Spring 2017 Budget

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CHARTERED ACCOUNTANTS

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1. Personal tax

1.1 Income tax rates and bands

The rates and bands of income tax are set out in the table below. Different thresholds apply in Scotland – see below at 1.3.

Tax rate **2017-18**	**Taxable income** **2017-18** **£**	**Taxable income** **2016-17** **£**
Starting rate for savings only: 0%	1 - 5,000	1 - 5,000
Basic rate: Income other than dividend income: 20% Dividend income: 7.5%	1 - 33,500	1 - 32,000
Higher rate: Income other than dividend income: 40% Dividend income: 32.5%	33,501 - 150,000	32,001 - 150,000
Additional rate: Income other than dividend income: 45% Dividend income: 38.1%	over 150,000	over 150,000

Dividends are treated as the top slice of income.

The trust rate of income tax remains at 45%, with the trust dividend rate at 38.1%, where total trust income exceeds £1,000.

1.2 Income tax allowances

It was announced in this Budget that the tax-free dividend allowance will be reduced from £5,000 to £2,000 from 6 April 2018.

The Chancellor stated the reason for the change is to reduce the tax differential between the self-employed and employed and those working through a company.

Allowance	**2017-18** **£**	**2016-17** **£**
Personal allowance *	11,500	11,000
Income limit for personal allowance	100,000	100,000
Marriage allowance **	1,150	1,100
Married couple's allowance at 10% ***		
For people born before 6 April 1935	8,445	8,355
Minimum amount	3,260	3,220
Income limit for married couples allowance	28,000	27,700

Blind person’s allowance	2,320	2,290
Dividend allowance (regardless of level of non-dividend income)	5,000	5,000
Personal savings allowance		
For basic rate taxpayers	1,000	1,000
For higher rate taxpayers	500	500
For additional rate taxpayers	Nil	Nil

*Allowance reduced by £1 for every £2 over limits (where applicable). For those with income over £123,000 in 2017-18 the personal allowance is reduced to nil.

** A spouse or civil partner may transfer up to this amount of their personal allowance to their spouse or civil partner, provided neither is liable to income tax above the basic rate. Only available to people born after 6 April 1935. Relief is restricted to 20%.

*** Allowance reduced by £1 for every £2 over limit.

Further rises in the value of the personal allowance and the higher rate threshold (when a person becomes liable to the higher rate of tax) are expected in future years. The Chancellor has confirmed that these would reach £12,500 and £50,000 respectively by the end of the current Parliament.

1.3 Scottish taxation

From 6 April 2017, the Scottish government has the ability to vary the three income tax rates independently, move thresholds, and introduce or even abolish rates. On 21 February 2017, the Scottish Parliament voted to freeze tax rates but to set a lower threshold for the higher rate of tax than that which will apply for the UK as a whole. The main UK-wide higher rate threshold will increase from £43,000 to £45,000 but income subject to the Scottish Rate of Income Tax (SRIT) will remain subject to the current threshold of £43,000. This change creates significant additional complexity for affected individuals. The new threshold only applies to non-savings and non-dividend income – where Scottish taxpayers have taxable savings or dividend income, this will instead be subject to the main £45,000 threshold. A person with £40,000 of salary and £10,000 interest income will not be affected by the change, whereas someone earning £50,000 of employment income will be.

It should also be pointed out that the new threshold does not apply for National Insurance Contributions (NICs). The upper threshold for NICs will also be increased to £45,000 from 6 April 2017. This differential is not beneficial for Scottish taxpayers, as National Insurance rates fall as income increases (12% below the threshold and 2% above for employment income). Scottish taxpayers will, therefore, have the worst of both worlds – a low threshold for income tax, and a high threshold for NICs.

1.4 National Insurance Contributions

The government has already announced that Class 2 NICs will be abolished from 6 April 2018.

It was announced in the Spring Budget 2017 that the main rate of Class 4 NICs will increase from 9% to 10% from 6 April 2018, and to 11% from 6 April 2019.

The rationale given for the increase in NIC for the self-employed is that due to the new flat rate state pension, the self-employed are entitled to receive broadly the same state benefits as the employed, despite paying a substantially lower rate of NIC. The Chancellor did mention the fact that there still remain some state benefit entitlement discrepancies between employed and self-employed including around parental rights. He also referred to the current review led by Matthew Taylor into modern working practices which is due to report in summer 2017.

