HM Revenue & Customs

HM Treasury

Overview of Legislation in Draft

5 December 2016

Contents

Introduction

This document provides an overview of legislative changes to tax law which the government plans to introduce in Finance Bill 2017, in secondary legislation, and (in some cases) in future Finance Bills. It also covers a small number of non-legislative announcements that will be of interest to tax professionals. It includes changes arising from announcements on 23 November at Autumn Statement 2016, and Budget 2016, where not already enacted.

This document provides a short summary of all tax measures, an indication of what consultation has been done on these changes to date, and whether or not the tax information and impact note (TIIN) has been published on 5 December 2016. If draft legislation is published for consultation, or there is a response document, this is also shown with a link at the end of the paragraph.

Details are also given of those measures where legislation was published on 23 November 2016.

New fiscal event timetable

Autumn Statement 2016 announced that the government would move towards having one main annual fiscal event. After the spring 2017 Budget, Budgets will be delivered in the autumn with the first one taking place in autumn 2017. The Office for Budget Responsibility will produce a spring forecast from spring 2018 and the government will make a Spring Statement responding to that forecast.

Making the transition to the new timetable will require adjustments to the normal tax policy making process due to the shorter interval between the 2 Budgets. Arrangements will be decided individually for different policies and set out to stakeholders by HM Revenue and Customs (HMRC). In the normal way, these will where possible provide for consultation on policy proposals and on draft legislation.

7 things you need to know about the new Budget timetable.

Consultation on draft legislation

The government has committed to confirming the majority of measures for inclusion in the Finance Bill at least 3 months prior to introduction of the Bill itself and, where possible, to publish draft legislation for each of these measures. This provides taxpayers with certainty about future planned tax changes and allows time for pre-legislative scrutiny. The majority of the draft legislation and explanatory notes for Finance Bill 2017 have been published alongside this document.

The consultation on draft provisions is intended to ensure that the legislation works as intended.

The final contents of Finance Bill 2017 will be subject to confirmation at the spring Budget 2017.

Many of the measures covered in this document were first announced at Budget 2016 and consultations on policy have been carried out over the spring and summer. The government has published a number of responses to these consultations alongside this document.

What has been published?

The government has published draft provisions for Finance Bill 2017 for consultation. Where secondary legislation will give substantive effect to the Finance Bill provision, this has also been published in draft.

Each provision is accompanied by:

• a TIIN which sets out what the legislation seeks to achieve, why the government is undertaking the change and a summary of the expected impacts

• an explanatory note which provides a more detailed guide to the legislation

This material is published on the GOV.UK website.

The government's responses to most of the policy consultations carried out over the summer have also been published on the GOV.UK website.

Contacts and closing date

If you wish to comment on any of the draft provisions, please use the contact details provided at the end of the relevant explanatory note. The closing date for comments is **1 February 2017, unless stated otherwise.**

List of abbreviations

BIR	Business Investment Relief
CEMA	Customs and Excise Management Act
CGT	Capital Gains Tax
CoACSs	Co-ownership Authorised Contractual Schemes
CPI	Consumer Prices Index
EIS	Enterprise Investment Scheme
FA	Finance Act
HMRC	HM Revenue & Customs
IHT	Inheritance Tax
ISA	Individual savings account
IP	Intellectual Property
ISA	Individual Savings Account
NICs	National Insurance Contributions
OECD	Organisation for Economic Co-operation and Development
OTS	Office of Tax Simplification
PAYE	Pay As You Earn
PSA	PAYE Settlement Agreement
TIIN	Tax Information and Impact Note

Information about changes to tax legislation

1. Direct Taxes

1.1. Personal Allowance and the higher rate threshold

As announced at Autumn Statement 2016, the government will raise the Income Tax Personal Allowance to £12,500, and the higher rate threshold to £50,000, by the end of this Parliament. Next year, the Personal Allowance will rise to £11,500 and the higher rate threshold to £45,000.

1.2. Deduction of Income Tax at source from savings income

As announced at Budget 2016, the government will legislate in Finance Bill 2017 to remove the requirement for tax to be deducted at source from interest distributions of open-ended investment companies, authorised unit trusts and investment trust companies, and from interest on peer-to-peer loans. The changes will take effect from 6 April 2017. This will bring these types of savings income into line with the treatment of interest paid on bank and building society accounts.

A response document has been published.

Draft legislation (provision 12) and a TIIN has been published on 5 December 2016.

1.3. Retaining the band for the starting rate of savings Income Tax

As announced at Autumn Statement 2016, the government will retain the limit for the 0% starting rate for savings at its current level of £5,000 for 2017 to 2018.

1.4. Indexing the Personal Allowance by CPI once it has reached £12,500

As announced at Autumn Statement 2016, the government will legislate to ensure that once the Income Tax Personal Allowance reaches £12,500, it will subsequently be indexed in line with the growth of the CPI, rather than being set equal to the annual salary of an individual working 30 hours per week on the National Minimum Wage as under current legislation in Finance (No.2) Act 2015.

1.5. ISA uprating

As announced at Autumn Statement 2016, the government will uprate the annual subscription limit for Junior ISAs and Child Trust Funds in line with the CPI to £4,128, alongside the ISA subscription limit increase from £15,240 to £20,000, which was previously announced at Budget 2016. This will be effective from 6 April 2017. These new limits will be applied by updates to the ISA and Child Trust Fund Regulations.

1.6. National Insurance thresholds

As announced at Autumn Statement 2016 and as recommended by the Office of Tax Simplification (OTS) in March 2016, the government will align the secondary (employer) threshold with the primary (employee) threshold for the National Insurance contributions (NICs). This means that from April 2017, both employers and employees will start paying NICs on weekly earnings above £157. The changes will be made through regulations as part of the routine NICs re-rating process and will come into force on 6 April 2017.

A TIIN has been published on 5 December 2016.

1.7. Abolition of Class 2 NICs

As confirmed at Autumn Statement 2016 following consultation, the government will legislate to abolish Class 2 NICs from April 2018. This will simplify the National Insurance regime for the self-employed. From the 2018 to 2019 tax year onwards, no new Class 2 liabilities will arise and it will not be possible to make voluntary payments of Class 2 for that tax year and later tax years. The legislation will not make any changes to the ability of people to make Class 2 payments, including voluntary payments, with respect to the 2017 to 2018 tax year and earlier.

As well as abolishing Class 2 NICs the legislation will include provisions to introduce a contributory benefits test into Class 4 NICs and where necessary to allow the self-employed to access contributory benefits through payment of Class 3 NICs from 2018 to 2019 onwards.

Draft NICs legislation, a summary of responses to the consultation and a TIIN have been published on 5 December 2016.

1.8. Reform of the tax and NICs treatment of termination payments

As announced at Budget 2016 and confirmed at Autumn Statement 2016, the government will legislate in Finance Bill 2017 to tighten and clarify the tax treatment of termination payments. This includes:

- making all contractual and non-contractual payments in lieu of notice (PILONs) taxable as earnings
- requiring employers to tax the equivalent of an employee's basic pay if notice is not worked
- removing foreign service relief for employees who have spent time working outside of the UK

Legislation will also be introduced in the NICs Bill 2017 to align the tax and employer NICs treatment of termination payments so that employer NICs will be payable on the elements of the termination payment exceeding £30,000 on which Income Tax is due. The first £30,000 of a termination payment will remain exempt from Income Tax and National Insurance.

A technical consultation on draft legislation was held over the summer. The government has listened to employers and made a number of changes to make the rules easier for employers to operate. These changes include requiring the employer to calculate post-employment notice income on basic pay only.

The measure will take effect from 6 April 2018.

Draft legislation (provision 9), NICs draft clause and a TIIN has been published on 5 December 2016.

1.9. Simplifying PAYE Settlement Agreements

As announced at Autumn Statement 2016 and following consultation, the government will legislate in Finance Bill 2017 to simplify the process for applying for and agreeing PAYE Settlement Agreements (PSAs). This removes the requirement for employers to obtain up-front agreement from HMRC for items to be included in a PSA. The changes will take effect from 6 April 2018.

Draft legislation (provision 10), summary of responses and a TIIN has been published on 5 December 2016.

1.10. Employer – arranged pensions advice exemption

As announced at Budget 2016, in response to the Financial Advice Market Review, the government will legislate in Finance Bill 2017 for a new Income Tax exemption and NICs disregard to cover the first £500 worth of pension advice provided to an employee in a tax year. It will allow advice on both pensions and, general financial and tax issues relating to pensions. The measure will take effect from 6 April 2017.

Draft legislation (provision 6) and a TIIN has been published on 5 December.

1.11. Restriction of the money purchase annual allowance to £4,000

As announced at Autumn Statement 2016 the government will legislate in Finance Bill 2017 to reduce the money purchase annual allowance which restricts the amount of tax relieved contributions an individual can make in a year into a defined contribution pension if they have flexibly accessed their pension savings. A consultation is open from 23 November 2016 until 15 February 2017.

1.12. Changes to tax treatment of foreign pension regimes

As announced at Autumn Statement 2016, the government will legislate in Finance Bill 2017 and introduce regulations to align the tax treatment of foreign pensions more closely with the UK's domestic pension tax regime.

Changes will include:

- bringing foreign pensions and lump sums fully into tax for UK residents, to the same extent as domestic pensions and lump sums
- closing specialist pension schemes for those employed abroad (section 615 schemes) to new saving
- extending from 5 to 10 tax years the UK's taxing rights over recently emigrated non-UK residents' foreign lump sum payments from funds that have had UK tax relief
- aligning the tax treatment of funds transferred between registered pension schemes
- updating the eligibility criteria for foreign schemes to qualify as overseas pensions schemes for tax purposes

Draft legislation (provision 11) and a TIIN has been published on 5 December.

1.13. Salary sacrifice limitation

As announced at Autumn Statement 2016 and following consultation over the summer, the government will legislate in Finance Bill 2017 to remove the Income Tax and employer NICs advantages of salary sacrifice schemes. The taxable value of benefits in kind where cash have been forgone will be fixed at the higher of the current taxable value or the value of the cash forgone. This includes benefits that are currently tax exempt. As outlined in the consultation, the new rules will not affect pensions saving, employer provided pensions advice, childcare, or Cycle to Work. Following consultation, the government has also decided to exempt Ultra-Low Emission cars (ULEVs), with emissions under 75 grams of CO_2 per kilometre, to incentivise the take-up of these vehicles.

This change will take effect from 6 April 2017. Those already in salary sacrifice contracts at that date will become subject to the new rules in respect of those contracts at the earlier of:

- an end, change, modification or renewal of the contract
- 6 April 2018, except for cars, accommodation and school fees when the last date is 6 April 2021

Draft legislation (provision 2), a summary of responses to the consultation and a TIIN has been published on 5 December 2016.

1.14. Review of the valuation of benefits in kind

As announced at Autumn Statement 2016, the government will consider how benefits in kind are valued for tax purposes. The government will publish at Budget 2017 a call for evidence on the valuation of benefits in kind, and additionally a consultation on employer-provided living accommodation.

1.15. Company Car Tax - bands and rates for tax year 2020 to 2021

As announced at Autumn Statement 2016, and following consultation, the government will legislate in Finance Bill 2017 for new, lower bands for the lowest emitting cars. For cars with emissions below 50 gCO2/km bands will be based on the electric range of the car. The relevant percentage for cars emitting greater than 90 gCO2/km will rise by 1 percentage point.

Draft legislation (provision 4), a summary of responses to the consultation and a TIIN has been published on 5 December 2016.

The table below shows the new bands and rates for tax year 2020 to 2021.

CO_2 (g/km)	Electric range (miles)	2020 to 2021
0		2
1- 50	>130	2
1- 50	70-129	5
1- 50	40-69	8
1- 50	30-39	12
1- 50	<30	14
51-54		15
55-59		16
60-64		17
65-69		18
70-74		19
75-79		20
80-84		21

85-89		22
90-94		23
95-99		24
100-104		25
105-109		26
110-114		27
115-119		28
120-124		29
125-129		30
130-134		31
135-139		32
140-144		33
145-149		34
150-154		35
155-159		36
160 and above		37

Electric range (miles) is the number of kilometres declared on the certificate of conformity or type approval certificate and multiplied by 0.62.

1.16. Alignment of dates for making good on benefits in kind

As announced at Autumn Statement 2016 and following consultation over the summer, the government will legislate in Finance Bill 2017 to align the dates for making good on benefits in kind, where an employee makes a payment in return for the benefit in kind they receive. This has the effect of reducing the taxable value of the benefit in kind, often to zero. Legislation in Finance Bill 2017 will set the date for an employee to make good on benefits in kind which are not accounted for in real time through PAYE (benefits in kind which are not payrolled). Following the consultation, the government concluded that 6 July following the end of the tax year is a an appropriate date, so the taxable value of the benefit in kind will be reduced or removed if making good takes place by that date.

The change will affect making good on a tax liability arising in the tax year 2017 to 2018 and subsequent years.

Draft legislation (provision 3), a summary of responses to the consultation and a TIIN has been published on 5 December 2016

1.17. Assets made available without transfer of ownership

As announced at Autumn Statement 2016 the government will legislate in Finance Bill 2017 to set out a detailed method for calculating the taxable value (cash equivalent) of an asset provided to the employee which is made available for private use. This means that employees will just pay tax for those days on which the asset is available for private use. This will provide clarity for both employees and employers. The changes will take effect from 6 April 2017.

Draft legislation (provision 5) and a TIIN has been published on 5 December 2016.

1.18. Legal Support

As announced at Autumn Statement 2016 the government will legislate in Finance Bill 2017 to ensure that all employees (or former employees) called to give evidence, for example, at an inquiry, will be able to receive legal support funded by their employer tax-free. The changes will take effect from 6 April 2017.

Draft legislation (provisions 7 and 8) and a TIIN has been published on 5 December 2016.

1.19. Employee business expenses

As announced at Autumn Statement 2016 the government will publish a call for evidence at Budget 2017 on the use of the Income Tax relief for employees' business expenses, including those that are not reimbursed by the employer.

1.20. Off-payroll working in the public sector: reform of the intermediaries legislation

As announced at Autumn Statement 2016 and following consultation over the summer, the government will legislate in Finance Bill 2017 to reform the off-payroll rules (often known as IR35) in the public sector. This was first announced at Budget 2016.

Responsibility for operating the off-payroll working rules, and deducting any tax and NICs due, will move to the public sector body, agency or other third party paying an individual's personal service company (PSC). The change will come into effect from 6 April 2017 and apply across the UK.

As a result of feedback received during consultation, the 5% tax-free allowance for general business expenses, available to workers currently applying the rules, will be withdrawn for PSCs working in the public sector. This will simplify administration and reflects the fact that PSCs no longer have responsibility for applying the rules. Public sector bodies will be responsible for determining whether or not the rules apply and will be required to share this information with agencies in order for them to operate the rules correctly. To address concerns about acting in good faith on incorrect or false information, transfer of liability provisions will be introduced to provide protection. Public sector bodies in scope are those subject to the provisions of the

Freedom of Information Act 2000 and the Freedom of Information (Scotland) Act 2002. The rules remain unchanged for the private sector.

Draft legislation (provision 1), a technical note, the summary of responses to the consultation and a TIIN has been published on 5 December 2016.

1.21. Tax-advantaged venture capital schemes

As announced at Autumn Statement 2016, the government will legislate in Finance Bill 2017 to amend the requirements for the Enterprise Investment Scheme (EIS), the Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCT) to:

- clarify the EIS and SEIS rules for share conversion rights; the rights to convert shares from one class to another will be excluded from being an arrangement for the disposal of those shares within the no pre-arranged exits requirements for the EIS and SEIS for shares issued on or after 5 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 6 April 2017
- introduce a power to enable regulations to be made in relation to certain share-for-share exchanges to provide greater certainty to VCTs, which will take effect on the date from which Finance Bill 2017 receives Royal Assent

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 it over the longer term.

Draft legislation (provisions 15, 16 and 17), the consultation document and a TIIN has been published on 5 December 2016.

1.22. Clarification of tax treatment for partnerships

As announced at Autumn Statement 2016 and following consultation the government will legislate in Finance Bill 2017 to clarify and improve certain aspects of partnership taxation. This will include legislation to ensure profit allocations to partners are fairly calculated for tax purposes.

Draft legislation will be published in early 2017 for consultation.

1.23. Capital Gains Tax: abolishing Employee Shareholder Status

As announced at Autumn Statement 2016, the government will legislate in Finance Bill 2017 to withdraw the Capital Gains Tax exemption and the Income Tax reliefs in respect of shares received as consideration for entering into most Employee Shareholder Status agreements. Agreements entered into before 1 December 2016, or before 2 December 2016 where independent advice was received before 1:30pm on 23 November 2016, will retain their tax benefits. This is part of the government's policy of promoting sustainability and fairness in the system of tax reliefs. The changes apply to all UK residents.

