The end of the beginning - UK topical tax update following the triggering of Article 50

12 April 2017
Introduction

Peter Fairchild
2017 UK Growth upgrades. CPI forecasts moving towards 3%

BOE - 2% 2017 GDP estimate too optimistic

Source: The Economist, March 2017
Q3/Q4 response better than anticipated but starting to decline

After a temporary post referendum dip below the key 50 level all three main categories of UK PMI’s have subsequently rebounded but are now starting to roll over as Article 50 trigger approaches.
The impact on corporate investment

Corporate investment likely to remain subdued as we negotiate our exit
The imported inflation (margin squeeze) risk suggests CPI could hit 3%.

But not the same underlying commodity cost pressures as in 2011.
Putting the fall in the pound into perspective

UK trade weighted sterling index returns
The fall in sterling

The fall in sterling has made it look cheap using long term PPP valuations
The main 2017 impact risk is real income erosion.
Long term interest rate expectations

- MPC to ride through the inflation spike
- Only if confidence that GDP growth will hit their 2% projection grows will the BoE consider raising rates

Source: Thomson Reuters DataStream/Smith & Williamson March 24th

UK Interest Rate Futures Curve-Long Term

Source: Thomson Reuters DataStream/Smith & Williamson March 24th
Fending off the ‘economic post-traumatic stress disorder’*

The policy response tool kit last July

Monetary stimulus
- Lower interest rates ✓
- Additional QE ✓
- Lighten regulatory pressure on banks ✓

Engineered easier Financial Conditions
- A substantial fall in £ ✓
- Lower interest rate expectations ✓ ?
- Lower corporate bond yields ✓ ?

* Mark Carney 30/6/16

Prolonged financial repression
A slight increase since the lows of July 2016
Triggering article 50

Divorce settlement first - then trade negotiations

Reasons to be optimistic:

<table>
<thead>
<tr>
<th>Stick</th>
<th>Carrot</th>
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</thead>
<tbody>
<tr>
<td>EU’s 3 key Divorce criteria as articulated by Michel Barnier (FT 27/3/17):</td>
<td>If we agree the terms of divorce we can turn attention to the terms of the UK /EU partnership.</td>
</tr>
<tr>
<td>1. Protect the rights of the 4.5m EU nationals living in another EU country</td>
<td>‘That partnership could be based on an ambitious free-trade agreement...it could also include co-operation in several fields, especially in security and defence.’ Michel Barnier</td>
</tr>
<tr>
<td>2. Honour commitments to EU programmes already agreed.</td>
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<tr>
<td>3. UK to assume its responsibility as co-guarantor of the Good Friday agreement for Northern Ireland.</td>
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The divorce terms do not look excessively onerous. It therefore looks as though pragmatic (not antagonistic) discussions could result in a reasonably favourable deal for the UK.
The Eurozone was built on weak foundations and is facing existential risks.

**Internal factors**

- Greek insolvency - still not resolved
- Refugee and terrorism crisis vs freedom of movement labour
- Low growth and very high youth unemployment
- Rise of populism and rejection of the political elite = Italy most vulnerable to anti EU /€ sentiment.
- Undercapitalised banks
- Establishment of a monetary union without the essential fiscal union (weak foundation) - why EZ is on a continuum
- Awareness that a move to fiscal union (establishment of a harmonised tax regime and central EZ Treasury) would be very difficult to implement and be very unpopular, increasing fragmentation risk e.g. Ireland

**External factors**

- Brexit
- Election of Trump - changes relationship with Russia and Nato. Pressure on EU to integrate military /security forces
European political risk - election timeline

The key elections

- Germany - presidential election
- Netherlands - general election
- France - presidential election (first round)
- France - presidential election (second round)
- France - parliamentary elections
- Italian general election?
- German - general election

2017

Feb 2017  March 15th  April 23rd  May 7th  June  June ?  Sept /Oct
What if the 8th May delivers a shock Le Pen victory?

Economic implications:

- Euro area is 25% of Global GDP - a break up would witness a rapid decline in economic activity (recession)
- A € break up would result in a deflationary bust for the northern deutschmark block (function of a significant appreciation of the currency)
- Southern euro block would face significant stagflation
- EU banking system would need massive capital injections to offset the debt write off impact - implies significant state involvement and fiscal deficits.

Concern over € break up would inject systemic concerns = major risk off rotation:

Positive for:
- $  
- Yen  
- Even £  
- Gold  
- US equities (domestic demand focus)  
- London real estate  
- US bonds  
- Compounders/Growth stocks

Negative for:
- € (well below parity) loss of FX reserve status  
- Banks  
- EU equities, exporters in US, Japan exposed to FX appreciation  
- EM on weaker demand and $ appreciation  
- Cyclicals
What will be covered

- Brexit: tax implications
- HMRC anti-avoidance
- Spring Budget update
- Proposed changes to non-doms (a recap)
- Making tax digital
Brexit: tax implications
Brexit: tax implications

- Direct taxation
- State aid
- Mergers
- Social security
- Royalties & interest
- Capital duties
What are the potential tax issues of Brexit?