Rate/limit	**2017-18**	**2016-17**
Employee's Class 1 on earnings between primary threshold and upper earnings limit	12%	12%
Employee's Class 1 on earnings above upper earnings limit	2%	2%
Employer's Class 1 on earnings above secondary threshold	13.8%	13.8%
Self-employed Class 4 on profits between lower and upper profits limits	9%	9%
Self-employed Class 4 on profits above upper profits limit	2%	2%
Lower profits limit (annual)	£8,164	£8,060
Upper profits limit (annual)	£45,000	£43,000
Class 2 (per week)	£2.85	£2.80

1.5 Capital gains tax rates

The capital gains tax rates remain unchanged and are set out in the table below.

From 6 April 2017	**Capital gains tax**	**Capital gains tax on residential property and carried interest**
Basic rate	10%	18%
Higher and additional rate	20%	28%
Trustees	20%	28%

The annual exemption for 2017-18 is £11,300 for individuals and £5,650 for trustees.

1.6 Salary sacrifice arrangements

As announced in the 2016 Autumn Statement, with effect from 6 April 2017 restrictions will apply to all benefits provided under salary sacrifice arrangements with the exception of pensions contributions, ultra-low emissions vehicles, childcare and cycle to work schemes. Essentially all other benefits will have a tax and employer's NIC Class 1 charge on the higher of the benefit value if the benefit was not provided under salary sacrifice, or the amount of salary sacrificed.

There are transitional arrangements for salary sacrifice arrangements already in place at 6 April 2017 so that the benefits provided will retain their tax advantages until 5 April 2018 provided the salary sacrifice agreement remains unchanged. This protection is extended until 5 April 2021 for school fees, accommodation and cars. This reflects the fact that taxpayers may have taken longer-term decisions on these particular benefits on the basis that tax relief would be available.

1.7 Termination payments

In the 2016 Budget it was announced that from 6 April 2018 termination payments over £30,000 would be subject to employer's NICs as well as income tax, there would be no tax relief for foreign service awards and there would be a new concept of deemed payments in lieu of notice (PILONs).

The Government has confirmed that the new NIC charge for termination payments will be introduced as planned and also that deemed PILONs will be introduced. Although foreign service relief will also be removed, if the employment to which the termination payment relates was not taxable as employment income in the UK, the termination payment will not be chargeable to tax in the UK.

It is common practice to structure termination arrangements such that there is no contractual PILON is paid – the effect of this is that the entire payment may escape tax if below £30,000. The proposed new rules will apply in such cases (a termination payment is paid but no contractual PILON) and will operate by deeming a proportion of the termination payment to be salary, which will be subject to income tax and NIC, and the £30,000 income tax and NIC exemption can apply to whatever remains. This is quite a significant change in the taxation treatment of termination payments, and means that most, if not all, such payments will now have a material liability to income tax and NIC.

1.8 Consultations on employee benefits

On 20 March 2017 three consultations on employee benefits and expenses will be published. This follows the Government announcement in the 2016 Autumn Statement its intention to examine 'how the taxation of benefits in kind and expenses could be made fairer and more coherent'. This will include looking at how benefits are valued for tax purposes. There will also be a specific consultation on employer-provided living accommodation.

The third consultation is a call for evidence on income tax relief for employee's business expenses covering situations both where an employee claims a deduction, and where expenses have been reimbursed by employers.

1.9 Childcare

In July 2015 the Government announced changes to tax-free childcare, allowing working families to receive up to £2,000 a year from the government towards the cost of childcare for children under 12. Following delays in implementation, the Chancellor announced that the policy will be rolled out from 6 April 2017 and that with the increase in free childcare available for children aged three and four from September 2017 this will effectively represent an increase of £5,000 per child.

Currently there is a tax exemption for employer provided childcare vouchers worth up to £2,916 a year depending on the employee's salary. In the 2016 Budget it was announced that this will continue to be available to new parents until April 2018. The new tax free childcare scheme will not be open to those earning more than £100,000 a year. Parents with incomes in excess of this figure should consider signing up for the childcare voucher scheme ahead of April 2018.

1.10 Non-UK domiciled individuals

The reforms to the taxation of non-UK domiciled individuals ('non-doms') will be brought in from 6 April 2017 and not delayed by a year as some had hoped and lobbied for.