Draft legislation (provisions 29-31) and a TIIN were published on 23 November 2016.

1.24. Tackling disguised remuneration tax avoidance schemes

As announced at Autumn Statement 2016, the government will legislate in Finance Bill 2017 to tackle existing and prevent future use of disguised remuneration avoidance schemes. This will ensure scheme users pay their fair share of Income Tax and NICs. The future use of schemes will be prevented by strengthening the current rules. The existing use of schemes will be tackled by the introduction of a new charge on disguised remuneration loans that were made after 5 April 1999 and remain outstanding on 5 April 2019. A technical consultation to ensure the draft legislation is targeted and effective ran over the summer. Legislation will also be introduced to ensure there is no double taxation.

Draft legislation (provisions 32-35) and a TIIN has been published on 5 December 2016.

As proposed in the technical consultation, the measure will be extended to schemes used by the self-employed. Legislation will be introduced in Finance Bill 2017 to prevent the future use of these schemes with effect from 6 April 2017. The existing use of schemes will also be tackled by the introduction of a new charge on outstanding disguised remuneration loans. This loan charge will operate in a similar way to the employment loan charge outlined in the technical consultation. It will have effect from Royal Assent of Finance Bill 2017.

Draft legislation (provisions 32-35) and a TIIN has been published on 5 December 2016.

Legislation will be also introduced to prevent employers claiming a deduction when computing their taxable profits for contributions to a disguised remuneration scheme unless Income Tax and NICs are paid within a specified period. This will have effect for contributions made on or after 1 April 2017 (for Corporation Tax purposes) or 6 April 2017 (for Income Tax purposes).

Draft legislation (provisions 32-35) and a TIIN has been published on 5 December.

Further detail on all 3 disguised remuneration measures can be found in the technical note and summary of responses.

1.25. Life insurance policies: part surrenders and part assignments

As announced at Autumn Statement 2016, and following consultation, the government will legislate in Finance Bill 2017 to allow individuals who, in certain unusual circumstances, have part surrendered or part assigned their life insurance policies and inadvertently generated a wholly disproportionate tax charge, to apply to HMRC to have the charge recalculated on a just and reasonable basis. This will lead to fairer outcomes for these policyholders. The changes will take effect from 6 April 2017.

Draft legislation (provisions 13), a summary of responses and a TIIN has been published on 5 December 2016.

1.26. Inheritance Tax: donations to political parties

As announced at Autumn Statement 2016, the government will legislate in Finance Bill 2017 to 2018 to extend the existing IHT exemption for donations to political parties to include donations made to qualifying political parties in the devolved legislatures and parties that have acquired representatives through by-elections. These changes will modernise the IHT exemption and reflect changes to the political landscape in which political parties operate.

1.27. Personal portfolio bonds: reviewing the property categories

As announced at Budget 2016 and following consultation, the government will legislate in Finance Bill 2017 to give the government the power to amend by regulations the list of assets that can be invested in without triggering the personal portfolio bonds anti-avoidance rules. The changes will take effect on Royal Assent.

Draft legislation (provision 14), a summary of responses to the consultation and a TIIN has been published on 5 December 2016.

1.28. Sharing economy: allowance for trading and property income

As announced at Budget 2016, legislation will be introduced in Finance Bill 2017 to create 2 new allowances for individuals of £1,000 each, 1 for trading and 1 for property income. The trading allowance will also apply to certain miscellaneous income from providing assets or services.

Where the allowances cover all of an individual's trading or property income (before expenses) then they will no longer have to declare or pay tax on this income. Those with higher amounts of income will have the choice to deduct the allowance instead of deducting their actual allowable expenses. These allowances will take effect from 6 April 2017.

Draft legislation (provision 19) and a TIIN have been published on 5 December 2016.

2. Corporation Tax

2.1. Corporate streaming review

As announced at Autumn Statement 2016, the government will modernise the rules on the taxation of dividend distributions to corporate investors. This will preserve the current ability of institutional investors, such as life companies with pensions business, to invest in a tax neutral way in authorised investment funds. Detailed proposals will be published in draft secondary legislation in the New Year.

2.2. Authorised contractual schemes: reducing tax complexity for investors

As announced at Autumn Statement 2016, and following consultation, the government will legislate in Finance Bill 2017 and secondary legislation to reduce tax complexity for investors and clarify requirements on operators of an authorised contractual scheme (ACS). From Royal Assent, the operator of a co-ownership ACS (CoACS) will be able to elect to compute capital allowances and allocate them to investors, and legislation will clarify the treatment of assets acquired and disposed of. Also from Royal Assent, operators of a CoACS will be required to provide specific tax-related information to investors and to HMRC, and legislation will clarify what amounts are to be treated as an investor's income where an ACS has invested in an offshore fund. The computation of the capital gain on disposal of units in transparent funds including CoACS will be clarified through secondary legislation for disposals on or after an operative date in summer 2017.

Draft legislation (provisions 37-39), a summary of responses and a TIIN has been published on 5 December 2016.

2.3. Bespoke tax regime for Insurance Linked Securities (ILS)

As announced at Budget 2015, the government will ensure the reinsurance activity of insurance special purpose vehicles (ISPV) that issue ILS will be exempt from corporation tax. ILS offer alternative forms of risk mitigation for insurance and reinsurance firms by transferring insurance risk to capital market investors. In addition, payments to investors will be exempt from withholding tax.

Draft regulations and a TIIN were published on 23 November 2016, and comments are invited by 18 January 2017.

2.4. Museums and galleries tax relief

As announced at Autumn Statement 2016, and following consultation, the government will broaden the scope of the museums and galleries tax relief that was announced at Budget 2016 to include permanent exhibitions. This is following a consultation on the policy design which ended on 28 October. Relief is available on the cost of developing new exhibitions including those that are toured. Autumn Statement 2016 announced the rates for the relief as 25% for touring exhibitions and 20% for non-touring exhibitions. The relief will allow museums and galleries to claim a credit worth up to £100,000 on exhibitions that are toured and £80,000 on non-touring exhibitions. The maximum credit allowable is the equivalent of qualifying expenditure of £500,000. The relief will take effect from 1 April 2017 to April 2022 unless renewed. In 2020 the government will review the tax relief and set out plans beyond 2022.

Draft legislation (provision 22), summary of responses and a TIIN have been published on 5 December 2016.

2.5. Re-scope of the Bank Levy

As announced at the 2015 Summer Budget, the Bank Levy's tax base will change to UK operations from 1 January 2021. As announced at Autumn Statement 2016 and following consultation, the government will exempt liabilities relating to certain funding for UK banks' overseas subsidiaries, as well as liabilities relating to the funding of UK banks' overseas branches from the Bank Levy. The changes will take effect from 2021 and will be legislated in Finance Bill 2017 to 2018.

A consultation response document has been published on 5 December 2016, setting out further details of these reforms.

2.6. Petroleum Revenue Tax regime administrative savings

As announced at Autumn Statement 2016, the government will build on the permanent zero-rating of Petroleum Revenue Tax (PRT) by introducing changes to simplify the PRT regime and reduce the administrative burden of participators who file PRT returns in Finance Bill 2017. The government published legislation on 23 November 2016 to simplify the process for opting out of the PRT regime. This will remove any conditions for opting out so that participators wishing to opt their fields out of PRT only need to make a simple election and notify HMRC. For participators who remain in the regime, HMRC will simplify the returns process by removing some reporting requirements which are no longer relevant. Industry has already been consulted on these changes. This will save industry £6.2m in total over 10 years in reduced administration costs. These administrative changes took effect from 23 November 2016.

Draft legislation (provision 46) and a TIIN was published on 23 November 2016.

2.7. Tax deductibility of corporate interest expense

As announced at Budget 2016 and following consultation, the government will introduce rules in Finance Bill 2017 that limit the tax deductions that companies can claim for their interest expenses, with effect from 1 April 2017. This takes forward one element of the Business Tax Road Map and implements one of the actions of the G20/ Organisation for Economic Co-operation and Development (OECD) Base Erosion and Profit Shifting project. The UK government consulted extensively on the proposals in October 2015 and again on the detailed design and implementation in May 2016.

The legislation will adopt the OECD's best practice recommendations for interest deductibility. The new rules will restrict each group's net deductions for interest to 30% of earnings before interest, tax, depreciation and amortisation (EBITDA) taxable in the UK or, if higher, to an amount based on the net-interest to EBITDA ratio for the worldwide group. The legislation will also provide for repeal of the existing debt cap legislation and its replacement by a modified debt cap which will ensure that the net UK interest deduction does not exceed the total net interest expense of the worldwide group. Amongst other features, the rules will include provisions to protect investment in infrastructure that has a public benefit and a de minimis rule so that only large businesses are affected. There will be no special provisions for banking and insurance groups. The draft bill published today includes all the core provisions of the restriction, including:

- the Fixed Ratio Rule and the Modified Debt Cap, setting out how the rules will operate for the majority of groups
- the rules for performing the calculation using the Group Ratio Rule, although not yet all of the key definitions, and allocating any restriction to individual companies and accounting periods
- provisions to carry forward restricted interest and surplus capacity, which deal with companies leaving and joining groups - commencement, transitional and anti-avoidance rules are also included

It is expected that the remaining provisions will be published by the end of January in an updated version of the draft legislation. These will include:

- the definitions needed for the Group Ratio Rule, including how it will apply to joint ventures, rules concerning related parties and the Public Benefit Infrastructure Exemption
- rules for particular industries and issues such as the Patent Box and other tax incentives, leasing, Real Estate Investment Trusts, and securitisations

A TIIN and summary of responses to the consultation has also been published on 5 December 2016. The summary of responses sets out the government's decisions on all aspects of the rules and includes a full list of which aspects are covered by the draft legislation (provision 21) published on 5 December, and which are to be published in a revised draft by the end of January.

2.8. Corporation Tax: reform of loss relief

As confirmed at Autumn Statement 2016, and following consultation over the summer, the government will legislate in Finance Bill 2017 to reform the rules governing corporate losses carried forward from earlier periods.

The reform will:

- give all companies more flexibility by relaxing the way in which they can use losses arising on or after 1 April 2017 when they are carried forward - these losses will be useable against profits from different types of income and other group companies
- restrict companies' use of losses carried forward so that they can't reduce their profits arising on or after 1 April 2017 by more than 50% - this restriction will apply to a company or group's profits above £5 million, carried forward losses arising at any time will be subject to the restriction

The changes will take effect from 1 April 2017. The government response to the consultation and draft legislation for the loss restriction calculation and post-April 2017 loss relaxation and group relief for carried-forward losses have been published on 5 December 2016. The government intends to publish the remaining draft legislation for consultation by the end of January 2017.

Draft legislation (provision 20), response to the consultation and TIIN.

2.9. Non-resident companies chargeable to Income Tax

As announced at Autumn Statement 2016 a consultation will run shortly after Budget 2017 to consider the case and options for bringing non-UK resident companies, who are currently chargeable to Income Tax on their UK taxable income, within the scope of Corporation Tax. These companies would then be subject to the rules which apply generally for the purposes of Corporation Tax, including the limitation to corporate interest expense deductibility and loss relief rules.

2.10. Northern Ireland Corporation Tax change

As announced at Autumn Statement 2016, the government will legislate in Finance Bill 2017 to make minor changes to the Northern Ireland Corporation Tax regime. These will give all small and medium sized enterprises (SMEs) trading in Northern Ireland potential to benefit from the regime. Other amendments will minimise the risks of abuse and ensure the regime is ready for commencement if the Northern Ireland Executive demonstrates its finances are on a sustainable footing. The changes give an option to SMEs which do not meet the Northern Ireland employment test, but do have a trading presence there, to access the Northern Ireland rate on the same terms as large companies.

The changes will come into force on Royal Assent and have effect for accounting periods beginning on or after the first day of the financial year appointed by HM Treasury in commencement regulations for the Northern Ireland Corporation Tax regime.

Draft legislation (provisions 25 and 26) and a TIIN has been published on 5 December 2016.

2.11. Enlarging Social Investment Tax Relief

As announced at Autumn Statement 2016 the government will legislate in Finance Bill 2017 to amend the Social Investment Tax Relief (SITR) scheme to:

- increase the amount of investment a social enterprise may receive over its lifetime to £1.5 million, for social enterprises that receive their initial risk finance investment no later than 7 years after their first commercial sale - the current limit of €344,000 over a rolling 3 year period will continue to apply to older social enterprises
- reduce the limit on full-time equivalent employees to below 250 employees
- exclude certain activities, including asset leasing and on-lending, to ensure the scheme is well targeted - investment in nursing homes and residential care homes will be excluded initially, however the government intends to introduce an accreditation system to allow such investment to qualify for SITR in future
- exclude the use of money raised under the SITR to pay off existing loans
- clarify that individuals will be eligible to claim relief under the SITR only if they are independent from the social enterprise
- introduce a provision to exclude investments where arrangements are put in place with the main purpose of delivering a benefit to an individual or party connected to the social enterprise.

  The changes will take effect for investments made on or after 6 April 2017. The government intends to publish the draft legislation and a TIIN by the end of January 2017.

2.12. Grassroots sports: deductions for corporation tax

As announced at Autumn Statement 2016, and following consultation in spring 2016, the government will legislate in Finance Bill 2017 to provide a Corporation Tax deduction for contributions to grassroots sports. This will encourage participation in grassroots sports and reduce administrative burdens for some organisations which currently make contributions to grassroots sports. The new rules allow companies to deduct all contributions to grassroots sports through recognised sport governing bodies, and deductions of up to £2,500 in total annually for direct contributions.

Sport governing bodies will be able to deduct all their contributions to grassroots sports. The government's response to the consultation have been published on 5 December. The legislation will apply to qualifying expenditure incurred on or after 1 April 2017.

Draft legislation (provision 23), a summary of responses to the consultation and a TIIN have been published on 5 December 2016.

2.13. Patent Box: cost sharing for collaborative Research and Development (R&D)

As announced at Autumn Statement 2016, the government will legislate in Finance Bill 2017 to add specific provisions to the revised Patent Box rules introduced in Finance Act 2016, covering the case where R&D is undertaken collaboratively by 2 or more companies under a ‘cost sharing arrangement’ (CSA). The provisions will ensure that companies are neither penalised nor able to gain an advantage under these rules by organising their R&D in this way.

The new rules, which apply UK wide, provide that:

- where a company acquires an interest in or increases its interest in a CSA, an appropriate amount of the consideration paid counts as acquisition cost for the purpose of calculating the R&D fraction, to the extent any Intellectual Property (IP) assets are held within the CSA
- where a company disposes of an interest or reduces its interest in a CSA, an appropriate amount of any consideration received is treated as IP income, to the extent any IP assets are held within the CSA
- activity of participants in the CSA to develop IP or products is appropriately treated in the company's R&D fraction

This has effect for accounting periods commencing on or after 1 April 2017.

Draft legislation (provision 24) and a TIIN has been published on 5 December.

2.14. Hybrids and other mismatches

As announced at Autumn Statement 2016 the government will legislate in Finance Bill 2017 to make minor changes to the new hybrid mismatch regime legislation introduced in Finance Act 2016, in order to improve its operation. Following consultation with stakeholders, further technical modifications will be made to 2 areas of the legislation. These concern the treatment of mismatches which arise from certain timing differences, and the way in which deductions for amortisation affect the mismatch rules. These modifications will take effect along with the new regime on 1 January 2017.

A technical note setting out the detail of the changes required have been published on 5 December 2016.

2.15. First-year allowances for charge-point infrastructure

As announced at Autumn Statement 2016, the government will legislate in Finance Bill 2017 to incentivise investment in Ultra Low Emissions Vehicles (ULEVs). The 100% first-year allowance (FYA) will allow businesses to deduct investments in electric charge-point equipment from their pre-tax profits in the year of purchase. The relief is designed to encourage the use of electric vehicles by increasing charge-point availability. This took effect from 23 November 2016 to avoid delays to planned investments.

Draft legislation (provision 36) and a TIIN was published on 23 November 2016.

2.16. Offshore funds: calculation of reportable income

As announced at Autumn Statement 2016, secondary legislation will be introduced to disallow the deduction of performance fees incurred by offshore reporting funds in calculating UK investors' reportable income. Such expenses will instead, where incurred, reduce investors' taxable gains when they dispose of their holdings in an offshore reporting fund. This change will take effect for reporting periods commencing on or after 1 April 2017.

Draft legislation and a TIIN have been published on 5 December 2016.

2.17. Substantial Shareholding Exemption (SSE) reform

As announced at Autumn Statement 2016 and following consultation over the summer, the government will legislate in Finance Bill 2017 to simplify the rules. It will remove the investing requirement within the SSE and will also provide for the SSE to apply to companies owned by qualifying institutional investors, without regard to the nature of the activities carried on by the companies they are invested in. Both changes will apply from 1 April 2017. These changes will ensure that the UK remains a competitive environment for global investors, whilst reducing some complexity in the Corporation Tax system for UK groups.