As we await the outcome of discussions between the UK and EU member states our specialists have analysed the potential ramifications of a departure from the EU, depending upon whether or not Theresa May and the Government reach any agreement with the EU.

This is not a comprehensive overview but highlights some of the potential changes that could affect the UK’s tax system. Some possible practical tax implications are also noted, though this is not intended to be a full note of all possible tax implications.

1. Direct tax issues
2. Indirect tax issues (value added tax - VAT)
3. Customs duty
4. Glossary

Smith & Williamson will be providing regular updates, insights and an events schedule relating to the unfolding Brexit negotiations and the impact on the UK’s economy, businesses and individuals. Please register to receive notifications of these for your areas of interest.

Sign up for further Brexit insights and events

Related content
HMRC anti-avoidance
HMRC anti-avoidance

Panama papers

Defeated tax schemes

Offshore evasion
Panama Papers - what is happening?

- International cooperation via JITSIC and OECD
- UK
  - £10m taskforce
  - 9 potential professional evaders
  - 64 firms contacted to determine links with Mossack Fonseca
  - 43 Wealthy people under ‘special review’
  - 22 people under enquiry
  - In April said 700 leads - only 3% moved so far to enquiry
  - International Groups met in January 2017
- We await something significant to happen
- Certainly we see increased international cooperation
- See increased criminal investigation intention as initial lead on information and cases
- But - seems civil route will prevail to date
- Has encouraged some disclosures
- No doubt more to come but given ‘headline’ expose - seems to have gone flat
Defeated tax schemes

- Penalties on ‘enablers’
- GAAR panel
- NICs
- Naming
- ‘Reasonable care’ clarification of definition as to penalties
Enabling offshore evasion - focus on agents and advisers

- Care needed - if a deliberate offence how / when will agent be looked at.

- If advice given in respect of offshore structures - HMRC looking at agents and advisers - change of focus.

- Significance of new penalty levels compared to old. Advice is to act now not delay in making the disclosure.

- Client will be questioned and challenged on what the adviser did, when and how. Conflict?

- How do we health check clients affairs? Why health check:
  - Ensure structures correct
  - Requirement to correct
  - Change in HMRC view over carelessness - culpability
Spring Budget 2017
## Rates & allowances (personal)

<table>
<thead>
<tr>
<th></th>
<th>2017/18</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal allowance</td>
<td>£11,500</td>
<td>£11,000</td>
</tr>
<tr>
<td>Basic rate band</td>
<td>£33,500</td>
<td>£32,000</td>
</tr>
<tr>
<td>Higher rate</td>
<td>£33,500 to £150,000</td>
<td>£32,000 to £150,000</td>
</tr>
<tr>
<td>Additional rate</td>
<td>Over £150,000</td>
<td></td>
</tr>
<tr>
<td>Main rate</td>
<td>20%, 40%, 45%</td>
<td></td>
</tr>
<tr>
<td>Savings rate</td>
<td>20%, 40%, 45%</td>
<td></td>
</tr>
<tr>
<td>Dividend rate</td>
<td>7.5%, 32.5%, 38.1%</td>
<td></td>
</tr>
<tr>
<td>Default rate</td>
<td>20%, 40%, 45%</td>
<td></td>
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</table>
Rates & allowances

Capital gains tax (CGT)

<table>
<thead>
<tr>
<th></th>
<th>Annual exemption 2017/18</th>
<th>Annual exemption 2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals</td>
<td>£11,300</td>
<td>£11,100</td>
</tr>
<tr>
<td>Trustees</td>
<td>£5,650</td>
<td>£5,550</td>
</tr>
</tbody>
</table>

CGT rates remain: 10%/20% and 18%/28%

Corporation tax

<table>
<thead>
<tr>
<th>Financial year to</th>
<th>31 March 2021</th>
<th>31 March 2018</th>
<th>31 March 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main rate</td>
<td>17%</td>
<td>19%</td>
<td>20%</td>
</tr>
</tbody>
</table>
### Income tax

- English votes for English laws
- 3 new rates from April 2017

<table>
<thead>
<tr>
<th>Rate</th>
<th>Applies to</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main rates</td>
<td>Non-savings &amp; Non-dividend for England, Wales and NI taxpayers</td>
</tr>
<tr>
<td>Savings rate</td>
<td>Savings &amp; dividend income for UK taxpayers</td>
</tr>
<tr>
<td>Default rates</td>
<td>Trustees and non-residents</td>
</tr>
</tbody>
</table>
Dividend allowance

- April 2016 introduced £5,000
- April 2018 reduced to £2,000
- ??
Trading & property income allowances

• From April 2017
• Deducted in place of expenses
• Excludes partnership income & participator of close company
Rent-a-room relief

• Consultation
• Ensure it is better targeted to support longer term lettings
• Increase supply of affordable accommodation
Individual and Junior Savings Accounts

**Individual Savings Accounts (ISAs)**
- 1 per tax year per UK resident
- 2016/17 - £15,240
- 2017/18 - £20,000

**Junior Individuals Savings Accounts (JISA)**
- 1 per child per tax year living in the UK
- 2016/17 - £4,080
- 2017/18 - £4,128
- Under age 18 (take control from 16 and access from 18)
National Insurance Contributions