In summary, the changes taking effect from 6 April 2017 are:

a. Non-doms will be deemed to be domiciled in the UK for all tax purposes, ie income, capital gains and inheritance tax purposes:

   i. after being resident in the UK for 15 of the last 20 years; or

   ii. if they were born in the UK with a UK domicile of origin, but have acquired a domicile of choice outside the UK, they will be deemed to be UK domiciled once they again become UK resident.

b. Non-doms (except those born in the UK with a UK domicile of origin) will have a one-off opportunity to segregate mixed offshore funds into their component income, capital gain and clean capital in the period from 6 April 2017 to 5 April 2019 – the government has clarified that this will apply to both pre and post 6 April 2008 income, gains and capital.

c. Non-doms (except those born in the UK with a UK domicile of origin) becoming deemed domiciled under the 15/20 rule on 6 April 2017 and who have paid the remittance basis charge will have their non-UK assets rebased to the April 2017 market value, unless they elect (on an asset by asset basis) for no re-basing.

d. Offshore trusts created by non-doms (except those who are resident and born in the UK with a UK domicile of origin) will have a protected status. This means that non-UK income and gains will not be subject to tax until benefits are taken out. There are a number of transitional provisions in relation to offshore trusts which have not been published yet.

e. Inheritance tax will be charged on UK residential property (and loans to fund the purchase of UK residential property) when held by a non-UK domiciled individual through an offshore structure, including offshore trusts created by non-UK domiciled individuals. It has been announced that the proposed 1% de minimis below which residential property interests will be ignored is to increase to 5%.

f. A previously announced, the government is reviewing the Business Investment Relief (BIR) rules to encourage more non-doms to invest in the UK. There have been no further details published about this.

1.11 Employee shareholder status

The employee shareholder status (or 'ESS') was introduced by Finance Act 2013, and allowed employees to give up some of their employment rights in exchange for shares in their employer, resulting in a beneficial tax treatment. ESS was initially devised to enable companies to hire and fire staff more flexibly, but has mainly been used in the private equity industry to reward senior management. The main tax benefit was that the gains arising on shares were exempt from capital gains tax. In the 2016 Budget, it was announced that the capital gains tax exemption was to be limited to £100,000 of gains on ESS shares granted to employees on or after 17 March 2016, meaning a maximum tax benefit of perhaps £10,000 per employee.

It was then announced in 2016 Autumn Statement that the tax reliefs associated with ESS would be abolished entirely for arrangements entered into on or after 1 December 2016.

Agreements entered into before 1 December 2016, or before 2 December 2016 where independent advice was received before 1:30pm on 23 November 2016, will retain the limited tax benefits. Employees holding ESS shares that were issued before 17 March 2016 will continue to get full exemption from capital gains tax on sale of the shares provided all the qualifying criteria are met.

2. Savings and pensions

2.1 Individual Savings Account changes

From 6 April 2017, individuals will be able to save up to £20,000 per annum in an ISA. Of this, up to £4,000 can be contributed to a 'Lifetime ISA' which are only available to those under 40, and attract a government bonus of 25% of amount paid in. These Lifetime ISAs are intended to be used for retirement savings, or to contribute towards a first home – withdrawals before the age of 60, unless used to help fund the purchase of a first home costing less than £450,000, are subject to a withdrawal charge clawing back the government bonus.

2.2 Alignment of overseas pensions

The 2016 Autumn Statement included the announcement that the government would change the tax regime for overseas pensions, to bring them more into line with the rules applying to UK pensions. The 2017 Budget confirms that these changes will go ahead, with some amendments to ensure that the treatment of defined benefit 'section 615 schemes' (specialist schemes for those employed abroad) is clear, and to confirm that any lump sums paid from funds accrued before 6 April 2017 will be subject to the current rules.

A further, significant, change was also announced: from 9 March 2017 a 25% charge will apply to pension transfers to Qualifying Recognised Overseas Pension Schemes (QROPS). The charge is not intended to apply where an individual moves abroad and wants to take their pension savings with them, so an exemption from this charge will be available where both the individual making the transfer and the pension scheme are resident in the same country (or in two countries both of which are within the EEA), or where the QROPS is an occupational pension scheme provided by their employer.

Separately, the 2017 Budget also confirms that the Money Purchase Annual Allowance (the reduced contributions allowance applying to those who have already accessed their pensions savings) will reduce from £10,000 a year to £4,000 a year from 6 April 2017.

