K. pension scheme administrator or scheme manager will be required to withhold this tax. Please also note that:

- if the individual subsequently moves to another country, it might (depending on the precise circumstances) be possible to obtain a refund of such tax charge – but equally, he/she might be exposed to a retrospective tax charge where none was previously applied; and

- the relevant individual, notwithstanding the payment of such up-front tax charge, could still be exposed to later U.K. and/or foreign tax charges on taking benefits from the QROPS.

Also, the circumstances in which an individual can be liable to special U.K. tax charges on taking benefits from a QROPS are being widened. Where the transfer is made on or after 6 April 2017, the individual will potentially be liable to such tax charges until such time as five full U.K. tax years have elapsed since the transfer was made (even where the individual ceased to be U.K. tax resident long before the transfer was made).

KPMG NOTE

QROPS were established with the intention of helping retirees transfer a U.K. pension fund to an overseas plan so that, for example, they could receive a pension in the currency of their retirement jurisdiction. QROPS are of particular interest to some senior executives who are members of U.K. plans and are planning to retire outside the United Kingdom. The measure announced on 8 March is around anti-avoidance where some individuals have been taking tax-free distributions overseas.

Personal Income Tax Rates

Income tax rates and thresholds for 2017/2018 are as shown in the table below.

	Rate	2016/17	2017/18
Personal allowance	0%	£11,000	£11,500
Basic rate	20%	£0 - £32,000	£0 - £33,500
Higher rate	40%	£32,001 - £150,000	£33,501 - £150,000
Additional rate	45%	Over £150,000	Over £150,000

Next Steps

We are expecting a number of more detailed documents and consultation papers to be released on 20 March 2017, together with Finance Bill 2017. The consultations will cover a number of important areas from an employment tax perspective such as the valuation of benefits-in-kind and the treatment of employee business expenses.

KPMG LLP (U.K.) will endeavour to keep readers informed of any further developments that concern individuals, including those on international assignment, and multinational employers.

FOOTNOTES:

1 For the U.K. "Budget 2017," click here.

2 "Gig" economy is a widely-used term to describe people who are independent contractors and flexibly work on temporary or short-term roles and projects.

3 For more on The Independent Review of Employment Practices in the Modern Economy led by Matthew Taylor (Chief Executive of the Royal Society of the Arts), click here.

4 This is a statutory term – it is basically anything (even, for example, a home) that contains mixed sources of U.K. and foreign income, gains, and capital.

* * * *

Contact us

For additional information or assistance, please contact your local GMS or People Services professional or one of the following professionals with the KPMG International member firm in the United Kingdom:

Colin Ben-Nathan
Tel. + 44 (0) 20 7311 3363
Colin.Ben-nathan@kpmg.co.uk

Rachel Beecroft
Tel. + 44 (0) 20 7311 3356
Rachel.Beecroft@kpmg.co.uk

Matthew Fox
Tel. +44 (0) 20 7694 3392
Matthew.Fox@kpmg.co.uk

The information contained in this newsletter was submitted by the KPMG International member firm in the United Kingdom.

www.kpmg.com

kpmg.com/socialmedia

Flash Alert is a GMS publication of KPMG LLP's Washington National Tax practice. To view this publication or recent prior issues online, please click here. To learn more about our GMS practice, please visit us on the Internet: click here or go to http://www.kpmg.com.