Draft legislation (provisions 27 and 28), summary of responses to the consultation and a TIIN have been published on 5 December 2016.

3. Domicile

3.1. Non-domicile taxation: changes to the rules for Business Investment Relief (BIR)

As announced at Autumn Statement 2015, and following consultation, the government will legislate in Finance Bill 2017 to widen the rules governing the BIR scheme to encourage investment in UK companies. The changes will take effect from 6 April 2017.

Draft legislation, summary of responses to the consultation and a TIIN have been published on 5 December.

3.2. Non-domicile taxation: Inheritance Tax on UK residential property

As announced at Summer Budget 2015 and following consultation, the government will legislate in Finance Bill 2017 to extend Inheritance Tax (IHT) to UK residential properties which are held by non-domiciled individuals through overseas vehicles. This will bring the treatment of such properties for IHT purposes into line with the existing treatment where they are held by individuals who are domiciled in the UK. The changes will take effect from 6 April 2017.

Draft legislation (provision 42) and a TIIN has been published on 5 December.

3.3. Non-domicile taxation: deeming provisions for Income Tax, Capital Gains and IHT

As announced at Summer Budget 2015, and following consultation, the government will legislate in Finance Bill 2017 so that those individuals who are not domiciled in the UK will be deemed to be UK domiciled for tax purposes if they are either (a) resident in the UK for 15 of the past 20 tax years, or (b) if they are born in the UK with a UK domicile of origin. These changes will bring an end to permanent non-dom status for tax purposes.

his follows a consultation which set out the detail of the proposals to deem certain non-doms to be UK-domiciled for tax purposes. The changes will take effect from 6 April 2017. More detail on these changes, including transitional protections, is set out in the consultation response document.

Draft legislation (provision 41), the consultation response document and a TIIN has been published on 5 December 2016.

4. Indirect taxes

4.1. VAT Grouping: consultation

As announced at Autumn Statement 2016 a consultation will run from 5 December 2016 to 27 February 2017. The purpose of the consultation is to inform UK policy following the 2 significant decisions of the Court of Justice of the European Union (CJEU) in Larentia & Minerva and Marenave (C-108/14) and C-109/14) and Skandia America Corporation (C-7/13). The cases were about eligibility for VAT grouping and the treatment of cross-border transactions. The consultation will invite UK business views on whether and, if so, what UK legal changes are required following these cases and the international response.

4.2. Implementation of the Fulfilment House Due Diligence Scheme (FHDDS)

As announced at Budget 2016 and following consultation over the summer, the government will legislate in Finance Bill 2017 to provide for a new due diligence registration scheme for all UK based fulfilment house businesses. Further draft legislation setting out the record-keeping and due diligence standards will be published for consultation in early 2017. The new scheme will open for registration from April 2018.

Draft legislation (provisions 79-89), the summary of responses to the consultation and a TIIN have been published on 5 December 2016.

4.3. Tackling exploitation of the VAT relief on adapted cars for wheelchair users

As announced at Autumn Statement 2016, the government will legislate in Finance Bill 2017 to tackle abuse of VAT relief on adapted cars for wheelchair users, while ensuring those that should be able to benefit from the relief can continue to do so. A review of this VAT relief found that some people are targeting and abusing it. They obtain a VAT zero-rate relief on vehicles with minor adaptions and later reverse the changes to sell the vehicle on for profit.

A consultation in 2014 set out options to amend the scheme. Respondents were supportive of the need to make changes in order to tackle the abuse. The legislation will limit the number of vehicles that can benefit from the relief in a given period, make submission of declarations of eligibility to HMRC mandatory and apply a penalty to those found abusing the scheme. The changes will take effect from 1 April 2017.

Draft legislation (provision 43) and a TIIN has been published on 5 December 2016.

4.4. VAT Flat Rate Scheme (FRS) changes

As announced at Autumn Statement 2016, the government will introduce a new 16.5% flat rate, with effect from 1 April 2017, for all FRS businesses with limited costs, such as many labour-only businesses. This measure creates a more level playing field for all small businesses, while keeping VAT accounting simple for the small businesses who use the scheme as intended. Businesses using the scheme, and new businesses joining the scheme, will need to complete a simple test, using information they already hold, to work out whether they must use the new 16.5% rate. To support businesses, the government will introduce an easy to use online tool that will help them determine whether the new rate applies to them. This rate will be introduced through secondary legislation. Anti-forestalling legislation was introduced on 23 November 2016 in a revision to Public Notice 733 to support the measure.

A technical note was published on 23 November 2016 and a TIIN has been published on 5 December 2016.

4.5. Insurance Premium Tax (IPT): standard rate increased

As announced at Autumn Statement 2016, the government will legislate in the Finance Bill 2017 to increase the standard rate of IPT from 10% to 12%. The changes will take effect from 1 June 2017 for premiums received on or after that date relating to risks for which the period of cover under the terms of an insurance contract begins on or after that date.

From 1 June 2018, the new rate will apply to all premiums, regardless of when the commencement of cover begins under the contract. The anti-forestalling provisions will be reviewed and any changes will be announced at Budget 2017.

Draft legislation (provisions 44 and 45) and a TIIN has been published on 5 December 2016.

4.6. Tobacco: Minimum Excise Tax (MET)

As announced at Budget 2016, the government will legislate in Finance Bill 2017 to introduce a MET for cigarettes. A MET will set a minimum level of duty for any packet of cigarettes, which will support public health objectives, tackle the very cheapest tobacco and promote fiscal sustainability. The rate of the MET will be announced at Budget 2017. This change applies to cigarettes sold in the UK.

Draft legislation (provision 50) and a TIIN has been published on 5 December 2016.

4.7. Remote Gaming Duty: freeplays reform

As announced at Budget 2016 and following consultation over the summer, the government will legislate in Finance Bill 2017 to charge Remote Gaming Duty on remote gaming freeplays to bring them more into line with the treatment of free bets in General Betting Duty. This will incorporate changes to the draft legislation exposed at consultation to address industry concerns about the impact of the original proposal. The changes will take effect for accounting periods beginning on or after 1 August 2017 and apply to any remote gaming participation by a UK person.

Draft legislation (provision 48), a summary of responses to the consultation and a TIIN has been published on 5 December 2016.

4.8. Landfill Tax: definition of taxable disposal

As announced at Budget 2016, and following consultation over the summer, the government will legislate in Finance Bill 2017 to put the definition of a taxable disposal for Landfill Tax purposes beyond doubt. This will redefine a taxable disposal for Landfill Tax purposes so that any material disposed of at a landfill site will be taxable unless expressly exempt. New exemptions will be introduced to avoid inadvertently extending the scope of the tax. Legislation will be introduced in Finance Bill 2017 and in secondary legislation. The government's intention is to bring the provisions into force as soon as is practicable, and the changes will apply to disposals to landfill in England, Wales and Northern Ireland.

Draft legislation (provision 47), summary of responses to the consultation and a TIIN has been published on 5 December 2016.

4.9. Air Passenger Duty: Regional Airport Review

As announced at Autumn Statement 2016, the government has published a summary of responses to the consultation on how to support regional airports in England from the potential effects of Air Passenger Duty (APD) devolution. Given the strong interaction with EU law, the government does not intend to take specific measures now, but intends to review this area again after the UK has exited from the EU.

4.10. Soft Drinks Industry Levy

As announced at Budget 2016, and following consultation on the design and implementation of the levy over the summer, the government will legislate in Finance Bill 2017 for the Soft Drinks Industry Levy. This is a levy on importers and producers of beverages that contain added sugar to help tackle childhood obesity. The 2 thresholds, at 5g and 8g of sugar per 100ml have been designed so that, by taking reasonable steps to reduce sugar content, UK producers and importers of soft drinks can pay less or escape the charge altogether. The levy will take effect from April 2018.

There will be an exemption for the smallest operators and a credit against levy liability, subject to evidence, for liable drinks that are exported.

Draft legislation (provisions 51-78), a summary of responses to the consultation and a TIIN has been published on 5 December 2016.

5. Annual Tax on Enveloped Dwellings

5.1. Annual Tax on Enveloped Dwellings (ATED): 2017 to 2018 chargeable amounts

As announced at Autumn Statement 2016, the ATED annual charges will rise in line with the September 2016 CPI. The new charges will apply for the chargeable period 1 April 2017 to 31 March 2018.

A TIIN has been published on 5 December 2016.

The table below shows the 2016 to 2017 charges within each property band and what the revised 2017 to 2018 charges will be:

Taxable value of the property	Current annual chargeable amounts for the 2016 to 2017 period	Annual chargeable amounts for the 2017 to 2018 period
£500,001 to £1,000,000	£3,500	£3,500 (no change)
£1,000,001 to £2,000,000	£7,000	£7,050
£2,000,001 to £5,000,000	£23,350	£23,550
£5,000,001 to £10,000,000	£54,450	£54,950
£10,000,001 to £20,000,000	£109,050	£110,100
£20,000,001 and over	£218,200	£220,350

6. Administration and Enforcement

6.1. Making Tax Digital (MTD)

The government published a package of 6 consultations on MTD in the summer, which closed on 7 November 2016. In addition to inviting written responses to each consultation document, HMRC undertook significant stakeholder engagement activity to gather views from businesses, agents and software providers on the proposals. This included 15 face-to-face roundtable events across the UK and 14 webinars (with over 3,000 participants). The government is pleased with the large number of responses HMRC has received to the consultations. There were over 1,200 responses to the online survey in the short guide to the 6 consultations.

HMRC received via email and letter over 600 responses to the consultations 'Bringing Business Tax Into The Digital Age' and 'Voluntary Pay-As-You-Go', over 120 responses to the 'Tax Administration' consultation, over 200 responses to the consultations on simplification measures and nearly 80 responses to the consultation on making better use of information. To ensure that the views of respondents to the consultations are fully considered, the government will publish its response to all 6 consultations, together with draft Finance Bill 2017 legislation in January 2017.

6.2. Avoidance: sanctions and deterrents

As announced at Autumn Statement 2016, and following consultation, the government will legislate in Finance Bill 2017 for a new penalty on those individuals or entities who enable the use of tax avoidance arrangements which HMRC later defeats ('enablers'). The legislation will also provide clarification as to what constitutes 'reasonable care' in relation to the application of the penalties charged on taxpayers following the defeat of tax avoidance.

Draft legislation (provision 92), summary of responses to the consultation and a TIIN has been published on 5 December 2016.

6.3. Hidden economy: conditionality

At Budget 2016 the government announced a consultation on the principle of conditionality (making access to licences or services conditional on tax registration). After considering responses to that public consultation, the government believes that conditionality could be an effective way to reduce the size of the hidden economy and mitigate the negative impact it has on the majority of businesses who pay their fair share. The government also recognises that conditionality must be developed in a way which does not impose undue burdens upon compliant businesses, and will coordinate any changes with the longer-term programme for wider tax administration reforms and MTD. The government will consider the case for introducing conditionality and will set out its next steps and publish a response document at Budget 2017.

6.4. Hidden economy: tougher sanctions for repeat offenders

At Budget 2016 the government announced a consultation on increased sanctions for those that operate in the hidden economy. The consultation covered 2 outline proposals – stronger sanctions for those who repeatedly fail to notify HMRC of a tax liability, and increased monitoring of those found to be engaging in hidden economy activity.

After considering responses to that public consultation, the government believes that there is a good case for strengthening those sanctions. It will coordinate any changes with the longer-term programme for wider tax administration reforms. The government will set out its next steps and publish a response document at Budget 2017.

6.5. Hidden economy: data from Money Service Businesses

As announced at Budget 2016, and following consultation, the government will legislate in Finance Bill 2017 to extend HMRC's data-gathering powers to Money Service Businesses (MSBs) which provide money transfer, cheque cashing and currency exchange services. This will allow HMRC to more effectively identify businesses and individuals who disguise income by exploiting services offered by MSBs, particularly through cash-based transactions.

Draft legislation (provision 98), summary of responses to the consultation and a TIIN has been published on 5 December 2016.

6.6. Partial enquiry closure notices

As announced at Autumn Statement 2016, the government will legislate in Finance Bill 2017 to allow discrete matters in large, complex or high risk cases to be concluded ahead of the final closure of a tax enquiry. This will give HMRC and its customers certainty about tax owed on individual matters without having to wait for all matters in a tax enquiry to be resolved. In response to consultation the power will be available to both HMRC and its customers and will apply to current and future enquiries. HMRC will use the new partial closure power where there is tax avoidance, high complexity, or large amounts of tax at risk. Where HMRC issues a partial closure notice and amends a person's tax return, as a safeguard, customers will have a right to appeal and ask for payment of the tax to be postponed.

The legislation will come into effect from Royal Assent of Finance Bill 2017 and will apply to enquiries open at that time, and future enquiries.

Draft legislation (provision 90) and a TIIN has been published on 5 December 2016.

6.7. Removing NICs from the effects of the Limitation Act and aligning the assessment and recovery of NICs with that of Income Tax and other taxes

As announced at Autumn Statement 2016, the government will remove NICs from the effects of the Limitations Act 1980 and Northern Ireland equivalent. This will align the time limits and recovery process for enforcing National Insurance debts with other taxes. It will take effect from April 2018. The government will consult on the detail in early 2017.

6.8. Requirement to correct

As announced at Autumn Statement 2016 and following consultation the government will legislate in Finance Bill 2017 to introduce a new requirement for those who have failed to declare UK tax on offshore interests to correct that situation, with new tougher sanctions for those who fail to do so. This new 'requirement to correct' is expected to come into force when the Finance Bill 2017 receives Royal Assent and will apply to all taxpayers with offshore interests who have not complied with their UK tax obligations.

Draft legislation (provision 94), the summary of responses and a TIIN has been published on 5 December 2016.

6.9. Requirement to notify HMRC of offshore structures

As announced at Autumn Statement 2016, the government will consult on a requirement for businesses that create or promote complex offshore financial structures to notify HMRC of their creation and related client lists. The requirement will be targeted at structures which represent a higher risk of being used for evading UK taxes. This will give HMRC an improved insight into how these structures are being used, and who is using them, allowing compliance activities to be appropriately targeted.

6.10. VAT penalties: changes to penalties for facilitating fraud

As announced at Budget 2016 and following consultation, the government will legislate in Finance Bill 2017 to introduce a new more effective penalty for tackling aggressive VAT fraud. It will be applied to businesses and company officers when they knew or should have known that their transactions were connected with VAT fraud. This is known as the 'knowledge principle'. This change will align the levying of the penalty with the tax decision. This will reduce costs for businesses, HMRC and the courts. This will have effect following Royal Assent to Finance Bill 2017.

Draft legislation (provision 95), summary of responses and a TIIN has been published on 5 December 2016.

6.11. VAT Disclosure of Schemes Regime (VADR): consulting on reform

As announced at Autumn Statement 2016, and following consultation, the government will legislate in in Finance Bill 2017 to strengthen the regime for disclosure of indirect tax avoidance. Provision will be made to make scheme promoters primarily responsible for disclosing schemes to HMRC and the scope of the regime will be extended to include all indirect taxes. Details of the tests to apply to arrangements to determine if they should be disclosed to HMRC will be contained in regulations.

Draft legislation (provision 93), a summary of responses to the consultation and a TIIN has been published on 5 December 2016.

6.12. VAT: Retail Export Scheme (RES) digitisation

As announced at Autumn Statement 2016, the government will take forward plans to digitise the VAT Retail Export Scheme (VAT RES). VAT RES (also known as Tax Free Shopping) allows non-EU visitors to recover VAT on goods they buy in the UK and take home in their personal luggage. This is currently a paper-based system. A digital system will improve the efficiency of VAT RES both for retailers and travellers and will reduce the risk of fraud.

Market engagement events during 2015 and 2016 confirmed that the market is interested in working with HMRC to develop a digital solution. HMRC will be taking forward a multi-provider solution to tap into the innovation and creativity that the market can offer.

Digital software will enable retailers and refund providers to send claim information directly to HMRC. The claim will either be digitally stamped or high risk claims selected for further investigation by UK Border Force. This will reduce the administrative burden for travellers, retailers and UK Border Force.

Implementation will be phased to allow retailers and refund providers the time to prepare for a new digital system. During 2017 HMRC will publish its requirements to software developers and release the interface to enable external software to send information to HMRC. The government expects the new system to be adopted by users between 2018 and 2020.

6.13. Customs: use of force to enter vehicles or vessels by customs officers

As announced at Budget 2016 the government will legislate in Finance Bill 2017 to clarify the powers that allow customs officers to use force to gain access to a locked vehicle, when stopping and searching it, which they suspect contains goods liable to forfeiture. This will amend section 163 of the Customs and Excise Management Act 1979. The changes will take effect upon Royal Assent.