2.3 Life assurance bonds

Two changes were announced in the 2016 Autumn Statement concerning life assurance bonds. Currently it is possible to trigger very significant income tax charges where there is no economic profit. From 6 April 2017 individuals who have part surrendered or part assigned their life insurance policies and inadvertently generated a wholly disproportionate tax charge can apply to HMRC to have the charge recalculated on a just and reasonable basis.

In addition, as announced in the 2016 Budget and following consultation the government will have the power to amend the rules concerning assets which such bonds can invest in without triggering the personal portfolio bond anti avoidance rules.

3. Value Added Tax and other indirect taxes

3.1 Increase in registration threshold

As normal, there is an increase in the registration threshold. From 1 April 2017, registration will be required where taxable turnover exceeds £85,000. The current limit is £83,000.

From the same date, the de-registration threshold will increase to £83,000, also an increase of £2,000.

These limits only apply to UK businesses - since 1 December 2012, there has been no limit for non-UK businesses. Such businesses are required to register as soon as they make a UK taxable supply, no matter what the value of that supply.

3.2 Tackling VAT fraud

A measure previously announced to tackle VAT fraud by online retailers will introduce standards that fulfilment houses will need to meet when working with overseas companies selling goods in the UK. The Fulfilment House Due Diligence Scheme (FHDDS) will require fulfilment houses to be registered with HMRC by 1 April 2018 and meet a range of record keeping and compliance standards.

The Government will look at methods of extracting VAT from online sales using modern technology at the time payment by the customer is made.

In another measure previously announced, a new VAT penalty for participating in VAT fraud will come into force from the date of Royal Assent of Finance Bill 2017. The new penalty will allow HMRC to name company officers involved if the amount of tax at stake exceeds £25,000.

A consultation will be launched on 20 March 2017 to explore measures to tackle VAT fraud on labour services provided in the construction sector. The consultation will consider introducing a reverse charge mechanism so the customer accounts for VAT in order to combat missing trader fraud in the sector.

3.3 Amendments to the disclosure of indirect tax avoidance schemes

Following a period of consultation in 2016, changes will be made in Finance Bill 2017 to replace the existing disclosure regime which only relates to VAT. The changes will have effect from 1 September 2017 and place responsibility on scheme promoters to disclose indirect tax avoidance schemes to HMRC. Previously, disclosure by promoters of VAT avoidance schemes was voluntary and the responsibility to disclose was placed on participants.

3.4 Other VAT rule changes

As previously announced, from 1 April 2017 changes will come into effect in relation to the flat rate scheme. The measure increases the flat rate applicable to 16.5% for those VAT registered businesses that incur ‘limited costs’ on goods they buy in the course of their business activities. This will remove much of the benefit to those businesses using the scheme that are mainly service based with few purchases of goods.

The ‘use and enjoyment’ rules that allowed businesses to provide mobile phone services to UK consumers enjoyed outside the EU, without accounting for UK VAT, are to be removed. The secondary legislation necessary to introduce the changes will be published before the summer recess.

3.5 Other indirect taxes

There have been the usual rises announced in the rates of Tobacco and Gaming Duty. As previously announced, discounted and free gambling will become subject to Remote Gaming Duty.

Beer, spirit and cider Duty rates will increase with RPI from 13 March 2017. A consultation will be launched on 20 March 2017 on possible changes to white cider duty and the introduction of a new rate band for still wine and made wine.

Aggregates Levy is being held at £2 per tonne in 2017 and Fuel Duty remains unchanged.

The Soft Drinks Levy will be introduced in Finance Bill 2017 in line with previous announcements at 18p per litre for the main rate and 24p per litre for the higher rate.

Landfill Tax and Climate Change Levy will increase with RPI from 1 April 2017. As previously announced, the definition of a taxable disposal for Climate Change Levy will be extended. This change will come into force from Royal Assent of Finance Bill 2017 in England, Wales and Northern Ireland.

Air Passenger Duty rates are increasing in line with the announcements made in the 2016 Budget. These rates will increase again in 2018 in line with RPI.

The standard rate of Insurance Premium Tax will be increased from 10% to 12% from 1 June 2017 in line with previous announcements.

4. Business tax

4.1 Business rates

As expected, the Chancellor announced a package of measures intended to soften the impact of the latest business rates revaluation in England. This will include a cap on the increase in rates faced by those businesses coming out of Small Business Rates Relief as a result of the revaluation.

