MORGAN REACH
CHARTERED CERTIFIED ACCOUNTANTS

London Office Tel. 0207 316 3024
1st Floor, 239 Kensington High Street, London W8 6SA

Birmingham Office Tel. 0121 236 0777
Morgan Reach House, 136 Hagley Rd, Birmingham B16 9NX

www.morganreach.com
info@morganreach.com

Spring Budget Review 2017

Chancellor Philip Hammond presented the 2017 Spring Budget to the House of Commons on 8 March. This newsletter reports on the key announcements and recent measures most likely to affect your business and personal finances. For further advice, please contact us.

Inside...

Duties

Alcohol and tobacco duties

As from 8 March 2017 duty rates on all tobacco products are increased by 2% above RPI inflation.

From 13 March 2017 the duty rates on beer, cider, wine and spirits will increase by RPI inflation.

Soft Drinks Industry Levy

The rates have been set at 18p per litre (ppl) for the main rate and 24ppl for the higher rate. The levy will take effect from April 2018.

Fuel duty

The main rate of fuel duty will remain frozen for 2017/18.

Final Spring Budget sets the stage for 'Britain's global future'

Chancellor Philip Hammond presented his first – and last – Spring Budget to the House of Commons in belligerent form.

Despite revealing upgraded forecasts from the Office for Budget Responsibility, the Chancellor announced that he would adhere to the government's new fiscal plan, with the stated aim of preparing Britain for a 'global future'.

UK economic growth is now expected to reach 2% in 2017, before falling to 1.6% in 2018. Public sector net borrowing has been revised down to £51.7bn for 2016/17 and £58.3bn for 2017/18.

With Brexit approaching, the Chancellor announced a number of significant measures for UK businesses. These include a £435m package for firms in England affected by the business rates revaluation, with a cap on rate rises for those losing existing business rates relief and a £300m local authority 'hardship fund'.

As the government's flagship Making Tax Digital initiative draws closer, there was also some good news for smaller firms, with the announcement that unincorporated businesses and landlords with turnover below the VAT registration threshold will have until 2019 to prepare for quarterly reporting.

However, a less welcome measure for the self-employed will see the main rate of Class 4 national insurance contributions (NICs) increasing to 10% in April 2018 and 11% in April 2019. Meanwhile, shareholders and directors of small private firms will see a significant reduction in the tax-free dividend allowance, which will fall from £5,000 to £2,000 in April 2018.

Keen to address the UK skills gap, the Chancellor announced the introduction of new 'T-Levels' for 16-19 year olds studying technical subjects from Autumn 2019, as well as funding for 110 new free schools.

The Chancellor also confirmed previously announced measures for individuals, including the introduction of the new Tax-Free Childcare scheme, a three-year NS&I Investment Bond and the new Lifetime ISA.

The next Budget will be held in the autumn, followed by a Spring Statement in 2018.

Car and fuel benefits

The taxable petrol and diesel car benefit is based on the car's CO_2 emissions. It is calculated using the car's UK list price and applying the 'appropriate percentage', as shown in the table on the right. The car fuel benefit is calculated by applying the same percentages to the fuel benefit charge multiplier, which for 2017/18 is £22,600.

CO_2 emissions (g/km)	Appropriate percentage	
	Petrol %	Diesel %
0 - 50	9	12
51 - 75	13	16
76 - 94	17	20
95 - 99	18	21
100 - 104	19	22
105 – 109	20	23
110 – 114	21	24
115 – 119	22	25
120 – 124	23	26
125 – 129	24	27
130 – 134	25	28
135 – 139	26	29
140 – 144	27	30
145 – 149	28	31
150 – 154	29	32
155 – 159	30	33
160 – 164	31	34
165 – 169	32	35
170 – 174	33	36
175 – 179	34	37
180 – 184	35	
185 – 189	36	
190 and above	37	

Business rates

The government will provide support for businesses facing significant increases in bills, following the business rates revaluation due to take effect in England from April 2017. This includes:

- support for small businesses losing Small Business Rate Relief (SBRR) to limit increases in their bills to the greater of £600 or the real terms transitional relief cap for small businesses. This means no small business that is coming out of SBRR will pay more than £600 more in business rates than they did in 2016/17; and
- providing English local authorities with funding to support £300m of discretionary relief, to allow them to provide support to individual 'hard cases' in their local area.

The government will also introduce a £1,000 business rate discount for public houses with a rateable value of up to £100,000, subject to state aid limits for businesses with multiple properties, for one year from 1 April 2017.