Draft legislation (provision 97) and a TIIN has been published on 5 December 2016.

6.14. Customs: examination powers

The government will legislate in Finance Bill 2017 to extend the powers officers currently have under section 24 of the Finance Act 1994 so they can examine goods away from ports, airports and other approved places, under customs control, inland after clearance. This will enable an officer to move, open or unpack goods or containers, or require them to be opened or unpacked, and search the containers and anything in them, as well as mark them as necessary. The changes will take effect upon Royal Assent.

Draft legislation (provision 96) and a TIIN has been published on 5 December 2016.

6.15. Tobacco: Illicit Trade Protocol - licensing of equipment and the supply chain

As announced at Autumn Statement 2015, HMRC launched a formal consultation on the implementation of Article 6 of the Framework Convention on Tobacco Control Illicit Trade Protocol. A formal consultation concerning Article 6 ran from 20 February 2016 to 25 May 2016. Legislation will be introduced in Finance Bill 2017 to control the use and ownership of tobacco manufacturing machinery in the UK to help prevent the illicit manufacture of tobacco products. Legislation will introduce a forfeiture power and penalty in respect of the possession of unlicensed tobacco machinery used for the manufacture of tobacco products.

Draft legislation (provision 49), summary of responses and a TIIN has been published on 5 December 2016.

6.16. Gift Aid and intermediaries

As announced at Budget 2016 the government will introduce regulations later this year to simplify the process of giving through digital channels. The changes will come into force from 6 April 2017. The TIIN has been published on 5 December 2016.

6.17. Tax simplification: response to Office of Tax Simplification (OTS) reviews

The government welcomes the OTS's reviews on a range of issues, including the alignment of Income Tax and NICs, the design of a look-through taxation system, the Sole Enterprise with Protected Assets model, and an interim paper on the Corporation Tax computation. The government has responded to the reviews at Autumn Statement 2016 and will take the OTS's findings into account as it continues to work to simplify the tax system. The government has now asked the OTS to carry out two further reviews on aspects of the VAT system and on Stamp Duty on share transactions.

Effect of tax policy changes on devolved administrations

Various Acts of Parliament[1] have devolved a range of tax powers to the devolved legislatures. Tax announcements by the UK government do not therefore always extend to the whole of the UK.

At Autumn Statement 2016 the majority of announcements apply equally to the whole of the UK. However the following announcements apply differently in different parts of the UK:

Tax policy measure	Paragraph Reference	Application
Income Tax Personal Allowance and the higher rate threshold	1.1	This announcement applies to England, Wales, and Northern Ireland. In Scotland it applies to the savings and dividend income of Scottish taxpayers. However, from April 2017 the Income Tax rates and thresholds applicable to the non-savings and non-dividend income of Scottish taxpayers will be set by the Scottish Parliament. The Personal Allowance is not devolved.
Northern Ireland Corporation Tax changes	2.10	This measure only applies to the Corporation Tax rate setting power of the Northern Ireland Assembly. However, whether and when the power is commenced has still to be decided by the government and Northern Ireland Executive.
Landfill tax: Definition of taxable disposal	4.8	This announcement applies in England, Wales and Northern Ireland from 1 September 2017. It doesn't apply in Scotland as Landfill Tax was replaced by Land and Buildings Transaction Tax in Scotland from April 2015
Air Passenger Duty	4.9	The Scottish Parliament's powers in relation to Air Passenger Duty (Scotland Act 2016) do not commence until 2018. Additionally the announcement proposes no change to existing rules, however, the scope of the review extends to England only.

[1] Scotland Acts 1998, 2012 and 2016, Wales Act 2014 and Corporation Tax (Northern Ireland) Act 2015

Tax information and impact notes

Tax information and impact notes (TIINs) are designed to provide a clear statement of the changes the government proposes making to the tax system, including the reason for the change and the expected impacts. The government will produce a TIIN for the majority of substantive changes in tax and NICs policy made in primary or secondary legislation. TIINs will be published when the policy is final or near final; in most cases this will be when the draft legislation is published.

Generally TIINs will not be published alongside routine legislative changes that give effect to previously announced policy, such as indexation of duty rates, or appointed day orders, secondary legislation enacting double taxation treaties, or secondary legislation not laid before Parliament.

Impact of policy changes

All of the tax policy changes contained in this document have been tested against the same list of possible impacts as for impact assessments. In most cases these impacts will be included in the 'other impacts' section of the TIIN. Those tests which result in no impact have not been recorded.

The other impacts against which each policy has been tested are:

- competition
- small and micro business
- carbon emissions
- wider environment
- health and wellbeing
- sustainable development
- rural proofing
- justice system
- privacy
- families
- child poverty

The small firms' impact test (SFIT) has been replaced by the small and micro business assessment (SMBA) for all legislation due to come into force after 31 March 2014. Any TIINs that refer to SFIT relate specifically to measures implemented before this date.

Ministerial sign off for tax impact and information notes

I can confirm that Treasury Ministers have read the attached tax impact and information notes and are satisfied that, given the available evidence, each represents a reasonable view of the likely costs, benefits and impacts of the measures.

Jane Ellison

Jane Ellison MP

Financial Secretary to the Treasury

Tax information and impact notes

Deduction of Income Tax from savings income

Who is likely to be affected

- certain types of collective investment schemes - open-ended investment companies (OEICs), authorised unit trusts (AUTs) and investment trust companies (ITCs) - which pay interest distributions
- individuals, partnerships and trusts investing in those schemes
- peer to peer lending platforms, individuals and non-corporate businesses investing in peer to peer loans and corporate businesses borrowing by way of peer to peer loans

General description of the measure

This measure ends the requirement for tax to be deducted from interest distributions made by certain investment schemes - OEICs, AUTs and ITCs - so that investors will receive the income without tax deducted.

Similarly, interest paid to investors in peer to peer lending will be paid without tax being deducted.

Policy objective

This measure supports the policy set out in the government's Investment Management Strategy of simplifying and streamlining the taxation of investment funds. It brings the treatment of savings income from funds and peer to peer loans into line with interest paid on bank and building society accounts.

The vast majority of individuals now have no tax to pay on their savings income. This measure streamlines the tax system by ensuring that individuals with no tax to pay on interest from investments in funds or peer to peer lending will not need to reclaim tax deducted from HM Revenue and Customs (HMRC).

Background to the measure

Since the introduction of the Personal Savings Allowance with effect from 6 April 2016, 95% of taxpayers have no tax to pay on their savings income, including interest. Because of this, the obligation on banks and building societies to deduct tax at source from payments of interest on accounts was removed from the same date.

On 15 July 2015, HMRC published a consultation document 'Deduction of Income Tax from savings income: implementation of the Personal Savings Allowance', which explored the possibility of further changes to tax deduction rules. The consultation ran until 18 September 2015 and the government published its response on 9 December 2015.

In the light of the consultation, the government announced at the March 2016 Budget that, from 6 April 2017, deduction at source would end for interest distributions of OEICs, AUTs and ITCs and for interest on peer to peer lending.

Detailed proposal

Operative date

The measure will have effect for interest distributions and interest paid on or after 6 April 2017.

Current law

Current law requiring, with some exceptions, the deduction of Income Tax at the basic rate from yearly interest is included in Chapter 3 of Part 15 Income Tax Act 2007 (ITA), and in particular section 874. This includes yearly interest on peer to peer lending, unless one of the exceptions applies in a particular case.

Chapter 2 of Part 4 of the Income Tax (Trading and Other income) Act 2005 and Regulation 18 of the Authorised Investment Funds (Tax) Regulations 2006 (2006/SI/964) (the AIF Regulations) contain rules treating interest distributions of authorised investment funds (that is OEICs and AUTs) as yearly interest.

Regulation 96 of the AIF Regulations ensures that the same treatment applies to certain particular types of OEIC or AUT - Property Authorised Investment Funds and Tax Elected Funds.

Parts 2 and 3 of the Investment Trusts (Dividends) (Optional Treatment as Interest Distributions) Regulations 2009 (2009/SI/2034) (the ITC Regulations) contain rules to apply the obligation to deduct tax to interest distributions of ITCs.

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to include new sections 888B, 888C and 888D of ITA. These will disapply the requirement in section 874 to deduct Income Tax in respect of amounts treated as yearly interest paid by, respectively, ITCs, OEICs and AUTs.

A new section 888E ITA will also be introduced in Finance Bill 2017, which will disapply the obligation to deduct Income Tax from payments of yearly interest on peer to peer lending.

The AIF and ITC Regulations will be updated to make consequential changes.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021
-	-260	-45	-100	-120

These figures are set out in Table 2.1 of Budget 2016 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2016.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

Impact on individuals, households and families

This measure will apply equally so that all individuals who invest in OEICs, AUTs, ITCs or peer to peer loans will receive interest without deduction of tax. Individuals with no tax to pay on savings income will no longer need to reclaim tax deducted from HMRC. Almost all those who do have tax to pay on this income already complete self-assessment tax returns and will continue to do so.

The measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

The measure is expected to provide the greatest benefit to taxpayers receiving significant amounts of savings income within their PSA. The changes will apply to all individuals investing in OEICs, AUTs, ITCs and peer to peer loans, and no disproportionate impact is anticipated in respect of groups with protected characteristics.

Impact on business including civil society organisations

This measure is expected to have a negligible impact on businesses.

The affected types of fund and peer to peer platforms and borrowers will no longer need to deduct tax from interest payments or account for tax deducted to HMRC.

While there are likely to be familiarisation and one-off costs for fund administrators and peer to peer platforms, including those associated with training staff and communicating the changes to customers, the ending of deduction is expected to lead to reductions in administrative burdens for businesses affected by this measure.

UK companies receiving interest income from OEICs, AUTs, ITCs and peer to peer loans will be unaffected by this measure as they already receive interest without deduction of tax.

Individuals who are self-employed or in partnership will receive this interest without tax deducted. All these individuals already complete self-assessment tax returns and will continue to do so.

Operational impact (£m) (HMRC or other)

HMRC is not expecting to incur any significant additional costs in implementing this measure.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be kept under review by HMRC through general compliance work as well as ongoing contact with representatives of the savings industry and customers.

Further advice

If you have any questions about this change, please email: mailbox.financialproductsandservices@hmrc.gsi.gov.uk.

Aligning the primary and secondary NICs thresholds

Who is likely to be affected

Employers who are liable to pay Class 1 secondary (employer) National Insurance contributions (NICs) on earnings above the secondary threshold.

General description of the measure

This measure aligns the primary (employee) threshold and the secondary (employer) threshold. From April 2017, both the primary and secondary thresholds will be £157 per week, having been raised from £155 and £156 per week respectively for 2016 to 2017.

Policy objective

As recommended by the Office of Tax Simplification (OTS), the government has decided to align the primary and secondary thresholds. Alignment will mean that employers no longer have to be mindful of two separate thresholds when understanding at what level of earnings NICs begins to be paid.

Background to the measure

This measure was announced at Autumn Statement 2016.

Detailed proposal

Operative date

This measure will have effect for primary and secondary Class 1 NICs accruing on or after 6 April 2017.

Current law

Current law which provides for the earnings limits and thresholds for primary and secondary Class 1 NICs is contained in section 5 of the Social Security and Contributions Act 1992 (SSCBA). Equivalent provision for Northern Ireland is contained in the Social Security Contributions and Benefits (Northern Ireland) Act 1992. Section 5 provides that the limits and thresholds shall be specified for every tax year by way of regulations. The limits and thresholds for the tax year 2016 to 2017 are set out in regulations 10 and 11 of the Social Security (Contributions) Regulations 2001 ('the 2001 Regulations')

Proposed revisions

Regulations will be made amending regulation 10 and 11 of The 2001 Regulations aligning the secondary threshold to the primary threshold. Both thresholds will be set at £157 per week. The amendments will have effect from 6 April 2017.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	+170	+145	+145	+145	+145

These figures are set out in Table 2.1 of Autumn Statement 2016 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2016.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

Impact on individuals, households and families

The measure is not expected to impact on individuals and households or family formation, stability or breakdown.

Equalities impacts

The alignment of primary and secondary thresholds is not expected to have a disproportionate impact on any income groups. There is a small impact on employers, and as such, the government does not expect any impact on groups protected under the Equality Act.

Impact on business including civil society organisations

This measure is expected to have a positive impact on administrative burdens for employers. Around 1.4 million employers will no longer have to consider two separate thresholds when deciding at what earnings level NICs begin to be paid. Employers will also have to pay NICs on a slightly larger band of earnings than would have been the case if the primary and secondary thresholds had not been aligned. The maximum additional cost is relatively small at 13.8 pence per week for an employee earning over £157 per week.

Operational impact (£m) (HMRC or other)

There will be no operational impact to HMRC.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored through information collected from tax returns.

Further advice

If you have any questions about this change, please contact Oliver Mathers on email: oliver.mathers@hmrc.gsi.gov.uk.

Abolition of Class 2 National Insurance contributions

Who is likely to be affected

The self-employed including those who are in a partnership. Those who are not self-employed who pay Class 2 National Insurance contributions (NICs) voluntarily. Volunteer development workers and share fishermen who pay special rates of Class 2 contributions.

General description of the measure

From 6 April 2018 Class 2 contributions will be abolished and Class 4 contributions reformed to include a new threshold (to be called the Small Profits Limit).

Access to contributory benefits for the self-employed is currently gained through Class 2 NICs. After abolition, those with profits between the Small Profits Limit and Lower Profits Limit will not be liable to pay Class 4 contributions but will be treated as if they have paid Class 4 contributions for the purposes of gaining access to contributory benefits. All those with profits at or above the Class 4 Small Profits Limit will gain access to the new State Pension, contributory Employment and Support Allowance and Bereavement Benefit.

Those with profits above the Lower Profits Limit will continue to pay Class 4 contributions.

Policy objective

The objectives of this reform are to:

- deliver genuine simplification for self-employed NICs payers, making self-employed NICs more transparent and easier to understand
- make sure self-employed individuals have access to contributory benefits via the NICs system
- align the treatment of different self-employed NICs payers wherever possible, so contributory benefits can be accessed on a more equal basis to make the system fairer for all
- simplify the administration of self-employed NICs

Background to the measure

Class 2 NICs are flat-rate weekly contributions paid by the self-employed to gain access to contributory benefits. The self-employed also pay Class 4 NICs on profits above the Lower Profits Limit. Class 4 NICs do not currently give access to contributory benefits.

The Summer Budget 2015 announced a consultation on the abolition of Class 2 contributions. A consultation paper setting out the government's proposals was published on the 9 December 2015. The consultation closed on 24 February 2016.

At Autumn Statement 2016 the Chancellor confirmed that Class 2 contributions would be abolished from 6 April 2018 and published a response to the consultation paper setting out a restructuring of Class 4 NICs to allow access to contributory benefit.

Detailed proposal

Operative date

This measure will have effect on and after 6 April 2018.

Current law

Section 2(1)(b) of the Social Security Contributions and Benefits Act 1992 (and its Northern Ireland equivalent) define a “self-employed earner” for the purposes of paying Class 2 NICs. Section 11 of the Act defines those that are liable to pay Class 2 NICs and those that can pay voluntarily. Class 2 contributions are collected alongside Income Tax and Class 4 contributions through self-assessment. Section 11A applies Income Tax provisions to Class 2 contributions. Section 12 sets rules relating to the late payment of Class 2 contributions.

The structure of Class 4 contributions is set out in Sections 15 and 18 of the Social Security Contributions and Benefits Act 1992 (and its Northern Ireland equivalent).

There are also powers in Sections 117 and 119 of the Social Security Contributions and Benefits Act 1992 (and its Northern Ireland equivalent) that allow for special rates of Class 2 contributions for share fishermen and volunteer development workers.

Proposed revisions

Legislation will be brought forward to abolish Class 2 by repealing Section 11,11A and 12 of the Social Security Contributions and Benefits Act 1992 and to restructure Class 4 contributions to include the Small Profits Limit. Changes will also be made to benefit entitlement rules to allow Class 4 contributions to count for benefit entitlement purposes.

Class 3 contributions, which can be paid voluntarily to protect entitlement to the State Pension and Bereavement Benefit, will be expanded to give access to the standard rate of Maternity Allowance and contributory Employment and Support Allowance for the self-employed.

The special provisions (set out in the Social Security (Contributions) Regulations SI 2001/1004) which apply to share fishermen and volunteer development workers that allow them to pay special rates of Class 2 contributions to gain access to a wider range of benefits than currently available through Class 2 is ending with the abolition of Class 2.