In addition, local authorities in England will be given extra funding (totalling some £300million) to allow them to provide discretionary support to individual businesses particularly affected by the changes.

There is also specific support for the pub industry, with a one-year £1,000 reduction in business rates for those pubs with a rateable value of less than £100,000 – according to the Chancellor, 90% of all English pubs.

Looking forward, the government is to consult on a new revaluation method ahead of the next rates revaluation in 2022.

4.2 Apprenticeship Levy

The Apprenticeship Levy is being introduced on 6 April 2017 under which employers and employment agencies will be liable to pay a levy of 0.5% on salary costs liable to employer's NIC.

There will be a £15,000 allowance so that only employers with total salary costs in excess of £3,000,000 per year will pay the Levy.

Employers and agencies paying the Levy will be entitled to use the amounts paid to fund qualifying apprentices but that is not practical for many who do not pay for apprenticeships.

4.3 Cash basis and simplified accounting

In the 2016 Budget, the government announced it would explore options to simplify the tax rules for businesses, self-employed people and landlords.

The government will increase the thresholds within which unincorporated businesses can use the cash basis. Legislation will come into force on 6 April 2017 which will increase the threshold for the cash basis from £83,000 to £150,000. The exit threshold will be increased to £300,000 for all users of the trading cash basis.

Finance Bill 2017 will include a simple list of disallowed expenditure, in order to simplify the rules for allowable deductions within the cash basis.

The changes will have effect from 6 April 2017.

4.4 Converting capital losses to income losses

Currently, an appropriation of a capital asset to trading stock is treated as taking place at market value, and can give rise to a chargeable gain or an allowable loss. To prevent a 'dry' tax charge, it is possible to make an election that has the effect of reducing any chargeable gain or allowable loss to zero, and of making an equivalent adjustment to the cost of the trading stock in computing future trading profits.

The Budget changes to be introduced in Finance Bill 2017 which will only permit the election to be made where the appropriation into trading stock would give rise to a chargeable gain and not where it gives rise to an allowable loss. This means that a capital loss will be crystallised when the appropriation takes place, and the loss will be a capital loss rather than an income loss.

This measure will have immediate effect by preventing the election being made for appropriations into trading stock made on or after 8 March 2017.

A similar change will apply to an election where the disposal of the asset gives rise to a capital gain under the Annual Tax on Enveloped Dwellings rules ('ATED-related gain').

4.5 Image rights

For UK tax purposes the image rights of (for example) professional athletes and entertainers can be treated as separate their professional activities, and individuals frequently use a corporate entity to hold their image rights and associated income. A recent Public Accounts Committee (PAC) report urged the government to amend the tax treatment of image rights, to prevent individuals who are not UK domiciled from receiving a tax benefit where they incorporate their image rights company offshore. The government has chosen not to follow the PAC's recommendations; instead, HMRC will publish new guidelines in Spring 2017 aimed at those employers who make image rights payments to employees, to 'improve the clarity of the existing rules'.

4.6 Off-payroll working in the public sector

From 6 April 2017, public sector bodies engaging workers through personal service companies (PSCs) will take on the responsibility of reviewing whether the 'IR35' intermediaries rules should apply to a particular engagement, and for deducting income tax, NICs and the Apprenticeship Levy where appropriate. Where the worker is supplied through an agency, the public sector body must make the decision as to whether 'IR35' applies but it is the agency's responsibility to operate the payroll.

This is a major change from the current practice and although there were suggestions that the new arrangements could also be extended to the private sector, nothing was announced to this effect.

4.7 De minimis trading and property income (including rent a room)

As was announced in the 2016 Budget, and confirmed in the 2016 Autumn Statement that from 1 April 2017 two new £1,000 tax-free allowances will be introduced for trading and property income – this was targeted at the 'sharing economy', such as Airbnb and eBay. Individuals with relevant income above £1,000 will be able to choose to calculate their taxable profit as normal by calculating their turnover and deductible expenses or to deduct £1,000 from their turnover and be taxed on the remainder. The trading allowance will also apply to certain miscellaneous income from providing assets or services.

It was announced in this Budget, that amendments will be made to prevent the allowances from applying to income of a participator in a connected close company or to any income of a partner from their partnership. Minor revisions will also be made to improve clarity and correct errors.

The government also announced it will consult on proposals to reforms rent-a-room relief to ensure it is better targeted to support longer-term lettings. The intention is that the relief should be more closely aligned with its intended purpose of increasing the supply of affordable long-term lodgings (and presumably, not to exempt income from Airbnb or similar services from tax).

