# Autumn Budget
# Business Tax

## *Highlighting corporation tax and Making Tax Digital.*

## Making Tax Digital for Business: VAT

In July 2017, the government announced significant changes to the timetable and scope of HMRC's digital tax programme for businesses. VAT will be the first tax where taxpayers will keep digital records and report digitally to HMRC. The new rules will apply from April 2019 to all VAT registered businesses with turnover above the VAT threshold.

As with electronic VAT filing at present, there will be some exemptions from Making Tax Digital for VAT. However, the exemption categories are tightly-drawn and unlikely to be applicable to the generality of VAT registered businesses.

**Comment**

Keeping digital records will not mean businesses are mandated to use digital invoices and receipts but the actual recording of supplies made and received must be digital. It is likely that third party commercial software will be required. Software will not be available from HMRC. The use of spreadsheets will be allowed, but they will have to be combined with add-on software to meet HMRC's requirements.

In the long run, HMRC are still looking to a scenario where income tax updates are made quarterly and digitally, and this is really what the VAT provisions anticipate.

## Corporation tax rates

Corporation tax rates have already been enacted for periods up to 31 March 2021.

The main rate of corporation tax is currently 19%. The rate for future years is:

- 19% for the Financial Years beginning on 1 April 2018 and 1 April 2019
- 17% for the Financial Year beginning on 1 April 2020.

## Class 2 National Insurance contributions (NICs)

The 2016 Budget announced that Class 2 NICs will be abolished from April 2018. The legislation to effect this measure was intended to be introduced this year. In November 2017 the government decided to implement a one year delay so that Class 2 NICs will be abolished from April 2019.

**Comment**

The government is still committed to abolishing Class 2 NICs. The deferral allows time to engage with interested parties with concerns relating to the impact of the abolition of Class 2 NICs on self-employed individuals with low profits.

## Class 4 NICs

The Chancellor announced in the 2017 Budget proposals to increase the main rate of Class 4 NICs from April 2018 but was forced to make a subsequent announcement that the increase would not take place and there will be no increases to NICs rates in this Parliament.

## Partnership taxation

Legislation will be introduced with the aim to provide additional clarity over aspects of the taxation of partnerships:

- where a beneficiary of a bare trust is entitled absolutely to any income of that bare trust consisting of profits of a firm but is not themselves a partner in the firm, then they are subject to the same rules for calculating profits etc and reporting as actual partners
- how the current rules and reporting requirements operate in particular circumstances where a partnership has partners that are themselves partnerships.

The proposed legislation also:

- provides a relaxation in the information to be shown on the partnership return for investment partnerships that report under the Common Reporting Standard or For eign Account Tax Compliance Act and who have non-UK resident partners who are not chargeable to tax in the UK
- makes it clear that the allocation of partnership profits shown on the partnership return is the allocation that applies for tax purposes for the partners
- provides a new structured mechanism for the resolution of disputes between partners over the allocation of taxable partnership profits and losses shown on the partnership return.

## Mileage rates

The government will legislate to give unincorporated property businesses the option to use a fixed rate deduction for every mile travelled by car, motorcycle or goods vehicle for business journeys. This will be as an alternative to claims for capital allowances and deductions for actual expenses incurred, such as fuel. The changes will have effect from 6 April 2017.

## Profit fragmentation

The government will consult on the best way to prevent UK traders or professionals from avoiding UK tax by arranging for UK trading income to be transferred to unrelated entities. This will include arrangements where profits accumulate offshore and are not returned to the UK.

## Royalties Withholding Tax

A consultation is to be published on the design of rules expanding the circumstances in which a royalty payment to persons not resident in the UK has a liability to income tax. The changes will have effect from April 2019.

## Disincorporation Relief

A disincorporation relief was introduced in April 2013 for five years. Broadly, the relief is aimed at certain small companies where the shareholders want to transfer the business into sole tradership or a partnership business. The relief removes the tax charge arising on the disposal of the company's assets of land and goodwill if qualifying conditions are met. The government has decided not to extend this relief beyond the current 31 March 2018 expiry date.

## Improving Research and Development (R&D)

A number of measures have been announced to support business investment in R&D including:

- an increase in the rate of the R&D expenditure credit which applies to the large company scheme from 11% to 12% where expenditure is incurred on or after 1 January 2018
- a pilot for a new Advanced Clearance service for R&D expenditure credit claims to provide a pre-filing agreement for three years
- a campaign to increase awareness of eligibility for R&D tax credits among SMEs
- working with businesses that develop and use key emerging technologies to ensure that there are no barriers to them claiming R&D tax credits.

## Intangible Fixed Asset regime

The government will consult in 2018 on the tax treatment of intellectual property also known as the Intangible Fixed Asset regime. This will consider whether there is an economic case for targeted changes to this regime so that it better supports UK companies investing in intellectual property.

## Non-UK resident companies

The government is to legislate so that non-UK resident companies with UK property income and/or chargeable gains relating to UK residential property will be charged to corporation tax rather than income tax or capital gains tax respectively as at present. The government plans to publish draft legislation for consultation in summer 2018. The change is set to have effect from 6 April 2020.

## Extension of First Year Allowances (FYA)

A 100% FYA is currently available for businesses purchasing zero-emission goods vehicles or gas refuelling equipment. Both schemes were due to end on 31 March 2018 but have been extended for a further three years.

## Extension of First Year Tax Credits (FYTC)

FYA enables profit-making businesses to deduct the full cost of investments in energy and water technology from their taxable profits. Loss-making businesses do not make profits, so they do not benefit from FYAs. However, when the loss-making business is a company it can claim FYTC when they invest in products that feature on the energy and water technology lists. A FYTC claim allows the company to surrender a loss in exchange for a cash credit and is currently set at 19% but the facility was due to end on 31 March 2018.

The credit system is to be extended for five years but the percentage rate of the claim is to reduce to two-thirds of the corporation tax rate. The changes to FYTC will have effect from 1 April 2018.

## Capital gains indexation allowance

This measure changes the calculation of indexation allowance by companies so that for disposals of assets on or after 1 January 2018, indexation allowance will be calculated using the Retail Price Index factor for December 2017 irrespective of the date of disposal of the asset.

## Off-payroll working extension to the private sector

The government will consult in 2018 on how to tackle non-compliance with the intermediaries legislation (commonly known as IR35) in the private sector. The legislation aims to ensure that individuals who effectively work as employees are taxed as employees even if they choose to structure their work through a company. A possible next step would be to extend the recent public sector reforms to the private sector.

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