Transitional arrangements will be provided to enable certain people with low profits, share fishermen and volunteer development workers to rely on their contribution record in the two years prior to Class 2 abolition for longer than usual when claiming contributory Employment and Support Allowance and, where eligible, contribution-based Jobseeker’s Allowance. These arrangements will remain in place until 1 January 2022.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021
-	-	-355	-360	-360

These figures are set out in Table 2.1 of Budget 2016 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2016.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

Impact on individuals, households and families

The abolition of Class 2 impacts self-employed people who do not have a full qualifying year for benefit entitlement purposes and who will now have the option to pay voluntary Class 3 contributions where in the past they may have been able to pay voluntary Class 2 contributions. Class 3 contributions are currently £14.10 per week compared to Class 2 contributions which are currently £2.80 per week. This change does not affect households or family formation, stability or breakdown. Those affected will incur one off costs to familiarise themselves with the new rules.

Certain groups who are not self-employed in the UK but who are currently able to pay Class 2 contributions voluntarily, for example self-employed people working abroad, will need to pay Class 3 contributions to gain access to the new State Pension.

The special rates of Class 2 contributions which volunteer development workers (VDWs) and share fishermen are able to pay will no longer be available. After abolition, share fishermen will be able to access contributory benefits in the same way as other self-employed people. VDWs will be able to access the standard rate of MA through Class 3, otherwise they will be in the same position as volunteer workers in the UK.

Equalities impacts

This measure will affect up to 5.4 million self-employed people who are able to pay Class 2 contributions.

Impact on business including civil society organisations

Around 3.4 million self-employed individuals with profits above the Small Profits Threshold (£5,965 in 2016 to 2017) currently have to pay Class 2 contributions of £2.80 per week. This measure represents an average annual saving for this group of £134 from April 2018.

The self-employed currently have to work with two separate classes of NICs, each with different rates and rules. This measure will mean that from April 2018 they will only have to engage with one class of NICs, delivering a simpler overall regime for the self-employed. In particular this will have a positive impact on sole traders, small partnerships and unincorporated enterprises with profits above the new Small Profits Limit.

There are estimated to be one-off costs of around £1.8 million as businesses and self-employed individuals familiarise themselves with the new rules. However, the changes are expected to reduce the ongoing administrative burden on businesses by £6.4 million per year.

Small and micro business assessment: this measure is aimed at reducing the administrative burden on the self-employed and small businesses, for example, sole traders, partnerships and unincorporated enterprises. For those with profits above the Small Profits Limit this measure is likely to have a positive impact as they will now only have to deal with one Class of contributions (Class 4) instead of Class 2 and Class 4 contributions reducing system complexity.

Estimated one-off impact on administrative burden (£m)

One-off impact	(£m)
Costs	1.8
Savings	-

Estimated ongoing impact on administrative burden (£m)

Ongoing average annual impact	(£m)
Costs	-
Savings	6.4
Net impact on annual administrative burden	-6.4

Operational impact (£m) (HMRC)

The HM Revenue and Customs (HMRC) costs of implementing the changes are estimated to be in the region of £2 million for the IT changes. These could change as the full extent of the requirements is established and do not include all costs associated with the project. HMRC also expects a short-term increase in contact as customers adapt to the change, which will add to operational costs. Once abolition of the whole class of contributions is implemented, HMRC anticipates this will lead to some administrative savings.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

Leading up to implementation HMRC and DWP will publish guidance on the changes and raise awareness through routine marketing, publicity and other communication methods. The measure will be monitored through information collected from self-assessment tax returns.

Further advice

If you have any questions about this change, please contact Christopher Orton on email: christopher.orton@hmrc.gsi.gov.uk.

Income Tax and National Insurance contributions: treatment of termination payments

Who is likely to be affected

Employers who make termination payments and employees who receive termination payments.

General description of the measure

The measure aligns the rules for tax and secondary National Insurance contributions (employer NICs) by making an employer liable to pay NICs on termination payments they make to their employees. An employer will be required to pay NICs on any part of a termination payment that exceeds the £30,000 threshold. It is anticipated that this will be collected in 'real-time', as part of the employer's standard weekly or monthly payroll returns and remittances to HM Revenue and Customs (HMRC).

In addition, the measure clarifies the scope of the exemption for termination payments through a number of changes. All payments in lieu of notice (PILONs) will be both taxable and subject to Class 1 NICs. The legislation requires the employer to identify the amount of basic pay that the employee would have received if they had worked their notice period, even if the employee leaves the employment part way through their notice period. The amount will be treated as earnings and will not be subject to the £30,000 Income Tax exemption. All other termination payments will be included within the scope of the £30,000 termination payments exemption.

The measure also makes changes to certain exemptions in the termination payments legislation. It removes foreign service relief and clarifies that the exemption for injury does not apply in cases of injured feelings.

Policy objective

The current rules for taxation of termination payments are complex and the exemptions incentivise employers to manipulate the rules by structuring arrangements to include payments that are ordinarily taxable to minimise the Income Tax and National Insurance due.

This measure is intended to bring fairness and clarity to the taxation of termination payments by making it clear that all PILONs, rather than just contractual PILONs, are taxable earnings. All employees will pay tax and Class 1 NICs on the amount of basic pay that they would have received if they had worked their notice in full, even if they are not paid a contractual PILON. This means the tax and NICs consequences are the same for everyone and it is no longer dependent on how the employment contract is drafted or whether payments are structured in some other form, such as damages.

The existing £30,000 Income Tax exemption will be retained and employees will continue to benefit from an unlimited employee NICs exemption for payments associated with the termination of employment. This will ensure that those who lose their job will be supported through the tax system.

Background to the measure

At Budget 2016, the government announced that from April 2018, it will tighten the scope of the exemption to prevent manipulation and align the rules so employer NICs are due on those payments above £30,000 which are already subject to Income Tax.

The government held a technical consultation on the draft Income Tax legislation from 9 August 2016 to 4 October 2016. Following that consultation, the government made a number of changes to the proposals to make the rules easier for employers to operate. These changes include requiring the employer to calculate post-employment notice pay on the basis of basic pay only, and removing the requirement to calculate an employee's expected bonus income and treat that as earnings.

Detailed proposal

Operative date

The measure will have effect from 6 April 2018.

Current law

The termination payments legislation is contained within Chapter 3 of Part 6 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA). There is currently no corresponding NICs legislation to Chapter 3 of Part 6.

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to amend Chapter 3, Part 6 of ITEPA 2003. The key changes to create the concept of post-employment notice pay are achieved by inserting a number of new sections.

The legislation splits an employee's termination payment into two types of payment: payments that can still benefit from the £30,000 threshold and those that cannot. The legislation works by first identifying any payments that should be treated as earnings and any remainder is then subject to the £30,000 exemption.

The legislation ensures that statutory redundancy is exempt from Income Tax and NICs.

Foreign service relief is removed through amendment to sections 413 and 414 of ITEPA. It is retained for seafarers.

A new power to vary the threshold upwards or downwards is also provided.

The employer NICs charge on termination payments over £30,000 is achieved through amendment to section 10 of the Social Security Contributions and Benefits Act 1992. The amendment specifies that a Class 1A charge will apply to termination payments that count as employment income under section 403 ITEPA, provided the earner also pays Income Tax on that termination payment.

This legislation does not set out the way that the Class 1A charge will be collected as this will be covered in secondary legislation in due course. It is anticipated that this Class 1A charge will arise and be paid in 'real-time', rather than after the end of the tax year, as with other Class 1A charges.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021
-	+45	+420	+470	+485

These figures are set out in Table 2.1 of Budget 2016 as 'Removing employer tax advantage of different forms of remuneration: pay-offs over £30,000', and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2016. There will be revisions to these figures which will be set out in Table 2.2 of Budget 2017.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

The additional cost to employers is expected to be reflected in lower wages and profit margins, with a reduction in total wages and salaries of 0.1 % by 2020 to 2021.

Impact on individuals, households and families

There is not expected to be any significant impact on individuals or households.

The change is not expected to impact on family formation, stability or breakdown.

Equalities impacts

The government has had due regard to equality to comply with section 149 of Equality Act 2010 and relevant Northern Ireland legislation. The proposed measure will impact on people who are employed. It will have a greater impact on men as their earnings are usually greater than women.

Impact on business including civil society organisations

This measure will have no ongoing impact on compliant businesses and civil society organisations who already apply the rules regarding taxation of termination payments correctly. It will only impact on businesses that structure termination payments to reduce the tax and NICs due. All employers will be required to pay employer NICs on payments above the £30,000 threshold that are not subject to an exemption.

Operational impact (£m) (HMRC or other)

Changes will be required to HMRC's IT systems to support implementation of this measure. These costs are currently estimated at between £1 million and £1.5 million.

Other impacts

Other impacts have been considered and none has been identified.

Monitoring and evaluation

This measure will be monitored through information collected from tax receipts and communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact the Employment Income Policy team on Telephone: 03000 521589 or email: employmentincome.policy@hmrc.gsi.gov.uk

Income Tax: simplifying the PSA process

Who is likely to be affected

Employers, who wish to make formal arrangements to pay Income Tax on certain benefits in kind and expenses payments on behalf of their employees via a single return and payment where it would be administratively burdensome to do so by conventional processes.

General description of the measure

The measure makes it simpler for both employers and HM Revenue and Customs (HMRC) to administer PAYE Settlement Agreements (PSAs) and provides greater clarity about what can and cannot be included in a PSA.

Policy objective

The measure seeks to remove the requirement for an employer to request and obtain agreement for items to be included in a PSA, in advance of their PAYE end of year reporting obligations. It will also introduce a new digital process for reporting PSAs to HMRC. The removal of the up-front agreement and the new digital process will be simpler and less time consuming for employers.

Guidance on the conditions for a PSA will be strengthened, reducing errors and providing certainty for employers.

This measure aligns with the principles of HMRC's wider digital transformation strategy.

Background to the measure

PSAs are easements under which employers can settle, in a single payment, their employees' Income Tax liabilities for certain (usually minor) benefits and expenses. This allows employers to simplify the reporting and settlement of tax for employee expenses and benefits and 'sweep up' any benefits or expenses which have been overlooked provided they meet the conditions for inclusion in a PSA.

The measure stems from a report by the Office of Tax Simplification (OTS). They reviewed PSAs as part of their 2014 Review of Employee Benefits and Expenses Report and concluded that what started as an easement to reduce employer burdens, has now itself become an administrative burden. They also expressed concern that employers find the current rules difficult to apply and found inconsistency in what HMRC agrees can be included within a PSA. The government announced, in Budget 2016, its intent to consult on the simplification of the PSA process. HMRC published the consultation document on 8 August 2016, concluding the consultation on 18 October 2016.

Overall, respondents welcomed the proposals to remove the need for up-front agreements, provide a digital return and improve guidance. However, the proposal to remove the reference to 'minor' items from the conditions for a PSA was considered to be counter-intuitive to the policy intention of simplifying the PSA process and, in view of the concerns raised, this particular proposal will not be taken forward. The consultation document also asked for view from employers on the idea of aligning the submission date with that for P11D/P11D (b) but was seen as an unreasonable burden on employers so this idea will not be pursued further at this time.

Detailed proposal

Operative date

The measure will have effect in relation to agreements for the 2018 to 2019 tax year and subsequent tax years.

Current law

The current law in respect of Income Tax is included in Chapter 5, Part 11 of Income Tax (Earnings and Pensions) Act 2003. Secondary legislation is contained within Part 6 (regulations 105 to 119) of Income Tax (Pay As You Earn) Regulations 2003 (‘The PAYE Regulations’).

The current law in respect of Class 1B contributions is included in section 10A of Social Security Contributions and Benefits Act 1992.

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to enable HMRC to accept a PSA without the need for a PSA to be agreed with an Officer of Revenue and Customs.

This will allow HMRC to design and implement a new automated process for employers to apply for a PSA.

Consequential changes will be made to the provisions in The PAYE Regulations covering the making, form and timing of a PSA.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	-	nil	nil	nil	nil

This measure is not expected to have an Exchequer impact.

Economic impact

This measure is not expected to have any significant economic impacts.

Impact on individuals, households and families

The measure is not expected to impact on individuals, households, family formation, stability or breakdown.

Equalities impacts

This measure does not have an equalities impact.

Impact on business including civil society organisations

This measure is expected to create an on-going saving for businesses. Employers will incur a negligible one-off cost of familiarisation with the new rules. On-going savings include the removal of the requirement for an employer to request and obtain agreement for items to be included in a PSA. It is expected that, instead, this will be integrated into employers' existing processes. On-going savings will also result from digitisation of the current process for submitting a new PSA agreement to HMRC.

Estimated one-off impact on administrative burden (£m)

One-off impact	(£m)
Costs	negligible
Savings	-

Estimated ongoing impact on administrative burden (£m)

Ongoing average annual impact	(£m)
Costs	-
Savings	1.1
Net impact on annual administrative burden	-1.1

Operational impact (£m) (HMRC or other)

It is anticipated that HMRC will have to make changes to IT systems which will cost in the region of £1 million. There are, however, expected to be operational savings in the region of £680,000.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be monitored through information collected from tax returns and receipts.

Further advice

If you have any questions about this change, please contact Terence Brown on Telephone: 0300 586418 or email: paye.policy@hmrc.gsi.gov.uk.

Employer-arranged pensions advice exemption

Who is likely to be affected

Employees whose employers either arrange or pay for pensions advice which would otherwise be treated as a taxable benefit in kind.

General description of the measure

The measure introduces a new Income Tax exemption to cover the first £500 worth of pensions advice provided to an employee in a tax year. It will allow advice not only on pensions, but also on the general financial and tax issues relating to pensions. The changes replace existing provisions which limited the exemption solely to pensions advice and was capped at £150 per employee per tax year.

Policy objective

This exemption was recommended as an outcome of the recent Financial Advice Market Review (FAMR) conducted jointly by HM Treasury and the Financial Conduct Authority (FCA). This reflects the government's acknowledgement that individuals aged 55 or more are making significant decisions on the application of their pension savings and may wish to seek advice.

The FAMR concluded that there is a particular advice gap in relation to pensions. The government is keen to ensure that financial advice is affordable and accessible to consumers, especially those nearing the point of retirement. The government wants to encourage employers to provide advice to employees to help them make informed choices about what to do with their pension savings.

Background to the measure

The measure was announced at Budget 2016, following the recommendations from the FAMR. We have not consulted formally on the changes as the issue have been covered by the FAMR consultation, which received 268 responses.

Detailed proposal

Operative date

The measure will have effect on and after 6 April 2017.

Current law

The current exemption for pensions advice is set out in Regulation 5 of the Income Tax (Exemption of Minor Benefits) Regulations 2002 (SI 2002/205).

Proposed revisions

Legislation in Finance Bill 2017 will introduce a new exemption into Part 4 of the Income Tax (Earnings and Pensions) Act 2003.

The exemption will apply if the advice is made available to employees generally or to employees generally at a particular location. However, it will also be capable of applying when the pensions advice is tailored to the employee's specific personal circumstances of nearing retirement either by age or ill health. The legislation will achieve this by setting two alternative qualifying conditions. Condition A encapsulates the 'availability' conditions, and condition B allows the exemption where the employee has either reached the 'minimum qualifying age' or 'ill-health condition'.

The exemption will apply to the first £500 worth of pensions advice provided to an employee in a tax year, whether the employer pays for or reimburses the employee for the cost of the advice.

The current exemption set out in Regulation 5 of the Income Tax (Exemption of Minor Benefits) Regulations 2002 will no longer be required and will be repealed.

Legislation for National Insurance purposes will be introduced following passage of Finance Bill 2017.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021
-	- 10	- 10	- 5	negligible

These figures are set out in Table 2.1 of Budget 2016 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2016.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

Impact on individuals, households and families

This measure is not expected to have an impact on family formation, stability or breakdown. Individuals will only be impacted if they are offered this benefit but it is a wholly relieving provision. The measure is not expected to have any impact on households.

Equalities impacts

The measure will have an equal effect on all employees who are provided with pensions advice covered by the new exemption. HM Revenue and Customs (HMRC) has had due regard for equality to comply with section 149 of Equality Act 2010 (and similar Northern Ireland legislation). The new legislation can apply to any member of the working population whose employer offers this support.

Impact on business including civil society organisations

The measure is expected to have a negligible impact on businesses.

Pensions advice is currently a taxable benefit unless it is very restricted in scope and costs £150 or less per individual in the relevant year. Employers therefore currently have to report the value of the benefit if this amount is exceeded; under this measure they will no longer have to report those between £150 and £500 provided the other conditions are met.

There is no impact on civil society organisations.

Operational impact (£m) (HMRC or other)

No operational impact on HMRC.

Monitoring and evaluation

This measure will be monitored through information collected from tax returns and communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact the Employment Income Team on email: employmentincome.policy@hmrc.gsi.gov.uk.