At Budget 2016 the government announced an aim to deliver more frequent revaluations of properties – at least every three 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.

Business tax

Corporation tax

Financial year to	31 March 2018	31 March 2017
Corporation tax rate:	19%	20%

The corporation tax rate will be 19% for the financial years beginning 1 April 2018 and 1 April 2019 and 17% for the financial year beginning 1 April 2020.

Substantial Shareholdings Exemption (SSE)

The government will legislate to simplify the SSE rules, remove the investing company requirement, and provide a more comprehensive exemption for companies owned by qualifying institutional investors. The changes will take effect from 1 April 2017.

Employer provided accommodation

A consultation document will be published on 20 March 2017 with proposals to bring the tax treatment of employer provided living accommodation and board and lodgings up-to-date. This will include proposals for when accommodation should be exempt from tax and support taxpayers during any transition.

Research and development (R&D)

It was announced that administrative changes will be made to R&D tax credits. These will increase the certainty and simplicity around claims, and will take action to improve awareness of R&D tax credits among SMEs.

Appropriation to trading stock

Legislation will be introduced to remove the ability for businesses to convert capital losses into trading losses where an asset is appropriated to trading stock. This will have effect for appropriations made on or after 8 March 2017.

Cash basis

The entry and exit thresholds for cash basis accounting will increase to £150,000 and £300,000, respectively. These increases will have effect on and after 6 April 2017.

The government will also simplify the rules on capital and revenue expenditure within the cash basis, to make it easier for businesses to work out whether the expenditure is deductible for tax.

National insurance contributions (NICs)

Class 1	Employee (primary)	Employer (secondary)
Payable on weekly earnings of:		
Below £113 (lower earnings limit)	Nil	–
£113 - £157 (primary threshold)	*0%	–
Up to £157 (secondary threshold)	–	Nil
Above £157	–	13.8%
£157.01 - £866 (upper earnings limit)	**12%	–
£157.01 - £866 (under 21s and apprentices under 25)	–	0%
Above £866	**2%	–

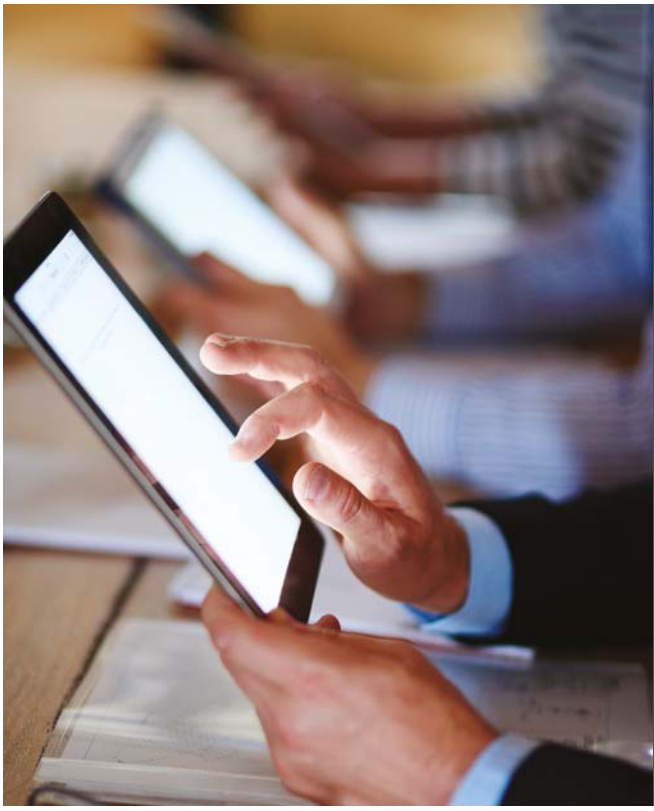
**No NICs are actually payable but notional Class 1 NIC is deemed to have been paid; this protects contributory benefit entitlement. **Over State Pension age, the employee contribution is generally nil.*

Employment Allowance (per annum)		Up to £3,000
Class 1A	On relevant benefits	13.8%
Class 2	Self-employed	£2.85 per week
	Small profits threshold	£6,025 per annum
Class 3	Voluntary	£14.25 per week
Class 4	Self-employed on annual profits	
	£8,164 - £45,000	*9%
	Excess over £45,000	*2%

**Exemption applies if State Pension age was reached by 6 April 2017.*

Future changes

Class 2 NICs will be abolished from April 2018. The government will legislate to increase the main rate of Class 4 NICs from 9% to 10% with effect from 6 April 2018 and from 10% to 11% with effect from 6 April 2019.