• NIC for the self employed
  – Class 2 NIC abolished from April 2018
  – Class 4 NIC were due to be increased to:
    – 10% from April 2018 and
    – 11% from April 2019

U-Turn announced 15 March 2017
(1 week after the Budget!)
Employment tax

• Salary sacrifice
  – Changes announced Autumn 2016
  – IT and NIC advantage removed from 6 April 2017
  – Some transitional rules
    – In contractual arrangement before 6 April 2017
  – Some exclusions
    – Employer-provided pension
    – Childcare vouchers
    – Cycle to work
    – Ultra low emission cars
Making good on benefits in kind

- Announced Autumn 2016, applicable from 6 April 2017
- for benefits in kind not accounted for in real time through PAYE, employee will have until 6 July following the end of the tax year to make good to reduce taxable value of the BIK

Termination payments

- announced Budget 2016, applicable from 6 April 2018
- all contractual and non-contractual payments in lieu of notice taxable as earnings (clarification)
- align tax and employer NICs treatment
## Probate fees

<table>
<thead>
<tr>
<th>Value of estate</th>
<th>Proposed fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £50,000</td>
<td>£0</td>
</tr>
<tr>
<td>£50,000 to £300,000</td>
<td>£300</td>
</tr>
<tr>
<td>£300,000 to £500,000</td>
<td>£1,000</td>
</tr>
<tr>
<td>£500,000 to £1 million</td>
<td>£4,000</td>
</tr>
<tr>
<td>£1 million to £1.6 million</td>
<td>£8,000</td>
</tr>
<tr>
<td>£1.6 million to £2 million</td>
<td>£12,000</td>
</tr>
<tr>
<td>Over £2 million</td>
<td>£20,000</td>
</tr>
</tbody>
</table>
Non dom changes
Non Doms

From 6 April 2017

Deemed domiciled when UK resident for 15 of past 20 tax years

Born in the UK with UK domicile of origin, will be UK domiciled whenever UK resident
Non Doms (continued)

- Rebase non-UK assets at 5 April 2017
- Can segregate ‘mixed’ accounts
  - Income
  - Gains
  - Clean capital
Non Doms (continued)

- IHT on all UK residential property even held indirectly via offshore structure (unless minor interest)
- Loans and collateral rules
Non Doms - what’s next?

- Many individuals have not yet reorganised their affairs
- The costs of reorganisation post-5 April 2017 may be no worse than before, including if property extracted in first quarter for which a trust has held excluded property
- Consider setting up excluded property trusts if not yet deemed domiciled
- Consider offshore bank accounts and how they can be unmixed in the two year window to 6 April 2019
- Create new offshore bank accounts for funds taxable on the arising basis. Consider deferral vehicles e.g. FICs, OEICs, insurance bonds etc.
- Do trustees need to reorganise loans from the settlor in the 12-month grace period to prevent the trust being tainted?
- Some transactions still possible after 6 April 2017 as certain anti-avoidance provisions deferred
- Reorganise loans and/or collateral over UK residential property
Qualifying recognised overseas pension scheme

- Transfers to a QROPS will be subject to a 25% tax charge, with immediate effect
- Some exceptions such that transfer may remain tax free
- UK tax charges where payments out of QROPS within 5 years of transfer
Making tax digital - HMRC policy

- Help business get their tax right first time
- A modern digital experience
- Bring the tax system into line with what businesses and individuals expect from other online service providers
### Making tax digital - key dates

<table>
<thead>
<tr>
<th>Date</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 2018</td>
<td>Profession, trading or property business turnover &gt; £85K</td>
</tr>
<tr>
<td>April 2019</td>
<td>Profession, trading or property business turnover &lt; £85K (but &gt;£10K)</td>
</tr>
<tr>
<td>April 2019</td>
<td>All VAT registered businesses</td>
</tr>
<tr>
<td>April 2020</td>
<td>Businesses subject to Corporation tax</td>
</tr>
<tr>
<td>April 2020</td>
<td>Large partnerships turnover &gt; £10m</td>
</tr>
</tbody>
</table>
Making tax digital (continued)

Secondary incomes >£10K within MTD

Requirement to:

- keep records digitally - can agent do?
- including spreadsheets that ‘link’ to MTD software
- send summary updates to HMRC from software/app
- annual ‘accounting’ update earlier of 10 months after AP end or 31 Jan
- tax update by 31 Jan after tax year
- quarterly reporting to replace VAT reporting
Making tax digital - exemptions

Exemptions:

• Trading or property business turnover £10K

• Cannot get online due to:
  • religious reasons
  • disability
  • geographical location (not-spots)
  • other reasons?
Increase to threshold for cash basis

- Entry threshold - up from £83,000 to £150,000 from 6 April 2017
- Exit threshold will continue to be double the entry threshold so up to £300,000
- Applies to business, self employed and landlords
- Push towards digitisation, but at a cost?
Revisions to cash basis rules following consultation

- To exclude specific items from the allowable list
- To ensure the rules for moving between the cash basis and accruals accounting are robust
- Minor amendments to improve clarity
Q&A
Speakers

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