BHP Chartered Accountants

Briefing note

March 2017

Manufacturing: Budget 2017

Whilst references were made to improving the nation's productivity, the Northern Powerhouse and the launch of the Midlands Engine, there were few measures of substance for manufacturers announced in Philip Hammond's first and last Spring Budget.

Overview

The Chancellor referenced the new business rates reliefs and the delayed introduction for digital reporting for smaller businesses as evidence that he is listening to what businesses want. In our view he could have gone further as no mention was made of capital allowances or reductions in business regulation. However, there were a variety of other measures which affect manufacturers as set out below.

Making Tax Digital (MTD)

Despite scathing opposition from most quarters, the MTD project continues unabated. Whilst a lot of the details about the requirements of MTD are still unknown, broadly, unincorporated businesses and landlords with income over the VAT threshold will have to start retaining records digitally and filing returns quarterly from April 2018. The quarterly figures do not have to have tax or accounts adjustments but you can choose to pay tax quarterly based on these figures if you choose.

This represents a change to the previously announced rules and a deferral for those unincorporated business and landlords with income of between £10,000 and the VAT registration limit. The introduction of MTD for businesses will now be delayed for a year until April 2019, when VAT registered businesses will also need to start keeping records digitally. Businesses reporting under Corporation Tax will be brought within the regime in April 2020.

In an effort to simplify the tax system, the threshold for using the cash basis of accounting will be increased to £150,000. However to be sure that you are adopting the right basis you may have to calculate profits under both the cash and accruals basis so the end result may be far from simple!

Business Rates

The press fallout from the recent rates increases due to the revaluation exercise has made business rates an unexpected headline issue.

To soften the blow for smaller businesses the Chancellor has announced three further measures in addition to the £3.6 billion transitional relief which was announced in November 2016:

- Support for small businesses losing Small Business Rate Relief to limit increases in their bills to a maximum of £600.
- Providing English local authorities with funding to support £300 million of discretionary relief, to allow them to provide support to individual hard cases in their local area.
- The introduction of a £1,000 business rate discount for public houses with a rateable value of up to £100,000, for one year from 1 April 2017.

The Government had also previously announced an aim to deliver more frequent revaluations of properties – at least every 3 years. The Government will set out its preferred approach for delivering this aim at Autumn Budget 2017 and will consult ahead of the next revaluation in 2022.

Issues for corporates

Maintaining one of the lowest tax rates in the G20, the Corporation Tax rate has been confirmed as 19% from April 2017 and 17% from April 2020.

The Government's ambition to drive up the level of private investment in science, research and innovation across the economy was set out in The Industrial Strategy green paper. This reviewed the R&D tax regime and found that the UK's R&D tax credits regime is an effective and internationally competitive element of the Government's support for innovation. To further support investment, the Government will make administrative changes to the Research and Development Expenditure Credit to increase the certainty and simplicity around claims and will take action to improve awareness of R&D tax credits among SMEs. The Government says it will continue to keep the competitiveness of the UK environment for R&D under review to ensure that the UK is profoundly pro-innovation.

The Government has also reviewed its aims to ensure that high growth businesses can access the long-term capital that they need to fund productivity enhancing investment. Alongside identifying barriers to institutional investment in long-term finance, the review will also consider existing tax reliefs aimed at encouraging investment and entrepreneurship to make sure that they are effective, well targeted, and provide value for money.

As announced at Autumn Statement 2016, the Government will legislate in Finance Bill 2017 to add specific provisions to the revised Patent Box rules introduced in Finance Act 2016, covering the case where Research and Development (R&D) is undertaken collaboratively by two or more companies under a cost sharing arrangement.

The provisions will ensure that companies are neither penalised nor able to gain an advantage under these rules by organising their R&D in this way.

Following consultation, the legislation will be revised to narrow the definition of a cost-sharing arrangement and to better align the treatment of payments into, and payments received from, a cost-sharing arrangement by the company.

Relaxations have been made to the Substantial Shareholding Exemption such that for disposals of qualifying shares on or after 1 April 2017, the rules are relaxed so that the investing company no longer needs to be a trading company. The company being sold still needs to be a trading company to qualify for exemption.

Issues for Employers

Various consultations and calls for evidence have been announced into areas of employment taxes as follows:

- The exemptions and valuation methodology for the tax and NICs treatment of benefits in kind
- Proposals to bring the tax treatment of employer-provided accommodation, board and lodgings up to date
- Income Tax relief for employees' expenses, that are not reimbursed by the employer.

HMRC has announced it is actively monitoring the National Insurance Employment Allowance compliance following reports of some businesses using avoidance schemes to avoid paying the correct amount of NICs.

Changes to termination payments have been consulted on and various changes will take effect on or after 1 April 2017:

- As currently, the first £30,000 of certain termination payments (less Statutory redundancy) is tax free
- Contractual payments being paid as damages will be subject to tighter rules, which will treat the payments as earnings and so income tax and NIC will be payable on these amounts
- Exemptions in respect of time spent working overseas will now be removed
- Termination payments over £30,000 will be subject to Employer's NICs (if subject to income tax) from April 2018.

Further consultation to be carried out into HMRC proposals that all payments in lieu of notice (contractual or not) will be subject to Income Tax and NIC

Issues affecting individuals

The surprise announcement in the Budget was that the new tax free dividend allowance of £5,000 introduced from 6 April 2016 will reduce to £2,000 from April 2018. This means that the tax on extraction of profits will become more expensive for most company owners.

The personal allowance continues to rise in line with previous announcements and will reach £11,500 from 6 April 2017. This is only available in full to those individuals with income of less than £100,000.

The higher rate tax threshold will be £33,500 from 6 April 2017. The NIC upper threshold is aligned with the higher rate tax threshold.

This means that an individual can earn up to £45,000 from 6 April 2017 before they pay any higher rate income tax.

The Government has confirmed that the intention is still for the personal allowance to reach £12,500 and the higher rate band to be £50,000 by the end of the Parliament.

The main rate of Class 4 National Insurance contributions will increase from 9% to 10% in April 2018 and to 11% in April 2019 to reduce the gap in rates paid by the self-employed and employees, and to reflect the introduction of the new State Pension to which the self-employed have the same access.

Other tax issues

The VAT registration threshold will increase to £85,000 from £83,000 with effect 1 April 2017 and the deregistration threshold will rise to £83,000 (from £81,000).

Start the conversation today

Contact your BHP account manager or one of our tax specialists.

Zoe Roberts
zoe.roberts@bhp.co.uk

David Charlton
david.charlton@bhp.co.uk

Sheffield / Leeds / Cleckheaton / Chesterfield / York

www.bhp.co.uk 0333 123 7171 @bhpaccountants