The Spring Budget 2017

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This summary has been prepared very rapidly and is for general information only. You are recommended to seek competent professional advice before taking or refraining from taking action on the basis of the contents of this publication.

The Chancellor has delivered his first and last Spring Budget. From now on, Budgets will be delivered in the autumn, with the first one taking place in autumn 2017. The OBR will produce a spring forecast from spring 2018 and the government will make a Spring Statement responding to that forecast. The government will retain the option to make changes to fiscal policy at the Spring Statement if the economic circumstances require it.

The Budget itself was very quiet in relation to financial planning with prior notice of changes to National Insurance contributions for the self-employed and a reduction in the dividend tax allowance being the key points.

Below we have summarised the changes of most relevance to financial planning, many of which take effect from April 2017. A large number of these areas had already been announced before the Spring Budget. Bear in mind that until passed into legislation, there is still the potential for change.

Pensions

Reducing the money purchase annual allowance (MPAA)

Following a consultation launched at Autumn Statement 2016, the government will legislate in Finance Bill 2017 to reduce the money purchase annual allowance to £4,000 from April 2017. This restricts the amount of tax relieved contributions an individual can make in a year into a money purchase pension, if they have flexibly accessed their pension savings. A response to the consultation will be published on 20th March 2017.

There are no changes being made in how the MPAA will operate. As before any unused MPAA cannot be carried forward for later years. There are no changes being made to the formulae used in calculating the MPAA and the transitional provision relating to tax year 2015/16 and the tapered annual allowance will remain unchanged.

Changes to tax treatment of foreign pension regimes

The government will legislate in Finance Bill 2017 to more closely align the treatment of foreign pensions with the UK's domestic pension regime. 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 6th April 2017 will be subject to existing tax treatment. These changes will have effect from 6th April 2017.

Qualifying recognised overseas pension schemes (QROPS): introduction of a transfer charge

The government intends to introduce a 25% tax charge to pension transfers made to QROPS. Exceptions will be made to the charge, allowing transfers to be made tax free where people have a genuine need to transfer their pension, where:

- both the individual and the pension scheme are in countries within the European Economic Area (EEA) or
- if outside the EEA, both the individual and the pension scheme are in the same country, or
- the QROPS is an occupational pension scheme provided by the individual's employer

If the individual's circumstances change within 5 tax years of the transfer, the tax treatment of the transfer will be reconsidered.

The changes will take effect for transfers requested on or after 9th March 2017.

The government will also legislate in Finance Bill 2017 to apply UK tax rules to payments from funds that have had UK tax relief and have been transferred, on or after 6th April 2017, to a QROPS. UK tax rules will apply to any payments made in the first 5 full tax years following the transfer, regardless of whether the individual is or has been UK resident in that period.

Triple lock

To remain in place until 2020 and be reviewed at next Parliament.

Salary sacrifice

From April 2017, employers and employees who use salary sacrifice schemes to receive various non-cash benefits in kind will pay the same tax as if the BIK had been received as cash. However, salary sacrifice in lieu of employer pension contributions are excluded from this change (along with pensions advice, ultra-low emission cars, childcare, and the cycle-to-work scheme).

All arrangements in place before April 2017 will be protected for up to a year, and arrangements in place before April 2017 for cars, accommodation and school fees will be protected for up to four years.

Master trusts tax registration

The government will amend the tax registration process for master trust pension schemes to align with the Pensions Regulator's new authorisation and supervision regime. This will help to boost consumer protection and improve compliance. Legislation will be included in Finance Bill 2017/18 and will apply to all master trust pension schemes from October 2018.

Personal tax

Personal Allowance and Higher Rate Threshold

The Personal Allowance will rise from £11,000 to £11,500 in 2017/18. The point at which higher rate income tax kicks in will increase from £43,000 this year, to £45,000 in 2017/18. Once the Personal Allowance reaches £12,500 (planned for 2020), it will increase in line with inflation.

Dividend allowance

Will reduce from £5,000 to £2,000 from April 2018. This will reduce the tax difference between the self-employed and those working through a company. Typically, general investors will need over £50,000 worth of stocks and shares outside an ISA to be affected.

National Insurance contributions: increasing for the self-employed

Currently, the self-employed may have to pay both Class 4 and Class 2 NICs:

- Class 4 NICs at 9% are paid on profits between £8,060 and £43,000
- Class 2 NICs are paid on profits of £5,965 or more

From 2018, Class 2 NICs will be abolished. Class 4 NICs will rise to 10% in April 2018 and to 11% in April 2019.