5. Property taxation

5.1 CGT – new payment deadlines

In the 2015 Autumn Statement the government announced from 6 April 2019 the deadline for paying any capital gains tax on residential property disposals would be shortened to 30 days from completion. There was no mention of this change in the Budget, so we assume that this will go ahead as planned.

5.2 Offshore property developers

Legislation was introduced in Finance Act 2016 and double tax treaties were amended so that trading profits which arise from property development are subject to UK tax even where a non-resident has no 'permanent establishment' in the UK.

This legislation applied with effect from 16 March 2016 but did not apply to contracts entered into before that date. An amendment is being made to the legislation so that any profits are taxed if they arise after 8 March 2017 regardless of when the contract was entered into.

5.3 Interest deductions

From 6 April 2017 deductions from property income for finance costs will be restricted, ultimately to the basic rate only. The restrictions will be phased in over four years. The new rule will not apply to companies, furnished holiday lettings businesses, and commercial properties.

6. Corporate tax

6.1 Corporation tax rates

The Chancellor reiterated that the corporation tax rate will reduce to 19% from 1 April 2017 and to 17% from 1 April 2020.

The previous Chancellor had proposed that the rate could fall still further to 15%, but there has been no further reference to this since the new Chancellor was appointed. We assume that this proposal has been dropped.

6.2 Restriction on interest expenses

As previously announced, from 1 April 2017, a corporation tax deduction for interest costs will be restricted to a maximum of 30% of a group's UK EBITDA. The restriction will only apply for corporation tax purposes, and so will not apply to individuals, trusts or non-resident landlords - although this may be affected by the extension of corporation tax to non-resident companies.

The 30% ratio will be increased where the worldwide group's interest to EBITDA ratio is higher, but this higher ratio will disregard any related party debt.

For UK groups and standalone companies with third party funding, this should mean that in practice no restriction applies, as the worldwide group ratio would be the same as the UK group.

The restriction will apply to all groups with UK interest costs of more than £2million.

An exemption is available for companies which are involved in 'public infrastructure' - which includes the letting of residential property. However, restrictions can still apply under the public infrastructure exemption where funding is from related parties.

6.3 Substantial shareholding exemption

The substantial shareholding exemption provides a tax exemption where a parent company disposes of shares in another company. As previously announced, the conditions for the exemption to apply will be relaxed with effect from 1 April 2017:

a. Under current rules, the company making the disposal must be a trading company or a member of a trading group. This condition will not apply from 1 April 2017.

b. Under current rules, the company being sold must be a trading company or the holding company of a trading subgroup immediately after the disposal. This condition will not apply from 1 April 2017 where the purchaser is not connected with the company making the disposal.

c. From 1 April 2017, the company making the disposal must have held at least 10% of the shares for a period of at least 12 months in the previous six years (rather than the previous two years under current rules).

d. Under current rules, the company being sold must be a trading company. From 1 April 2017, this condition will not apply if the company making the disposal is owned at least 25% by qualifying institutional investors.

A new exemption will be introduced from 1 April 2017 where the company making the disposal is owned at least 25% by qualifying institutional investors, and the cost of the shareholding (in the company being sold) was at least £50 million.

6.4 Reform of corporation tax loss relief

Under current rules, a company can offset its brought forward losses only against profits of the same type; for example, trading losses can be offset against trading profits. In addition, the losses can only be offset in the company which incurred them. However, the amount of losses that can be offset is not restricted.

As previously announced, from 1 April 2017, for groups with profits of more than £5million losses can only be offset against 50% of the profits above £5million. For example, a company with profits of £6million would only be able to offset £5.5million of brought forward losses. This will result in higher effective tax rates for many groups with brought forward losses.

On the other hand, for losses incurred after 1 April 2017, there will be more flexibility in how the losses can be offset. For example, a company will be able to use brought forward trading losses against non-trading profits, or even surrender them to other group companies.

There is a mismatch here - the more flexible rules on loss utilisation only apply for losses incurred after 1 April 2017, but the restriction in the offset from that date will apply to all losses regardless of when they were incurred.

6.5 EIS - share conversions

HMRC take the view that a conversion of shares into a new class, while being ignored for most tax purposes, is a disposal of shares for Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) purposes, leading to a clawback of tax relief in some cases.