Foreign pension schemes

Who is likely to be affected

- individuals with pension savings in a pension scheme based outside the UK or specialist pension schemes for those employed abroad ('section 615' scheme)
- scheme administrators of registered pension schemes (RPS)
- scheme managers of pension schemes outside the UK with funds that have had UK tax relief (relevant non-UK schemes)
- scheme managers who accept pension contributions or transfers with UK tax relief into their pension scheme based outside the UK
- advisers who have clients who are members of an RPS or a foreign pension scheme

General description of the measure

This measure provides for closer alignment of the UK tax treatment of payments out of 'foreign pension schemes' with the UK's domestic tax regime and pension schemes used for those employed abroad. It extends the period over which UK tax charges arise on payments out of funds that have had UK tax relief in relevant non-UK schemes (RNUKS), closes section 615 schemes to new savings, aligns the tax treatment of funds transferred between RPS as well as bringing payments of foreign pensions and lump sums fully into tax for UK residents. It also updates the conditions that a pension scheme has to meet to be a qualifying overseas pension scheme (QOPS) or a qualifying recognised overseas pension scheme (QROPS).

This measure is intended to limit the inconsistencies in the remaining tax treatment of UK and foreign pension savings. In particular, we intend to address the gaps that arise as a result of only certain parts of the UK tax regime applying to foreign pension schemes.

Policy objective

This measure supports the government's objective of promoting fairness in the tax system by limiting the inconsistencies in the tax treatment of UK and foreign pension savings. These changes will also help make the tax system simpler.

Background to the measure

In the UK the foreign pension tax regime has remained broadly the same since the wholesale changes to the pension tax regime in 2006. In 2012 and 2015 Parliament made some changes to the requirements that foreign schemes had to meet for UK tax relief to apply to them, particularly in relation to transfers they receive but the tax treatment of foreign pensions or pension provision in relation to foreign service has remained largely the same. This has led to the marketing of some of these foreign pension tax provisions as ways of avoiding UK tax.

Following the announcement at Budget 2014 introducing pension flexibility, draft regulations making further changes were published for consultation on 19 December 2014. These draft regulations contained some provisions that, in the end, were not introduced to Parliament and the '70% rule' (which requires 70% of funds that have received UK tax relief, either in connection with contributions or as a result of a tax-free transfer, to be designated to provide the individual with an income for life) has remained in place temporarily.

Detailed proposal

Operative date

The measure will have effect on and after 6 April 2017.

Current law

Foreign pensions

The tax rules applying to income from a foreign pension scheme are set out in Chapter 4, Part 9 of Income Tax (Earnings and Pensions) Act (ITEPA) 2003. These set out that where a pension is paid to a person who is resident in the UK, by or on behalf a person who is outside the UK, that 90% of the income arising in the tax year is liable to tax on the recipient. A similar provision also applies to foreign annuities.

These rules do not apply where the pension is otherwise taxable under Chapters 5 to 14 of ITEPA 2003.

Foreign pension lump sums

Lump sums paid from foreign pensions are taxable in the UK where they fall into one of the following categories:

- the foreign pension scheme is a registered pension scheme under Part 4 Finance Act (FA) 2004
- the scheme contains funds that have had UK tax relief and is an RNUKS under Schedule 34 FA 2004 and UK tax rules apply
- the scheme is provided in relation to an employment and payments under the scheme are relevant benefits within Chapter 2, Part 6 of ITEPA 2003 (an employer-financed retirement benefits scheme, EFRBS)
- the payment is a 'relevant step' under the provisions of Part 7A of ITEPA 2003
- in some circumstances where the scheme is constituted under section 615 of the Income and Corporation Taxes Act (ICTA) 1988

In any other circumstance the lump sum is not taxable.

Relevant non-UK schemes

Payments out of pension schemes based outside the UK that have had UK tax relief may be subject to UK tax charges under Schedule 34 to FA 2004 if paid to a UK resident or someone who has been resident in the UK in the previous five tax years.

In order to get UK tax relief foreign schemes must meet certain requirements. In certain cases the scheme rules of QROPS and QOPS must require a minimum of 70% of the funds that have had UK tax relief to be used to provide the individual member with an income for life.

Section 615 schemes

Any lump sum paid to UK residents out of a scheme set up under section 615 of ICTA 1988 is reduced for tax purposes by section 414A of ITEPA 2003 in respect of any service carried out overseas, which effectively means that the benefit can be paid out tax free to UK residents.

Foreign registered pension schemes
Pension schemes based outside the UK are able to register for tax purposes in the UK. If they do then they can get UK tax relief under the pensions tax rules in Part 4 of FA 2004. However, the tax treatment is not identical to that of registered pension schemes established in the UK.

Proposed revisions

Legislation will be introduced in Finance Bill 2017 so that:

- where a foreign pension or lump sum is paid to a UK resident, 100% of the pension arising will be chargeable to UK tax (to the same extent as if they had been paid from a registered pension scheme)
- no new pension schemes can be established under section 615 of ICTA 1988, and no further contributions can be made to existing schemes. Funds accrued in a section 615 scheme before 6 April 2017 will continue to be paid out using the existing rules
- the tax treatment of funds in RPSs based outside the UK will be more closely aligned with that of UK-based RPSs
- UK tax charges can apply to a payment by an RNUKS to an individual who has been resident outside the UK for less than 10 tax years
- the 70% rule will be removed from the conditions that a pension scheme has to meet to be an 'overseas pension scheme' or a 'recognised overseas pension scheme' and the pension age test is revised so that additional payments may be made and the test still be met. As a result if a non-occupational pension scheme is not regulated and the provider of that scheme is not regulated, it will not be able to be a QOPS or QROPS

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	+10	+25	+15	+60	+70

These figures are set out in Table 2.1 of Autumn Statement 2016 as 'Offshore Tax: close loopholes and improve reporting'. These figures represent the combined Exchequer impact of 'Offshore funds: Calculation of reportable income', 'Foreign pension schemes' and 'Tackling offshore tax evasion: A requirement to correct', and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2016.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

Impact on individuals, households and families

Individuals and households with foreign pension savings will be affected as these changes to align the tax treatment with UK pension payments may influence their decisions on moving or managing their pension savings outside of the UK. It is anticipated that the number of individuals affected will be in the tens of thousands, although precise estimates are not available.

The measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

These changes are expected to have minimal impacts on the legally protected equality groups. They are more likely to affect older people, bringing the tax treatment of payments to a sub-category of that group into line with the treatment of pension payments to other UK residents.

Impact on business including civil society organisations

This measure is expected to have a negligible impact on businesses and civil society organisations.

Occupational pension scheme managers will not be required to provide any additional information to HM Revenue and Customs (HMRC) as a result of this measure but scheme managers of non-occupational pension schemes that are not regulated may themselves have to be regulated so that their scheme can still meet the requirements. This is expected to place an additional burden on only a small number of schemes.

RNUKS providers may face greater administrative costs as they adjust to new reporting requirements as well as the prospect of complying with member payment charges regulations for a longer period. However, these costs are expected to be negligible overall.

Operational impact (£m) (HMRC or other)

It is not anticipated that implementing this change will incur any significant additional costs or savings for HMRC.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Beverley Davies on Telephone: 03000 512336 or email: pensions.policy@hmrc.gsi.gov.uk.

Income Tax: limitation of salary sacrifice

Who is likely to be affected

Individuals who receive benefits in kind (BiKs) from their employers through salary sacrifice arrangements or who can choose between cash allowances and BiKs.

Employers who provide their employees with BiKs through salary sacrifice or offer BiKs with a cash alternative.

General description of the measure

The measure will limit the Income Tax and employer National Insurance contributions (NICs) advantages where BiKs are offered through salary sacrifice or where the employee can choose between cash allowances and BiKs.

Salary sacrifice is a contractual arrangement between an employee and their employer involving a reduction of an employee's cash pay in return for a BiK, such as a phone or a car. For some BiKs the value used for calculating tax and NICs liability is less than the amount of the cash pay forgone, allowing the employee and employer to choose to pay less tax and NICs than they would otherwise.

The measure will fix the taxable value of those BiKs provided through salary sacrifice at the higher of the amount of cash forgone or the amount calculated under the existing BiK rules.

There will be no change to the tax and NICs advantages of salary sacrifice arrangements for: pension saving into a registered pension scheme, employer provided pensions advice, employer-supported childcare, cycle to work schemes or Ultra Low Emission Cars (ULEVs). Further, those already in contracts for BiKs involving salary sacrifice will be protected for the length of that contract, subject to final backstop dates.

Policy objective

Salary sacrifice allows some employers and employees to pay less Income Tax and NICs by replacing cash salary with BiKs. This is limited to employees of small number of employers who offer salary sacrifice schemes or offer BiKs with a cash alternative. The tax and NICs savings available have an Exchequer cost which is borne by the majority of taxpayers.

To address this unfairness, the government intends to limit the Income Tax and employer NIC advantages of salary sacrifice arrangements (and employee NIC advantages where these are already chargeable to employee NICs).

Valuing the BIK based on the higher of the salary sacrificed or the current taxable value of the BiK will ensure that tax and NICs is charged on an amount that reduces the current inequalities.

To support wider governmental objectives, the tax and NICs advantages of a number of BiKs have been protected and will not be affected by this measure. After consultation, this includes ULEVs to incentivise take-up and improve air quality.

Background to the measure

At Summer Budget 2015, the government announced its concern about the growth and increasing cost of salary sacrifice and that it would actively monitor this. At Autumn

Statement 2015 the government noted that it remained concerned and would gather evidence on the use of salary sacrifice.

At Budget 2016 the government announced that it would consult on limiting the advantages of salary sacrifice arrangements. The consultation ran between 10 August 2016 and 19 October 2016.

The government also consulted on reform of the car benefit charge for ULEVs. The consultation ran between 10 August 2016 and 19 October 2016. The response was published on 5 December 2016.

Detailed proposal

Operative date

The measure will have effect for all contracts for BiKs involving salary sacrifice arrangements entered into on or after 6 April 2017. Those employees already in such contracts at that date will become subject to the new rules in respect of those contracts at the earlier of:

- an end, change, modification or renewal of the contract
- 6 April 2018, except for cars, accommodation and school fees when the last date is 6 April 2021

ULEVs will retain their current tax treatment and will not be subject to the new rules.

Current law

Employees are subject to Income Tax and Class 1 NICs on the full amount of cash received as earnings from an employment under Part 2 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) and section 6 of Social Security Contributions and Benefits Act 1992 (SSCBA).

Any BiKs provided are taxed on amounts calculated under the rules in Part 3 of ITEPA 2003, subject to exemptions in Part 4 of ITEPA 2003.

Section 10 of SSCBA imposes Class 1A NICs liability on the employer for BiKs where there is a charge to tax but no Class 1 NICs are due. The amount of Class 1A NICs is calculated using the taxable value of the BiK.

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to amend Chapter 2, Part 3 of ITEPA to introduce a rule to value all BiKs at the higher of the cash forgone or the current taxable value per Part 3 of ITEPA whilst disapplying exemption provisions in Part 4 of ITEPA. The following will not be affected by this rule:

- employer provided pension saving –sections 308 to 308A
- employer provided pensions advice – section 308C
- childcare vouchers – section 270A
- workplace nurseries – section 318
- directly contracted childcare - section 318A
- cycle to work schemes – section 244
- ULEVs emitting 75g CO2/km or less – section 139

Current contracts will remain under the pre-2017 rules until the contract ends, is modified or changed or is renewed, or April 2018 at the latest. However, the April 2018 deadline is extended to April 2021 for cars, accommodation and school fees.

The emission level for exempt ULEVs may be updated in future, to be consistent with any changes to the treatment of these vehicles within the car benefit charge.

There will be no changes to the Class 1A NICs legislation as valuation rules for NICs purposes follow that of Income Tax.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-10	+85	+235	+235	+235	+260

These figures are set out in Table 2.1 of Autumn Statement 2016 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2016.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

Behavioural responses considered in the costing include employees stopping using salary sacrifice or employers ceasing to operate the salary sacrifice arrangements.

Impact on individuals, households and families

This measure is expected to impact individuals who are provided with BiKs under salary sacrifice or cash alternative arrangements. It is estimated that this will impact 1 million individuals.

The measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

HM Revenue and Customs (HMRC) does not hold data on the protected characteristics of those affected, but the measure will apply equally to all individuals who use salary sacrifice arrangements and is not expected to have equality impacts on groups sharing protected characteristics.

Impact on business including civil society organisations

This measure is expected to have an administrative impact on businesses. The minority of employers who operate salary sacrifice schemes will incur one-off costs for IT changes in addition to the normal annual cycle, familiarisation with new rules and changes to internal processes. This is expected to be negligible after taking behavioural changes into account.

Ongoing costs include: the submission of additional P11Ds where employees are provided with exempt benefits only; and some additional reporting requirements for employers already submitting P11Ds.

HMRC expects the additional burdens ongoing cost will be £3.3 million per annum.

Estimated one-off impact on administrative burden (£m)

One-off impact	(£m)
Costs	negligible
Savings	-

Estimated on-going impact on administrative burden (£m)

Ongoing average annual impact	(£m)
Costs	3.3
Savings	-
Net impact on annual administrative burden	3.3

Operational impact (£m) (HMRC or other)

HMRC costs of implementing the changes are estimated to be in the region of £2 million for both the IT changes and administrative costs.

Other impacts

Wider environment impact: mid-range CO2 emitting cars will no longer be advantageous under salary sacrifice and cash alternative arrangements. Some may move to more polluting cars which have the same taxable value. However, others are expected to move to less polluting cars as they will still be tax advantaged.

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored and assessed through continued observation on the use of salary sacrifice and cash alternative schemes. Any changes to carve outs, including any changes in the definition of a ULEV (75g CO2/km) to remain consistent with government objectives, will be announced in sufficient time for individuals to make choices prior to entering into contracts.

Further advice

If you have any questions about this change, please contact the Employment Income Policy Team on email: employmentincome.policy@hmrc.gsi.gov.uk.

Personal Tax: changes to bands for ultra-low emission vehicles in company car tax

Who is likely to be affected?

Businesses and employers that provide company cars and employees provided with company cars that are made available for private use.

General description of the measure

This measure introduces 11 new bands for ultra-low emission vehicles (ULEVs) below 75 gCO2/km from 2020 to 2021 including a separate zero emission band. Some of the lowest CO2 bands are based on the 'electric range' of the vehicle, as well as the CO2 emissions. This is the maximum distance the vehicles can travel in pure electric mode without recharging the battery or using the combustion engine of the plug-in vehicle.

The appropriate percentage applied to the list price of company cars will increase in 2020 to 2021 by one percentage point for cars with CO2 emissions of 90 gCO2/km and above, to a maximum of 37%.

Policy objective

This measure incentivises the very cleanest cars using the most advanced technologies from 2020 to 2021 onwards. Some of the new bands will be based on the electric range of the car. This distinguishes between ULEVs with different plug-in hybrid technologies and improved battery range, which will focus incentives on the very cleanest cars that allow most journeys to be zero emissions.

This will support transition to cleaner, zero and ultra-low emission cars, helping to improve air quality in towns and cities and protecting the environment for the next generation.

The increase in appropriate percentage ensures the tax system continues to support the sustainability of public finances.

Background to the measure

At Budget 2016, the government announced that it would consult over the summer on changes to ULEV bands to focus incentives on the very cleanest cars.

This measure was announced at Autumn Statement 2016.

Detailed proposal

Operative date

The measure will have effect on and after 6 April 2020.

Current law

Sections 121 to 148 of the Income Tax (Earnings & Pensions) Act 2003 (ITEPA) provide for calculating the cash equivalent of the benefit of a company car which is made available for private use. In broad terms, this depends on the list price of the car plus taxable accessories, multiplied by the level of CO2 emissions the car produces. This is expressed as the appropriate percentage. Section 139(2)(a) and (aa) of ITEPA made provisions for the current two bands of ULEVs (i.e. 0 to 50 gCO2/km and 51 to 75 gCO2/km). The appropriate percentages for these bands are set to increase to 16% and 19% respectively in 2019 to 2020.

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to make the following changes:

Section 139 of ITEPA sets out the basis for calculating the appropriate percentage for cars with CO2 emissions. From 6 April 2020, the graduated table of company car tax bands will now include a differential for cars with emissions of 1 to 50g CO2 per km based on the electric range of the car.

For cars with an electric range of 130 miles or more, the appropriate percentage is 2%; for cars with an electric range of between 70 to 129 miles, the appropriate percentage is 5%; for 40 to 69 miles, the appropriate percentage is 8%; for 30 to 39 miles, the appropriate percentage is 12% and for less than 30 miles, the appropriate percentage is 14%.

For cars that can only be driven in zero-emission mode, the appropriate percentage is 2%.