Making Tax Digital

The government's landmark Making Tax Digital (MTD) initiative is due to be implemented between 2018 and 2020, with the stated aim of creating a 'transparent and accessible tax system fit for the digital age'. The new MTD regime will see the phased introduction of a fully digital system, with businesses and individuals required to register, file, pay and update their information via a secure online tax account.

By 2020 most businesses, self-employed individuals and landlords will be required to use software or apps to keep digital business records, and to make regular updates regarding their income tax, VAT and NICs online.

In the Spring Budget the government announced a one year deferral from the mandating of MTD for unincorporated businesses and landlords with turnovers below the VAT registration threshold. They will now be required to start using the new digital service from April 2019. The government will also consult on the design aspects of the tax administration system, including interest and penalties, with the aim of adopting a consistent approach across taxes.

Income tax

Income Tax Rates	2017/18	2016/17
Basic rate band – income up to	†£33,500	£32,000
Starting rate for savings income	*0%	*0%
Basic rate	20%	20%
Dividend ordinary rate	**7.5%	**7.5%
Higher rate – income over	†£33,500	£32,000
Higher rate	40%	40%
Dividend upper rate	**32.5%	**32.5%
Additional rate – income over	£150,000	£150,000
Additional rate	45%	45%
Dividend additional rate	**38.1%	**38.1%
Starting rate limit (savings income)	*£5,000	*£5,000

*†For Scottish taxpayers only the limit is £31,500. *If an individual's taxable non-savings income exceeds starting rate limit, then starting rate limit for savings will not be available for savings income. £1,000 of savings income for basic rate taxpayers (£500 higher rate) may be tax-free. **The first £5,000 of dividends are tax-free.*

Personal Allowances	2017/18	2016/17
Personal Allowance (PA)	£11,500	£11,000
Married couple's allowance (MCA)		
Either partner born before 6 April 1935 (relief given at 10%)	*£8,445	*£8,355
Transferable Tax Allowance ('Marriage Allowance')		
for certain married couples (relief given at 20%)	£1,150	£1,100

**Allowances are reduced by £1 for every £2 that adjusted net income exceeds £28,000 (£27,700) to a minimum MCA of £3,260 (£3,220). Where adjusted net income exceeds £100,000, PA is reduced in the same way until it is nil regardless of the individual's date of birth.*

Dividend allowance reduction

The tax-free dividend allowance will be reduced from £5,000 to £2,000 from 6 April 2018.

Scottish income tax

From 6 April 2017, the Scottish government will set the rates and bands (excluding the personal allowance) on the non-savings, non-dividend income of Scottish taxpayers. For 2017/18 the basic rate band will be £31,500.

Tax-Free Childcare

A new Tax-Free Childcare scheme will provide up to £2,000 a year in childcare support for each child under 12. Parents will be able to receive up to £4,000 for disabled children up to the age of 17. The scheme is being rolled out gradually from early 2017, starting with parents of the youngest children. All eligible parents will be able to access the scheme by the end of the year.

To qualify for Tax-Free Childcare, parents will have to be in work and each earning at least £115 a week and not more than £100,000 each per year. Unlike the current Employer-Supported Childcare scheme, self-employed parents will also be able to benefit. Parents will need to open an online account, which they can pay into to cover the cost of childcare. For every 80p paid in, the government will then top up the account with an extra 20p.

Later this year working parents in England will also be able to apply for an additional 15 hours of free childcare for three and four year olds, bringing the total to 30 hours a week.

Inheritance tax

April 2017 sees the introduction of the new 'residence nil-rate band' (RNRB).

This additional nil-rate band will enable a 'family home' to be passed wholly or partially tax-free on death to direct descendants such as a child or grandchild. A step-child, adopted child or fostered child is also regarded as a direct descendant.

The RNRB is set to come into effect from 6 April 2017 and is in addition to an individual's own nil-rate band. The RNRB will be set as follows:

2017/18	£100,000
2018/19	£125,000
2019/20	£150,000
2020/21	£175,000

The additional band can only be used in respect of one residential property. The property does not have to be the main family home, although it must at some point have been a residence of the deceased.

There will be a tapered withdrawal of the RNRB for estates valued at more than £2m. This will be at a withdrawal rate of £1 for every £2 over this threshold.