Professional Practices: Budget – November 2017

As the second Budget of 2017 approached, against the backdrop of Brexit and continuing political uncertainty, there was much speculation as to how ambitious the Chancellor would be with his measures. As it turned out, stability won the day, with the emphasis being on spending plans and long term strategies, with only limited changes to taxation. From our long experience of working with Professional Practices, we have highlighted below the main changes which will impact the sector.

Overview

The headline announcement of the Budget was the introduction of an SDLT exemption to help first time buyers. Changes to Income Tax and Capital Gains Tax were limited.

Income Tax and National Insurance

On 6 April 2018 the personal allowance increases from £11,500 to £11,850 and the basic rate tax band from £33,500 to £34,500, so the point at which higher rate tax becomes payable increases to £46,350.

The Chancellor restated his aim of a £12,500 personal allowance and a £50,000 higher rate threshold by 2020.

From 6 April 2018, the dividend allowance will reduce from £5,000 to £2,000 as expected.

As previously announced, the abolition of Class 2 National Insurance contributions, the small, flat rate amounts paid by the self-employed, will be delayed from April 2018 to April 2019.

Also as previously announced, the Government will no longer proceed with the increase to the main rate of Class 4 National Insurance contributions from 9% to 10% then 11%.

Pensions

The Lifetime Allowance for pension savings will increase in line with CPI, rising to £1,030,000 from 6 April 2018.

Despite predictions, there were no further changes made to the Annual Allowance which remains at £40,000, but with a taper down to a minimum of £10,000 when adjusted income exceeds £150,000.

As a reminder, the Money Purchase Annual Allowance, which applies when money purchase pension savings have been flexibly accessed, reduced from £10,000 to £4,000 in April 2017.

Individual Savings Accounts (ISA)

Whilst it has been speculated that ISAs may be withdrawn, no changes were announced and the annual subscription limit remains at £20,000.

The Junior ISA limit will increase to £4,260 from 6 April 2018.

Capital Gains Tax

The introduction of the thirty day payment period between a gain arising on the sale of a residential property and payment of the tax has been delayed from April 2019 to April 2020.

In a new measure, the Chancellor announced that, from April 2019, non-resident individuals and companies will be taxed on gains arising from commercial as well as residential properties. Commercial properties will be rebased at April 2019.

From 6 April 2018, the Annual Exemption increases to £11,700.

Stamp Duty Land Tax

In one of the main announcements of the day, the Chancellor announced that, from Budget day, first time buyers will benefit from a permanent exemption from SDLT on purchases up to £300,000. For purchases up to £500,000 the first £300,000 will be exempt. The balance up to £500,000 would be at 5%.

A first time buyer is defined as someone who has never owned a dwelling before and who is purchasing their only or main residence. Where there are joint purchasers, both must be first time buyers.

The Chancellor also announced various instances where the 3% additional SDLT for residential properties will no longer apply. The changes will benefit those increasing their share of their own home, families affected by a divorce court order and where properties are held in trust for children subject to Court of Protection orders.

Making Tax Digital

The details of the announcement in July delaying the introduction to Making Tax Digital for business (MTDfB), were confirmed. The original planned introduction date was April 2018 but now no business will be mandated to use MTD until April 2019, and then only those businesses with turnover above the VAT threshold, and only for VAT obligations.

The scope of MTD will only be widened when the system has been shown to work well, and not before April 2020 at the earliest.

Earlier payment of self assessment tax

From 6 April 2019 HMRC will use new technology to recover additional self assessment tax via adjustments in PAYE codes, in an attempt to move the collection of tax nearer to real time.

In a separate move, the Certificate of Tax Deposit Scheme is being closed for new certificates from 23 November 2017, although existing certificates will be honoured for six years.

Employment taxes

A consultation will take place in 2018 to consider extending the scope of the tax relief which employees and those who are self-employed can benefit from, with regards to work related training expenses.

The previously announced changes to the taxation of termination payments have been delayed to 2019.

For company cars, the diesel supplement when calculating the benefit in kind is to increase from 3% to 4%.

Off-payroll working in the private sector

The Government reformed the off-payroll working rules (known as IR35) for engagements in the public sector in April 2017. They will now consult on how to extend this to the private sector.

Business Rates

The Chancellor announced that to create fairness in the system the planned switch in indexation from RPI to the main measure of inflation (currently CPI) will be brought forward to 1 April 2018.

Legislation will also be introduced retrospectively to address the so called “staircase tax”. This will allow businesses to ask the Valuation Office to recalculate valuations so that bills are based on previous practice backdated to April 2010.

Non-domestic property ratepayers will also have their revaluations carried out more frequently. After the next revaluation, future revaluations will now be carried out every three years rather than every five with the next revaluation due in 2022.

Empty houses council tax premium increases from 50% to 100%

Currently, local authorities have the option to charge a 50% council tax premium on “empty homes”. This is set to increase to a 100% council tax premium, with a view to encourage bringing empty homes back into use.

This may affect individuals who hold properties purely for capital appreciation purposes or buy to let landlords of unfurnished properties.

Increased Enterprise Investment Scheme (EIS) limit

The annual allowance for individuals investing in “knowledge-intensive” companies through the EIS scheme will be doubled. This will increase the annual limit to £2m provided that any investment above £1m is invested in knowledge intensive companies.

Furthermore, the annual investment which knowledge-intensive companies can receive through EIS and Venture Capital Trust (VCT) schemes will be doubled to £10m.

Greater flexibility will be provided with respect to the rules for determining whether a knowledge-intensive company meets the permitted maximum age requirement.

Restrictions to the availability of EIS relief

However, measures will be introduced to restrict EIS relief on tax-motivated investments which will apply to all investments made on or after 6 April 2018.

Broadly, the measure introduces a new condition to exclude relief on investments, where the tax relief provides most of the return for an investor with limited risk to the original investment.

Start the conversation today

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