For all other bands with CO2 emissions of 51 g CO_2 per km and above, the appropriate percentage will be based on the CO2 emissions only. For cars with emissions of 51 to 54 g CO2 per km the appropriate percentage is 15%. For cars with emissions above 54 g CO2 per km, the bands are graduated by 5g CO2 per km and the appropriate percentage increases by 1% for each 5 g CO2 per km band. For example, 16% for 55 to 59, 17% for 60 to 64, up to a maximum of 37%. For cars with emissions above 90 g CO2/km, the appropriate percentage will increase by 1% in comparison to 2019 to 2020 levels.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	-	-	-	+25	+5

These figures are set out in Table 2.1 of Autumn Statement 2016 as 'Company car tax: reforms to incentivise ULEVs', and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2016.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

The costing allows for a reduction in fuel benefit take-up due to the higher charge and increases in take-up of ULEV and electric company cars as a result of the change in bandings.

Impact on individuals, households and families

The measure is not expected to impact on family formation, stability or breakdown. The measure is also not expected to have any significant impact on individuals. Employees with a company car may be impacted.

Equalities impacts

This measure is not expected to have any adverse impact on those with protected characteristics who are employed with company cars. Around 950,000 people are currently recipients of a company car benefit. This number is not expected to change significantly over the scorecard period. Around 75% of these are male, 25% female.

Impact on business including civil society organisations

This measure is expected to have an impact on businesses that provide company cars to their employees. Affected businesses will need to research, store and update an additional piece of company car data (the electric range figure) where applicable. HMRC estimates this burden at £137,000 a year.

There will be a negligible one-off familiarisation cost to these businesses.

There is no impact on civil society organisations.

Estimated one-off impact on administrative burden (£m)

One-off impact	(£m)
Costs	negligible
Savings	-

Estimated on-going impact on administrative burden (£m)

Ongoing average annual impact	(£m)
Costs	0.1
Savings	-
Net impact on annual administrative burden	+0.1

Operational impact (£m) (HMRC or other)

Changes will be required to HMRC IT systems to implement this measure at a one-off estimated cost of £950,000. Guidance will also be updated at negligible cost.

Other impacts

Wider environment impact: this measure, together with the wider support the government provides for ULEVs, will encourage the uptake and manufacture of ULEVs. However, given that the market is at an early stage of development it is not possible to precisely estimate the impact on ULEV sales.

By strengthening the incentives to purchase zero-emission cars and ULEVs this measure is expected to contribute to the UK's carbon emissions targets and air quality objectives.

Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be monitored through information collected from tax returns, receipts and regular communication with affected taxpayer groups and trade bodies.

Further advice

If you have any questions about this change, please contact Employment Income Policy Team by email: employmentincome.policy@hmrc.gsi.gov.uk.

Dates for 'making good' on benefits in kind

Who is likely to be affected

Employers and those employees who make payments in return for any benefits in kind they receive. A diverse range of employees make payments in return for benefits in kind but a common example is an employee who makes payments in return for the fuel provided by their employer for private use, as an alternative to paying the fuel benefit charge.

General description of the measure

Where an employee gives something (usually a cash payment) to the person providing a benefit in kind in return for it, this is known as 'making good'. The payment has the effect of reducing the taxable value of the benefit in kind, often to zero. This reduces the amount of the employee's taxable earnings.

The measure sets a date of 6 July after the end of the tax year for making good on benefits in kind which are not accounted for in real time through Pay As You Earn ('payrolled'). The taxable value, and the value on which Class 1A National Insurance contributions (NICs) are payable, will be reduced only if the benefit in kind is made good by that date. There are already dates in legislation for making good on benefits in kind which are payrolled.

Employees will still have the discretion to make good after 6 July but doing so will not reduce the taxable value of the benefit in kind.

Policy objective

At present, there are a range of dates for making good on benefits in kind and, for some benefits in kind, there is no date in legislation. The policy objective is to eradicate the scope for confusion arising from the current system and to help employers and employees understand their obligations.

This will be achieved by setting clear dates for making good, including setting a date where there is currently no date in legislation.

Background to the measure

The Office of Tax Simplification, employers and representative bodies have said that there is confusion and practical difficulties in complying with the current dates.

At Budget 2016, the government announced that it would introduce a package of measures to simplify further the tax administration of employee benefits and expenses. This included consulting on proposals to align the dates for making good on benefits in kind.

The government held a consultation from 9 August 2016 to 4 October 2016 on proposals to align the dates for making good.

Detailed proposal

Operative date

The measure will have effect for making good on a tax liability that would arise in tax year 2017 to 2018 and after. The current rules will apply in relation to making good on a benefit in kind chargeable to tax in 2016 to 2017 or earlier years.

Current law

Current law on making good for non-payrolled benefits in kind is included in different sections of the Income Tax (Earnings and Pensions) Act 2003. The provision for an employee to make good is in section 203. Making good on car fuel is in sections 151 and 152; making good on van fuel is in sections 162 and 163; making good on private use of a company car is in section 144; and making good on private use of a van is in section 158. For these benefits in kind, making good must take place by the end of the tax year.

For other (non-payrolled) benefits in kind, there is no specific date set in legislation for making good.

Regulations 71 and 80 of the Social Security (Contributions) Regulations 2001 set the dates by when payments of NICs must be made.

Proposed revisions

The dates for making good for non-payrolled benefits in kind will be 6 July following the end of the tax year in which the tax charge arises.

There are to be no changes to the dates currently set in legislation for making good on payrolled benefits in kind.

The draft legislation amending the existing sections will be published on 5 December 2016.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	negligible	negligible	negligible	negligible	negligible

This measure is expected to have a negligible impact on the Exchequer.

Economic impact

This measure is not expected to have any significant economic impacts.

Impact on individuals, households and families

There is not expected to be any significant impact on individuals or households.

The change is not expected to impact on family formation, stability or breakdown.

Equalities impacts

HMRC has had due regard to equality to comply with section 149 of Equality Act 2010 and relevant Northern Ireland legislation.

It is not anticipated that the proposed measure will have any adverse impacts on groups with protected characteristics.

Impact on business including civil society organisations

This measure is expected to have a negligible one-off cost on affected businesses and civil society organisations as they familiarise themselves with the uniform date. There will also be a negligible on-going reduction in administrative burdens as the uniform date will ensure employers and employees have a better understanding of their obligations.

Responses to the consultation on the change in policy have indicated that many employers and employees are already working to the date of 6 July in practice. For this reason, we envisage that there will be a minimal impact on the processes of many businesses and civil society organisations.

Obtaining data on making good payments in order to assess the impact is difficult. The act of making good often reduces the taxable value of the benefit in kind to nil, which means there is nothing for HM Revenue and Customs to record in terms of tax or NICs.

Operational impact (£m) (HMRC or other)

There will be no significant operational impact.

Other impacts

Other impacts have been considered and none has been identified.

Monitoring and evaluation

This measure will be kept under review through regular communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact the Employment Income Policy team on Telephone: 03000 521589 or email: employmentincome.policy@hmrc.gsi.gov.uk .

Assets made available to employees without transfer

Who is likely to be affected

Employees, or their families, who, by reason of their employment, are provided with an asset that is available for their private use, and employers who have to account for National Insurance as a result.

General description of the measure

The measure introduces rules for calculating the taxable value (cash equivalent) of an asset provided to an employee or a member of their family or household which is available for their private use. The rules will allow for days when the asset is unavailable for private use to be ignored for the purposes of calculating the cash equivalent under certain circumstances. These rules will apply only to assets which do not currently have specific charging provisions elsewhere in the legislation.

Policy objective

On the strict statutory interpretation of the current legislation, employees should be taxed as if the asset were available to them for the entire year even if, for example, it is only made available for part of the year or it is shared with another employee. This leads to unfair outcomes which cannot be corrected simply by publishing guidance.

This measure will introduce in Finance Bill 2017 legislation setting out more detailed rules for calculating the cash equivalent which will allow adjustments for days when the asset is not available for the employee's private use. These supersede the arrangements set out in current HM Revenue and Customs (HMRC) guidance which are not supported by legislation. By setting out detailed rules in legislation, the government is providing clarity for both employees and employers.

Background to the measure

The decision to set out more detailed provisions on calculating the cash equivalent of the benefit of an asset has not been previously announced. Previous guidance based on apportionment of the use of assets is set out in the Employment Income Manual at EIM21639.

Detailed proposal

Operative date

The measure will have effect on and after 6 April 2017.

Current law

The current provisions for computing the cash equivalent of an asset is set out in section 205 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA 2003).

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to make changes to Chapter 10 of Part 3 of ITEPA to introduce specific rules for computing the cash equivalent of an asset that is made available to an employee for private use. Setting the cash equivalent of an asset by its availability for private use appears elsewhere in the benefits legislation and is well understood.

The overarching rule that if the asset is made available for private use the cash equivalent is set at 20 per cent of the market value when the asset was first provided plus the amount of any additional expense will remain. The legislation will introduce new rules allowing the cash equivalent to be reduced for days when the asset is not available for private use and there are also rules to reduce the level of the taxable benefit when the asset is made available to more than one employee for their private use in the same tax year.

This measure will also allow for the reduction in the level of the taxable benefit if the asset is first made available part way through the year or permanently ceases to be available part way through the year.

Worked example:

A company buys a painting for £5,000 and insures it for £250.

For the first three months the painting is displayed in the home of Director A before going on loan to a contemporary art exhibition at a local gallery for 5 months. It is then displayed in the company's offices for 2 months before going to Director B's house for the final 2 months of the year.

The annual cost of the asset would be (20% x £5,000) + £250 = £1,250

The painting is available for 150 days of the year. So the cash equivalent is calculated as 150/365 x £1,250 = £513

The rules would provide for the cash equivalent of the benefit to be shared on a just and reasonable basis between the two directors, so we would expect the benefit charge for Director A to be £307 and that for Director B to be £205 rounded to the nearest pound.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	negligible	negligible	negligible	negligible	negligible

This measure is expected to have a negligible impact on the Exchequer.

Economic impact

This measure is not expected to have any significant economic impacts.

Impact on individuals, households and families

This measure is not expected to have any significant impacts on individuals, households and families.

Equalities impacts

This measure partially legislates existing HMRC practice, including measures that enable individuals to reduce the charge on the benefit in certain circumstances. HMRC considers that it has no impacts, taking due regard for equality to comply with section 149 of Equality Act 2010 and relevant Northern Ireland impacts.

Impact on business including civil society organisations

Businesses or civil society organisations that make assets available to employees for their private use may be able to reduce the taxable value for periods when the asset is not available for private use. Confirming how this should be done in the legislation will provide clarity for employers and employees. This measure is expected to have a negligible impact on business administrative burdens. Affected businesses will incur one-off costs of familiarisation with the new rules. On-going costs include performing the calculation to determine the taxable value of assets.

Operational impact (£m) (HMRC or other)

This measure will have initial IT costs for HMRC in the region of £6,000.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact the Employment Income Team on email: employmentincome.policy@hmrc.gsi.gov.uk.

Tax relief: employee liabilities and indemnity insurance

Who is likely to be affected

Employees (or former employees) with costs funded by their employer for legal advice or indemnity insurance covering matters relating to their employment.

General description of the measure

This measure ensures that employees (or former employees) who may require legal advice or indemnity insurance which is funded by their employer, for example in preparation for an appearance before a public enquiry, will not be taxed on the benefit provided whether or not any allegation is made.

Policy objective

Currently, when an employer funds legal support or pays a premium for legal indemnity insurance for their employees to cover costs connected with proceedings related to their employment, it is only tax-free for employees who have had allegations made against them in their capacity as an employee. There is no equivalent deduction or relief in relation to proceedings where no allegation is made against the employee, for example where an employee is asked to give evidence before, say, a public hearing when they might also require legal support and advice.

The measure makes the rules fairer and introduces legislation which will allow employees called to give evidence to receive legal support funded by their employer tax-free, even if no allegation has been made against them.

Background to the measure

The legal advice tax exemption is currently legislated for in the Income Tax (Earnings and Pensions) Act (ITEPA) 2003. This measure has not previously been announced as it is a wholly relieving provision.

Detailed proposal

Operative date

The measure will have effect on and after 6 April 2017.

Current law

The legislation setting out the tax exemption where an employer funds their employee's legal or other costs is found at sections 346 to 350, 409, 410 and 555 to 564 of ITEPA 2003.

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to extend the scope of the existing provisions in ITEPA 2003 so that deductions or relief are available for expenses incurred:

- where an employee gives evidence about a matter related to his employment in his capacity as an employee or where he acted in the performance of the duties of the employment

- where an employee is under general investigation about a matter related to his employment to determine whether or not there has been wrong doing

In addition, the government is amending the legislation to ensure that individuals subject to a termination settlement are treated in the same way for legal costs relating to their employment as any other employee or former employee.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	negligible	negligible	negligible	negligible	negligible

This measure is expected to have a negligible impact on the Exchequer.

Economic impact

This measure is not expected to have any significant economic impacts.

Impact on individuals, households and families

There will be a positive impact on those individuals in the circumstances covered by this measure. This measure is not expected to have any significant wider impact on individuals, and is expected to have no impact on households and families.

Equalities impacts

This measure is a wholly relieving provision which applies equally to all sectors of the working population and complies with Section149 of Equality Act 2010 (and relevant Northern Ireland legislation).

Impact on business including civil society organisations

This measure is expected to have a negligible impact on businesses and civil society organisations. Affected businesses will incur one-off costs of familiarisation with the new rules. On-going costs include ensuring that reimbursement of legal costs to employees in connection with proceedings relating to employment is paid tax free.

Operational impact (£m) (HMRC or other)

This measure will have no operational impact on HMRC.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact the Employment Income Team on email: employmentincome.policy@hmrc.gsi.gov.uk

Off-payroll working in the public sector: reform of the intermediaries legislation

Who is likely to be affected?

- people working for a public sector organisation through an intermediary, such as a personal service company (PSC)
- public sector organisations and agencies supplying staff working through PSCs to the public sector
- other intermediaries such as partnerships may be impacted where engagements fall within the off-payroll rules

General description of the measure

The off-payroll rules (often known as IR35, or 'the intermediaries legislation'), ensure that individuals who work through their own company pay employment taxes in a similar way to employees, where they would be employed were it not for the PSC or other intermediary that they work through.

This measure moves responsibility for deciding if the off-payroll rules for engagements in the public sector apply from an individual worker's PSC to the public sector body, agency or third party paying them. The measure also makes that organisation responsible for deducting and paying associated employment taxes and National Insurance contributions (NICs) to HM Revenue and Customs (HMRC). This change does not affect workers and PSCs who provide their services to private sector organisations.

The 5% allowance currently available to those who apply the off-payroll rules to reflect the costs of administering the rules will be removed for those who work in the public sector. These changes will also introduce a requirement for public sector bodies to provide information to agencies and workers about whether engagements are within the off-payroll rules.

HMRC will provide a new digital tool to help identify whether engagements fall within the off-payroll rules to support customers impacted by the reform.

Policy objective

These changes are being introduced to improve fairness in the tax system by ensuring that individuals are not able to sidestep employment taxes or NICs by working through a PSC. Removal of the 5% allowance will simplify the administration of the reformed rules and reflects the transfer of responsibility for making a decision about whether the rules apply and deducting and making the associated tax and NICs payments.

Background to the measure

At Summer Budget 2015 the government announced that it intended to reform the off-payroll rules in response to widespread non-compliance. HMRC published a discussion document in summer 2015.

After considering the issues raised as part of that discussion, the government announced at Budget 2016 that, from April 2017, where the public sector engages an off-payroll worker through their own limited company, that body (or the recruiting agency if the public sector body engages through one) will become responsible for determining whether the rules should apply, and for paying the right tax.

HMRC consulted on the detail of this reform and the development of a new online tool between 26 May and 18 August 2016.

Detailed proposal

Operative date

The measure will have effect for contracts entered into, or payments made, on or after 6 April 2017.

Current law

Current law is included in Income Tax (Earnings and Pensions) Act 2003 (ITEPA 2003) Part 2 Chapter 8, sections 48 to 61, and the Social Security Contributions (Intermediaries) Regulations 2000 (SI 2000 No 727).

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to include a new Chapter to ITEPA 2003 and relevant NIC regulations, so that where an individual works for the public sector, through their own PSC and falls within the rules:

- the public sector engager or agency is treated as an employer for the purposes of taxes and Class 1 NICs
- the amount paid to the worker's intermediary for the worker's services is deemed to be a payment of employment income (or of earnings for Class 1 NICs) for that worker
- the public sector engager or the agency is liable for secondary Class 1 NICs and must deduct tax and NICs from the payments they make to the intermediary in respect of the services of the worker
- the public sector is defined using the definitions in the Freedom of Information Act 2000 and the Freedom of Information (Scotland) Acts
- the person deemed to be the employer for tax purposes is obliged to remit payments to HMRC and to send HMRC information about the payments using Real Time Information
- the 5% allowance intended to be used by the worker's intermediary for certain business expenses is removed, for those contracts with the public sector. The worker's intermediary will still be able to claim allowable business expenses

Summary of impacts

Exchequer impact (£m)

Off-payroll working: transfer liability to public sector employers (*including 5% allowance)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021
-	+265	+65	+105	+120

These figures are set out in Table 2.1 of Budget 2016 as 'Off-payroll working: transfer liability to public sector employers', and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2016. There will be revisions to these figures which will be set out in Table 2.2 of Budget 2017.