Taken together, only a self-employed person with profits over £16,250 will have to pay more as a result of these changes. This better reflects the fact that the differences in contributory benefit entitlement between the self-employed and employees are now small, following the introduction of the new State Pension in April 2016.

In the summer, the government will also consider whether there is a case for greater consistency in parental benefits between the employed and self-employed.

National Insurance contributions: alignment primary and secondary thresholds

The Primary and Secondary Thresholds for employee and employer NI contributions will be aligned at £157pw from April 2017 (once income exceeds this level, NI becomes payable).

Non-domiciled individuals

As announced at Summer Budget 2015, from April 2017 non-UK domiciled individuals ('non-doms') will be deemed domiciled in the UK for tax purposes where they have been UK resident for 15 of the past 20 tax years. Additionally, individuals who were born in the UK with a UK domicile of origin, but have acquired a domicile of choice elsewhere, will be deemed UK domiciled for all tax purposes while they are UK resident. Non-doms who set up a non-UK resident trust before becoming deemed domiciled in the UK will not be taxed on any income and gains retained in that trust.

As previously announced at Summer Budget 2015 and following further consultation on draft legislation published in December 2016 on charging Inheritance Tax (IHT) on UK residential property, the limit below which minor interests in UK property are disregarded has been increased from 1% to 5% of an individual's total property interests. As first announced at Summer Budget 2015, from April 2017 IHT will be charged on all UK residential property even when indirectly held by a non-dom through an offshore structure.

As announced at Budget 2016, non-doms will be able to segregate amounts of income, gains and capital within their overseas mixed funds to provide certainty on how amounts remitted to the UK will be taxed. Following consultation on the draft legislation this will be extended by government amendment to income, gains and capital held in mixed funds from years before 2007 to 2008, as well as those from subsequent years.

Those who become deemed domicile in April 2017, excepting those who were born in the UK with a UK domicile of origin, will be able to treat the cost base of their non-UK based assets as the market value of that asset on 5th April 2017.

The government will legislate these reforms in Finance Bill 2017 to have effect from 6th April 2017.

Universal Credit taper will be reduced from 65% to 63%

In Universal Credit, as a person's income increases, their benefit payments are gradually reduced. The taper rate calculates the reduction in benefits as a person's salary increases. Currently, for every £1 earned after tax above an income threshold, a person receiving Universal Credit has their benefit award reduced by 65p and keeps 35p. They will now keep 37p for every £1, from April 2017.

Stamp Duty Land Tax: accelerating receipts

As announced at Autumn Statement 2015, the government consulted in 2016 on a reduction in the Stamp Duty Land Tax (SDLT) filing and payment window from 30 days to 14 days, as well as on the SDLT filing and payment process generally. After consideration of the responses, the government will delay the reduction in the filing and payment window until after April 2018.

Tax rates and thresholds for 2017/18

Use the link below to access full details of tax and tax credit rates and thresholds for 2017/18.

https://www.gov.uk/government/publications/spring-budget-2017-overview-of-tax-legislation-and-rates-ootlar/annex-a-rates-and-allowances

Savings and investments

Junior Individual Savings Accounts (ISAs) and Child Trust Fund limit

The annual subscription limit for Junior ISAs and Child Trust Funds will be uprated in line with the Consumer Prices Index (CPI) to £4,128.

ISA

The ISA subscription limit increases from £15,240 to £20,000 from 6th April 2017. All types of ISA subscription use up part of this limit (except Junior ISA subscriptions).

Lifetime ISA (LISA)

The Lifetime ISA will be available from 6th April this year. The Lifetime ISA will allow younger adults to save up to £4,000 each year and receive a bonus of up to £1,000 a year on these contributions. Funds can be withdrawn tax-free to put towards a first home or saved until a person turns 60. See our factsheet for further details.

New National Savings bond

A new savings bond will be available through National Savings & Investment (NS&I) from April 2017. The Chancellor has confirmed that the bond will have an interest rate of 2.2% gross, and a term of three years. Savers over the age of 16 will be able to deposit up to £3,000, with a minimum investment of £100. The government expects around two million people to benefit from the new bond, which will be available for 12 months from April 2017.

Life insurance policies – part surrenders and part assignments

As announced at Autumn Statement 2016 and confirmed at Spring Budget 2017, the government will legislate in Finance Bill 2017 to change the current tax rules for part surrenders and part assignments of life insurance policies to allow policyholders who have generated a wholly disproportionate gain to apply to HMRC to have the gain recalculated on a just and reasonable basis. Following consultation, the legislation has been revised to clarify who can apply, when and how the recalculation is given effect. These changes will have effect from Royal Assent of Finance Bill 2017.

