«UK Budget 2017» The scenario in the face of the latest news in the field of tax & legal

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The 2017 Spring Budget delivered on 8th May 2017 by the Chancellor Philip Hammond is mainly **focused on stability**:

to provide a "*fair, stable and competitive*" tax system.

It provides no major surprises, with little news on the tax front, since most measures had already been announced during 2016.

The economic forecast

With the imminent Brexit negotiations, not surprisingly the focus of the Chancellor is on economic stability.

The news delivered is quite positive, considering that employment has reached a record high of 31.8 million people and the UK has the second fastest growing economy in the G7.

The growth forecast for 2017 has been increased from 1.4% to 2%. The upward revision to 2017 GDP growth is due in large part to an increase in the expected household consumption.

CPI inflation is forecast to rise to 2.4%, "largely caused by the post-referendum sterling depreciation", before falling back to 2.3% in 2018 and 2.0% from 2019 to 2021.

The economic forecast

The deficit is now forecast to have been cut by almost three-quarters from its peak of 9.9% of GDP in 2009-10 to 2.6% in 2016-17, a level not seen since before the 2008 financial crisis. The deficit in 2016-17 is predicted to be £16.4 billion lower than had been forecast at Autumn Statement 2016.

The government has confirmed the commitment to overcome the persistent challenge of weak productivity. In 2015, UK output per hour stood 18 percentage points behind the average for other G7 countries, 35 percentage points behind Germany, 27 percentage points behind France, and 30 percentage points behind the USA.

Taxation of individuals

From autumn 2017, as previously announced, the government's intention is to move towards a *single fiscal event each year in autumn*. This should provide a more stable and certain tax environment, helping businesses and individuals to plan better.

As previously announced the **personal allowance** will rise from the current £11,000 to £11,500 from April 2017. The higher rate income tax threshold will also increase from £43,000 to £45,000 from April 2017.

Self-employed people will be subject to increased Class 4 National Insurance contributions, by 1% to 10% from April 2018, then to 11% in 2019.

The tax-free threshold of £5,000 per year for dividends, introduced only in April 2016, will be reduced to £2,000 per year from April 2018. The measure is aimed to reduce the proliferation of newly established companies to benefit from the tax-free threshold.

The government is considering future changes regarding the taxation of benefits in kind, accommodation benefits and employee expenses. Further details will be provided after the consultation.

Pensions and Savings

The Chancellor confirms a Lifetime ISA active from the 6th April 2017 allowing to save up to £4,000 each year and receiving a bonus of up to £1,000. The cumulative savings can be withdrawn tax-free to put towards a first home or when the individual turns 60.

The Budget confirms the rate on the NS&I Investment Bond announced in the 2016 Autumn Statement to be introduced from this April, which will pay 2.2% on savings of up to £3,000.

Qualifying Recognised Overseas Pension Schemes (QROPS) transfers for individuals not in the European Economic Area (EAA) will be hit with a 25% tax charge, unless certain conditions apply.

Business Tax

As set out in the 2016 Autumn Statement, the government will cut the rate of corporation tax to 19% from April this year and then again to 17% in 2020. **The UK's corporate tax rate is now the lowest in the G20**.

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.

In order to encourage investment in the UK and make it easier for businesses to raise finance, the government commits to negotiate reduced withholding tax rates on interest that are available within the UK's tax treaties with other countries.

The business rates revaluation takes effect in England from April 2017. In order to support businesses facing significant increases in bills from the English business rates system, the Budget provides £435 million (in addition to the £3.6 billion transitional relief which was announced in November 2016) to assist small businesses.

The proposal to ensure payment of Stamp Duty Land Tax (SDLT) is made within 14 days, instead of the current 30 days, has been delayed until after April 2018.

Rent-a-room relief provides for tax-free income that can be received from renting out a room/s in an individual's main residential property. There will be a consultation on proposals to rent-a-room relief to ensure it is better targeted to support longer-term lettings.

Other indirect taxes / IHT

From 1 April 2017 the VAT registration threshold will increase from £83,000 to £85,000 and the deregistration threshold from £81,000 to £83,000.

“**Sugar tax**” introduced last year for added sugar drinks with a total sugar content of 5 grams or more per 100 millilitres will be set at 18 pence per litre, and those with 8 grams or more per 100 millilitres will be set at 24 pence per litre.

The planned introduction from April 2017 of an extra nil-rate band (allowance) for inheritance tax will go ahead as previously announced, so that persons who leave their main residential property to direct descendants will be able to leave up to £1 million free from inheritance tax.

Taxation of non-domiciled individuals (RND)

As expected, there has been no further announcements on the taxation of foreign domiciliary and the Budget confirms what previously announced in 2016:

1) 15/20 Rule - Confirmation of the "deemed domiciled" rule for all taxes (i.e. income, gains and IHT) for the RND who have been resident for 15 of the last 20 years. To break this "deemed domiciled" status for income and capital gain tax (CGT) purposes an individual will need to leave the UK for six consecutive tax years. This period abroad is reduced to four years for IHT purposes.