As announced in the 2016 Autumn Statement, Finance Act 2017 will amend this treatment, so the rights to convert shares from one class to another will not lead to a clawback of tax relief for shares issued on or after 5 December 2016.

A summary of responses to a consultation on options to streamline and prioritise the EIS advance assurance service will be published after the Budget.

6.6 Taxation of non-resident companies

Companies which are not resident in the UK and do not have a permanent establishment here are currently subject to income tax rather than corporation tax on their profits. This mainly affects companies which have UK rental income, and are taxed under the non-resident landlord scheme.

As previously announced, there will be a consultation, due to be published on 20 March, on making such companies subject to corporation tax. This could have a number of implications:

a. The corporation tax rate (19% from 1 April 2017) will apply rather than the income tax rate (20%).

b. The company will be subject to corporation tax rather than income tax rules - including the restriction on interest expenses.

c. There may be greater scope for companies to claim a tax deduction for other financing expenses, such as discounts on deeply discounted bonds.

6.7 Research and Development ('R&D') tax credits

There are two R&D tax credits available to companies - an R&D tax credit for SMEs, and the Research and Development Expenditure Credit (RDEC) for large groups. Both work in a similar way, and provide payable tax credits for companies involved in qualifying R&D.

The government proposes to make administrative changes to the RDEC to increase certainty and simplicity around claims. There is no further detail on what these changes might be, but we would note that a limited clearance facility was introduced for the SME scheme last year, and this could be extended.

The government will also take steps to raise awareness of R&D tax credits among SMEs, which has been a theme of recent engagement between tax advisers and R&D specialists at HMRC.

6.8 Museums and Galleries

As announced in the 2016 Budget, from 1 April 2017 a creative sector tax relief will be available to exhibitions at museums and galleries. This relief will apply to permanent as well as touring exhibitions.

7. Administration

7.1 Making Tax Digital

The government's response to last year's Making Tax Digital ('MTD') consultations, published in January, confirmed that quarterly digital reporting would be phased in from 6 April 2018. The Budget has provided some missing pieces in the MTD puzzle, with confirmation that unincorporated businesses with a turnover of less than £10,000 will be exempt from the digital reporting requirements. In addition, those with turnover less than the VAT threshold (£85,000 from 1 April 2017) will have a one year deferral, and will come within the quarterly reporting framework from 6 April 2019.

Whilst it is disappointing that the government has retained the low threshold for exemption, confirmation of the position in the Budget means that those unincorporated businesses with turnover over the VAT threshold have certainty that they will fall within the new quarterly reporting regime from (their first accounting period starting on or after) 6 April 2018. These businesses need to start to prepare now to ensure that they have adequate systems and processes in place. HMRC are due to start a beta test of quarterly reporting from 6 April 2017, and the coming months should provide more information both on how reporting will work in practice and on the various software options available.

7.2 POTAS ('Promoters of tax avoidance schemes')

Finance Act 2014 introduced legislation to deter the creation and use of high risk tax avoidance schemes by promoters, their intermediaries and their clients and building on the disclosure of tax avoidance schemes (DOTAS) regime. The POTAS regime has a progressive series of sanctions, the two main ones being a conduct notice and a monitoring notice.

Legislation has been introduced to take effect from 8 March 2017 to prevent promoters of tax avoidance schemes reorganising their businesses by sharing control or inserting person(s) between them and the promoting business to avoid being caught by the POTAS provisions.

7.3 Enablers

After consultation, a new penalty is to be introduced (with effect from Royal Assent to Finance Act 2017 which is likely to be in July or August) for those who enable taxpayers to use abusive tax avoidance arrangements which HMRC subsequently defeat. In addition, the definition of reasonable care in relation to defeated tax avoidance cases is to be clarified – again this will take effect from Royal Assent to Finance Act 2017 and apply to inaccuracies in documents concerning tax periods from 6 April 2017.

7.4 Offshore tax - requirement to correct

Following consultation, a new legal requirement to correct a past failure to pay UK tax on offshore interests is to be introduced with effect from Royal Assent to Finance Act 2017. It will apply to all taxpayers with offshore interests who are not compliant with their UK tax obligations at 5 April 2017. The requirement to correct period will run from 6 April 2017 to 30 September 2018 and failure to do so by 30 September 2018 will result in tougher penalties being applied – the starting point will be 200% of tax underpaid although if reasonable an excuse can be shown it may be reduced, but to not less than 100%.

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