Business issues

Small Businesses and landlords under the VAT threshold will have an extra year to prepare for Making Tax Digital (MTD)

Unincorporated businesses (businesses owned privately by one or more people) that have an annual turnover below the VAT registration threshold will have until April 2019 to prepare before MTD becomes mandatory. Under MTD, businesses will use digital software to keep tax records and update HMRC quarterly.

Insurance Premium Tax (IPT)

IPT will increase from 10% to 12% in June 2017. IPT is a tax on insurers and it is up to them whether and how to pass on costs to customers.

National living wage / national minimum wage

The National Living Wage for those aged 25 and over will increase from £7.20 per hour to £7.50 per hour from April 2017. That means over £1,400 a year more for a full-time worker previously on the National Minimum Wage. The National Minimum Wage will also increase from April 2017:

- for 21 to 24 year olds – from £6.95 per hour to £7.05
- for 18 to 20 year olds – from £5.55 per hour to £5.60
- for 16 to 17 year olds – from £4.00 per hour to £4.05
- for apprentices – from £3.40 per hour to £3.50

Corporation tax

Will be 19% for the years starting the 1st April 2017, 2018 and 2019 and 17% for the year starting 1st April 2020.

Tax-advantaged venture capital schemes

In Finance Bill 2017 the government will amend the requirements for the tax-advantaged venture capital schemes – the Enterprise Investment Scheme (EIS), the Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCTs) to:

- clarify the EIS and SEIS rules for share conversion rights, for shares issued on or after 5th December 2016
- provide additional flexibility for follow-on investments made by VCTs in companies with certain group structures to align with EIS provisions, for investments made on or after 6th April 2017
- introduce a power to enable VCT regulations to be made in relation to certain shares for share exchanges to provide greater certainty to VCTs
- a consultation will be carried out into options to streamline and prioritise the advance assurance service

The government will not be introducing flexibility for replacement capital within the tax-advantaged venture capital schemes at this time, and will review this over the longer term.

Tax avoidance

Helping someone else to use a tax avoidance scheme

A new penalty is being introduced for those helping someone else to use a tax avoidance scheme. Tax avoiders are hit with significant bills when HMRC defeats their avoidance scheme, this new penalty will ensure that those who help them will also face the consequences. Also tax avoiders will not be able to claim as a defence against penalties that relying on non-independent tax advice is taking reasonable care.

Disguised remuneration schemes

Budget 2016 announced changes to tackle use of disguised remuneration schemes by employers and employees. The government will now extend the scope of these changes to tackle the use of disguised remuneration avoidance schemes by the self-employed. This will ensure that self-employed users of these schemes pay their fair share of tax and National Insurance.

Further, the government will take steps to make it less attractive for employers to use disguised remuneration avoidance schemes, by denying tax relief for an employer's contributions to disguised remuneration schemes unless tax and National Insurance are paid within a specified period.

Social care

£2 billion for adult social care over the next three years to help councils to provide high quality social care to more people and help to ease pressure on the NHS. A Green Paper will be published later this year looking at the long term financing of social care.

Tax-Free Childcare

Tax-Free Childcare will provide up to £2,000 a year in childcare support for each child under 12 (up to £4,000 for disabled children up to the age of 17). Parents of younger children will be able to apply for the scheme first, with all eligible parents able to access the scheme by the end of the year.

How we can help

If there are any issues raised in the Autumn Statement that you would like to discuss in more detail, or if there is anything else we can help you with, please don't hesitate to contact us.

At Savings Champion we work with a number of financial specialists, with expertise in numerous fields ranging from inheritance tax planning to advice on pensions and of course, we can help you get the very best returns on your cash savings. Contact us to arrange a call with a financial expert, without obligation, on 0800 321 3581.

Important information

This summary has been prepared very rapidly and is for general information only. You are recommended to seek competent professional advice before taking or refraining from taking action on the basis of the contents of this publication. The guide represents our understanding of the law and HM Revenue & Customs practice as at 8 March 2017, which are subject to change.

It is important to note that VCT and EIS can be very high risk investments. There may be no market for the underlying shares at the time you wish to dispose of them, and there is a strong possibility of significant or complete capital loss. The tax reliefs available will depend on your personal situation, and are subject to change.

The Financial Conduct Authority does not regulate tax advice.

The content of this guide is for your general information and use only and is not intended to address your particular requirements. The content should not be relied upon in its entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of the content. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on an individual's personal circumstances.