The £2,000 de-minimis rule will be maintained for RND even if deemed domiciled under the 15/20 rule

Taxation of non-domiciled individuals (RND)

2) CGT Rebasing – RND considered deemed domiciled under the 15/20 rule and who have paid the remittance basis charge in any year before the April 2017 will be able to rebase directly held foreign assets to their market value on 5 April 2017. Gains accrued before April 2017 will be outside the scope of CGT. Any further increase in value from April 2017 to the date of disposal will be subject to CGT.

3) Mixed Funds relief – A concession is granted to RND to split their mixed funds overseas to enable them to separate out the different parts, by moving clean capital, foreign income and gains into separate accounts. After this reorganisation, they will be able to remit from their accounts overseas in a tax efficient way.

4) Taxation of offshore trusts – From April 2017 RND settlor (or his wife and minor children) of an offshore trust, who is deemed domiciled under the 15/20 rule, will pay CGT and/or income tax on distributions from an offshore trust irrespectively if the payment is received in the UK.

There is no UK tax on foreign income and gains retained within an offshore trust established before April 2017 ("protected trust"). UK tax becomes payable only when distributions or benefits are enjoyed anywhere in the world.

5) IHT on residential properties - As anticipated, from April 2017 IHT will be levied on residential properties held by non-UK domiciled individuals through non-UK structure. Such offshore structures will therefore be considered transparent for IHT purposes. Unfortunately this change is not counter-balanced by a de-enveloping relief as suggested and expected by the professionals involved in the previous consultations.

6) Any change in the future in the light of Brexit?

A WORLD OF TAX TRASPARENCY: AT A GLANCE

A world of tax transparency

HM Revenue & Customs ("HMRC") and other tax authorities across the world are increasing their focus on the tax gap and putting tax transparency at the top of their agenda.

Tax compliance is more critical than ever!

HMRC's strategy for tackling offshore evasion (i.e. No Safe Havens), sets out five key objectives:

● There are no jurisdictions where UK taxpayers feel safe to hide their income and assets from HMRC;

● Would-be offshore evaders realise that the balance of risk is against them;

● Offshore evaders voluntarily pay the tax due and remain compliant;

● Those who do not come forward are detected and face vigorously enforced sanctions; and

● There will be no place for the facilitators, or enablers, of offshore evasion.

A world of tax transparency

Those with complex international tax affairs, are being invited to review their affairs and tell HMRC of any mistakes if necessary.

Why?

1 The continuously <u>changing and increasingly complex</u> UK tax legislation

- Changing tax rules of UK resident non-domiciled individuals, UK property and offshore trusts among others
- Tax advice taken many years ago may no longer be valid
- Third parties can inadvertently create tax problems, such as failure to correctly operate remittance rules for UK resident non domiciles

2. <u>Increased global tax transparency</u> means HMRC will have <u>more data about you</u> than ever before

- Automatic exchange of financial information between countries
- Introduction of registers for beneficial owners of company and trusts including settlors and beneficiaries
- HMRC's ability to collect and handle large amounts of data

A world of tax transparency

3. Last opportunity to come forward to HMRC

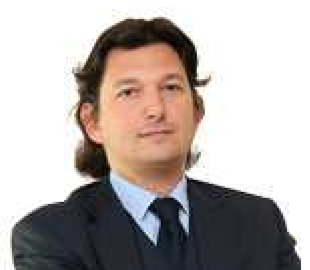
- Introduction of a legal requirement to review affairs and correct errors relating to offshore interests
- Last voluntary disclosure opportunity

4. Higher cost of getting it wrong

- Increased tax related penalties for offshore offences
- Reputational damage if HMRC name and shame you
- HMRC's aim to increase the number of prosecutions
- Change in law to make it easier for HMRC to prosecute

Whether you are an individual, a company or a trustee, if you need someone to review your tax position, make a voluntary disclosure, advise you through an investigation or support you in the event that criminal charges are threatened, we can advise.

Conclusions and Q&A



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After graduating with two bachelor's degrees (Business Administration and Law) from Bocconi University in Milan and completing a master's degree in International Tax, he was qualified as a Trust Estate Practitioner ("TEP") in the United Kingdom, where he works as an equity partner of Belluzzo & Partners LLP. Besides his professional activity, he has lectured at Bocconi University in Milan and is a frequent presenter at specialist conferences in England and throughout the world. He deals predominantly with estate planning, most notably with regard to international taxation and family businesses.

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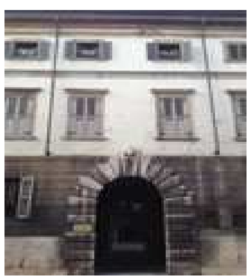

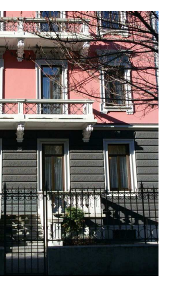

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