Off-payroll working: implement consultation reforms (5% allowance removal)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	+25	+20	+20	+25	+25

These figures are set out in Table 2.1 of Autumn Statement 2016 as 'Off-payroll working: implement consultation reforms', and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2016.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

The costing accounts for a behavioural response whereby some of those affected may cease to operate as the owner/director of a limited company.

Impact on individuals, households and families

The measure is not expected to impact on households, family formation, stability or breakdown.

Equalities impacts

This change is not expected to have a disproportionate impact on any group with a protected characteristic. The group impacted by this change are more likely to be men.

Impact on business including civil society organisations

This measure is expected to have a significant initial impact on public sector organisations who engage off-payroll workers and agencies supplying workers to the public sector. It will transfer the liability to consider whether the intermediaries legislation applies from personal service companies to public sector engagers and agencies who pay workers engaged in the public sector. Where the intermediaries legislation applies the engager or agency will be responsible for deducting tax and NIC payments from payments made to the PSC and remitting them to HMRC. There will be a consequential impact on public sector organisations, who will now have to consider whether the intermediaries legislation applies to their workers.

Affected businesses will incur one-off costs for familiarisation with the new rules and putting in place processes to share information between procurement and payroll sections. Ongoing costs for accounting and reporting through Real Time Information and using the digital tool are expected to be negligible. The costs are set out in the table below.

The government estimates that this measure will also affect around 26,000 personal service companies. Administrative costs currently incurred by compliant PSCs in calculating tax and

National Insurance will now move from the PSC to the public sector organisation or the agency supplying the worker to the public sector.

Small and micro business assessment: smaller agencies may be disproportionately affected by this change if they provide workers to the public sector. This measure will require them to place the employee on a payroll. These costs to smaller agencies are expected to be significant. However, there are likely to be overall savings of £0.3 million per annum.

Estimates of compliance costs are shown in the tables below:

Estimated one-off impact on administrative burden (£m)

One-off impact	(£m)
Costs	negligible
Savings	-

Estimated on-going impact on administrative burden (£m)

Ongoing average annual impact	(£m)
Costs	0.6
Savings	0.9
Net impact on annual administrative burden	-0.3

Operational impact (£m) (HMRC or other)

HMRC will incur IT costs in the region of £1 million as a result of this reform. However there will be associated operational savings from implementation.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be keep under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact the Employment Status Policy team at consultation.off-payroll@hmrc.gsi.gov.uk.

Income Tax: streamlining the tax-advantaged venture capital schemes

Who is likely to be affected

This package of measures will affect companies using the Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trust scheme (VCT), EIS and SEIS fund managers and VCTs.

General description of the measures

The measures make amendments to the EIS, SEIS and VCT rules in three areas:

- for the EIS and SEIS, companies will no longer be excluded from qualifying for an investment if a right exists to convert the shares from one class to another at some future date (as long as the right is not exercised during the holding period)
- for VCTs, it clarifies the law that certain parent companies that have acquired another company which has previously received VCT funding (the subsidiary company) through an exchange of shares or securities will be able to use the funding history of the subsidiary company when considering if follow-on funding is permitted to fund the continuing activities of the subsidiary (the EIS rules already permit these arrangements)
- for VCTs, a power will be introduced to enable the Treasury to make regulations about the treatment of exchanges of non-qualifying investments

A consultation will also be held on options to streamline HM Revenue and Customs' (HMRC) discretionary advance assurance service, which provides HMRC's opinion on the eligibility of a company to receive an investment. A consultation document, including an assessment of impacts, is published separately.

Policy objective

The aim of this package of measures is to provide additional flexibility in the operation of the SEIS, EIS and VCT schemes.

Background to the measure

HMRC has been discussing the issue of share conversion rights with industry members and advisers for over a year to understand the implications of allowing companies to include share conversion rights in their articles of association and elsewhere.

The measures on follow-on funding and exchanges of non-qualifying shares and securities arise from technical discussions with advisers and VCTs following the introduction of additional rules by Finance (No. 2) Act 2015.

Detailed proposal

Operative dates

Share conversion rights under the EIS and SEIS: the measure will have effect for shares issued on or after 5 December 2016.

Follow on funding for VCTs: the measure will have effect for relevant investments made on or after 6 April 2017.

VCT regulation-making power: the measure will have effect for regulations made after Royal Assent to Finance Bill 2017.

Current law

Current law for the EIS and SEIS is contained in Parts 5 and 5A respectively of the Income Tax Act 2007 (ITA 2007).

Current law for VCTs is contained in Part 6 of the ITA 2007.

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to:

- exclude a right to convert shares from one class to another being treated as an arrangement for the disposal of those shares within the no pre-arranged exits requirements for the EIS and SEIS under section 177(1) and section 257CD(1) ITA 2007 respectively
- enable a new parent company that meets the conditions in section 326 ITA 2007 to receive an investment from a VCT under condition A of the permitted maximum age condition in section 280C(4) ITA 2007 and the permitted company age requirement in section 294A(3) where a relevant investment was made in the parent company's subsidiary before the restructuring under section 326 took place; the money raised may be used only for the activities of the subsidiary for which the follow on funding was anticipated
- introduce a power to enable the Treasury to make regulations for cases where, on an exchange of non-qualifying shares or securities, a VCT receives a non-qualifying investment. Draft regulations will be published for consultation before Public Bill Committee of the Finance Bill.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
negligible	negligible	negligible	negligible	negligible	negligible

This measure is expected to have a negligible impact on the Exchequer.

Economic impact

This measure is not expected to have any significant economic impacts.

Impact on individuals, households and families

There is no impact on individuals and households.

The measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

The changes to the schemes are not likely to change the impacts of this measure on any group. After consideration, the government has concluded that there are no significant impacts on groups of people sharing protected characteristics differently to other groups, and has not identified any equalities impacts.

Impact on business including civil society organisations

The overall change in administrative burden is expected to be negligible.

The changes to share conversions are expected to lead to a small reduction in administrative burden on certain companies. These companies currently need to change their documents to exclude share conversion rights so as to become eligible for investments under the EIS and SEIS.

Companies needing follow-on funding will be able to restructure themselves in certain ways to ensure they retain the right to secure follow-on funding.

The regulations that would be made under the proposed power are expected to reduce the administrative burden on VCTs. They will provide certainty to VCTs on how to deal with such exchanges without the risk of losing their VCT status or the need to confirm treatment with HMRC on a case specific basis.

Operational impact (£m) (HMRC or other)

Overall, the legislative changes should reduce the amount of HMRC operational and technical resource needed to check compliance with the rules.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The effect of the changes will be monitored. An evaluation of the EIS and VCT schemes will be carried out in accordance with the State aid evaluation requirements, with a published report anticipated by the end of 2019.

Further advice

If you have any questions about this change, please contact Cathy Wilson on Telephone: 03000 536678 or email: venturecapitalschemes.policy@hmrc.gsi.gov.uk

Corporation Tax and Income Tax: tackling disguised remuneration: restricting tax relief for contributions to avoidance schemes

Who is likely to be affected?

Employers using disguised remuneration avoidance schemes that seek to avoid payment of PAYE and National Insurance contributions (NICs) whilst claiming a tax deduction for an employment expense.

General description of the measure

This measure will deny deductions in computing an employer's taxable profits for contributions to a disguised remuneration tax avoidance scheme unless any associated charge to PAYE and NICs is paid within a specified time.

This measure is being introduced alongside two others that also tackle disguised remuneration: 'Tackling disguised remuneration: self-employed' and 'Tackling disguised remuneration; employment'. Tax information and impact notes have also been published to provide detail on those measures.

More detail on all the changes and measures can be found in the technical note and summary of responses also published on 5 December 2016.

Policy objective

This measure supports the government's commitment to tackling tax avoidance and aims to deter the future use of disguised remuneration avoidance schemes.

Background to the measure

At Budget 2016 the government announced a package of changes to prevent and tackle use of disguised remuneration avoidance schemes.

Disguised remuneration avoidance schemes are used by employers and individuals to avoid tax and NICs. There are various types but they commonly result in a loan from a third party that is on such terms that mean it is unlikely to ever be repaid.

This measure was outlined in the 'Tackling disguised remuneration: technical consultation' which was published on 10 August 2016 and closed on 5 October 2016. The consultation also outlined the related measures.

Detailed proposal

Operative date

This measure will have effect for contributions made on or after 1 April 2017 (for Corporation Tax purposes) or 6 April 2017 (for Income Tax purposes).

Current law

The current law is set out in Chapter 1, Part 20 of Corporation Tax Act 2009 (CTA 2009) and Chapter 4, Part 2 of the Income Tax (Trading and Other Income) Act 2005 (ITTOIA 2005).

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to prevent an employer deducting a contribution into an employee benefit scheme when computing their taxable profits, unless any associated PAYE/NIC is paid within 12 months of the end of the relevant accounting period (or 12 months of the end of the relevant basis period in the case of a non-corporate employer). The relevant period is that for which the employer seeks a deduction in computing their taxable profits. This will not necessarily be the period in which the contribution is made into the scheme. The legislation will also apply where remuneration is paid within nine months of the end of the relevant period and that payment of remuneration is, or is connected with, an employee benefit contribution.

The changes will also impose an overarching time limit such that if the employer does not claim a deduction within 5 years of the end of the period in which the contribution is made, that amount cannot be deducted when computing taxable profits.

The measure also changes the definition of employee benefit scheme to include the close companies' gateway that will be added to Part 7A of Income Tax (Earnings and Pensions) Act 2003 (ITEPA 2003) as outlined in the Tackling disguised remuneration Technical Consultation document.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
+10	+25	+180	+310	+40	+65

These figures are set out in Table 2.1 of Autumn Statement 2016 as 'Disguised Remuneration: extend to self-employed and remove company deduction'. These figures represent the combined Exchequer impact of 'Corporation Tax and Income Tax: tackling disguised remuneration: restricting tax relief for contributions to avoidance schemes' and 'Disguised remuneration - self-employed schemes', and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2016.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

The costing also accounts for a reduction in the estimate of employers seeking to avoid the Budget 2016 disguised remuneration rules as a result of this measure.

Impact on individuals, households and families

This measure may impact the directors of companies who enter into tax avoidance schemes. The measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

The proposed measure will affect those with legally protected characteristics as recognised in the Equality Act, engaged in disguised remuneration avoidance schemes. Aside from these, it is not anticipated that the measure will have a significant or disproportionate impact on other groups.

Impact on business including civil society organisations

This measure will have no impact on businesses and civil society organisations who are not involved in complex avoidance schemes. It will only impact on businesses that seek to avoid payment of PAYE and NICs whilst claiming a deduction for an employment expense.

Operational impact (£m) (HMRC or other)

It is not anticipated that implementing this change will incur any additional costs or savings for HMRC.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be monitored through the disclosure of new avoidance schemes seeking to circumvent the measure and through communication with affected taxpayers and practitioners.

Further advice

If you have any questions about this change, please contact the Business Profits Team by email on: businessprofits.admin@hmrc.gsi.gov.uk.

Part surrenders and part assignments of life insurance policies

Who is likely to be affected

Beneficial owners of life insurance policies (including capital redemption policies and contracts for life annuities) who part surrender or part assign their policies, as well as the life insurance companies that provide such policies.

General description of the measure

Policyholders who part surrender or part assign these policies can, in certain unusual circumstances, inadvertently trigger taxable gains far in excess of the policy's underlying economic gain. This measure allows a policyholder who has generated a wholly disproportionate gain to apply to HM Revenue and Customs (HMRC) to have the gain recalculated on a just and reasonable basis.

Policy objective

The measure will provide a fair outcome for policyholders that inadvertently generate wholly disproportionate gains when making a part surrender or part assignment of their life insurance policies.

Background to the measure

At Budget 2016 the government announced its intention to change the tax rules for part surrenders and part assignments of life insurance policies to ensure that wholly disproportionate gains were no longer charged to tax. A consultation on possible options for change was held from 20 April 2016 to 13 July 2016.

Detailed proposal

Operative date

The measure will have effect from 6 April 2017.

Current law

Current law for part surrenders and part assignments of life insurance policies is contained in sections 498 to 514 of Income Tax (Trading and Other Income) Act 2005.

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to include new sections 507A and 512A of Income Tax (Trading and Other Income) Act 2005. This will allow policyholders who have generated a disproportionate gain from a part surrender or part assignment of a policy to apply to HMRC to have the gain reviewed. If HMRC considers that the gain is wholly disproportionate then it will be recalculated on a just and reasonable basis and the decision notified to the applicant.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	negligible	negligible	negligible	negligible	negligible

This measure is expected to have a negligible impact on the Exchequer.

Economic impact

This measure is not expected to have any significant economic impacts.

Impact on individuals, households and families

This measure is expected to affect fewer than 10 individual policyholders per year who make part surrenders or part assignments of their policies and inadvertently trigger a wholly disproportionate gain. There may be some additional administrative costs for these individuals in applying to HMRC to have their gain recalculated and then calculating subsequent gains going forward.

The measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

This measure will affect individuals within the protected equality groups that tend to be represented amongst those with above average income. It will ensure consistency of treatment in that some members of this particular group may no longer be subject to excessive tax charges if they surrender their life insurance policies in a particular way.

Impact on business including civil society organisations

This measure is expected to have a negligible impact on businesses.

There are an estimated 200 authorised life insurance companies in the UK some of which will be affected by any changes to the tax rules for investment life insurance products.

Affected businesses will incur a negligible one-off cost of familiarisation with the new rules, some staff training and updating literature for clients. There are not expected to be any on-going costs.

There is no impact on civil society organisations.

Operational impact (£m) (HMRC or other)

It is anticipated that implementing the change will require HMRC to provide additional support to policyholders whose part surrenders and part assignments give rise to disproportionate gains. As the number of policyholders impacted by the change is expected to be very small so additional costs (and savings) for HMRC will be negligible.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored through information collected from tax receipts and returns.

Further advice

If you have any questions about this change, please contact Darryl Wall on Telephone: 03000 585977 or email: darryl.wall@hmrc.gsi.gov.uk.

Personal portfolio bonds: reviewing the property categories

Who is likely to be affected

Individuals who hold life insurance policies allowing them to select the underlying assets and wealth managers and insurance companies who provide such policies.

General description of the measure

The personal portfolio bonds (PPB) legislation prevents an individual placing personal assets in a life insurance policy to avoid a tax charge on income arising from those assets. The legislation defines any life insurance policy as a PPB if its terms and conditions allow asset selection by the policyholder, unless only selection of permitted assets ('property') specified in legislation is allowed. This measure provides the government with a power to update the list of specified permitted property by regulations.

Policy objective

The measure facilitates both the addition and removal of asset types from the list of permitted property in line with changes in the investment landscape, enabling more frequent updating of the list, as new types of asset are developed.

Background to the measure

At Budget 2016, the government announced its intention to review the property categories a policyholder may select to have within their life insurance policy without triggering the provisions of the PPB legislation. A consultation was held from 9 August to 3 October 2016, seeking views on current property categories and further property types that may be included. A response to the consultation was published on 5 December 2016.

Detailed proposal

Operative date

The measure will have effect from the date of Royal Assent to Finance Bill 2017. The government expects to lay regulations to include new permitted property categories shortly after Royal Assent.

Current law

Current law is contained in sections 515 to 521 of Income Tax (Trading and Other Income) Act 2005.

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to add new subsections to Section 520 of Income Tax (Trading and Other Income) Act 2005. This will provide a power to update the table contained in Section 520 (2) of Income Tax (Trading and Other Income) Act 2005, in secondary legislation. Regulations to remove a property category will be subject to the affirmative procedure, whilst additions will be subject to the negative procedure.

Draft regulations making changes to the table, adding UK real estate investment trusts, overseas equivalents of investment trust companies and authorised contractual schemes to the table, and removing category 7a. (an interest in a collective investment scheme constituted by a company resident outside the UK, other than an open-ended investment company), will be published alongside the draft power.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	negligible	negligible	negligible	negligible	negligible

This measure is expected to have a negligible impact on the Exchequer

Economic impact

This measure is not expected to have any significant economic impacts.

Impact on individuals, households and families

This measure will impact individuals that hold life insurance policies that allow them to select the underlying assets. It may allow a wider selection of permitted property for those individuals. Impact on individuals and households is expected to be negligible.

The measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

This measure will affect individuals within the protected equality groups that tend to be represented amongst those with above average income.

Impact on business including civil society organisations

This measure is expected to have a negligible impact on asset managers and life insurance companies. Those that choose to take advantage will incur one-off costs to familiarise themselves with the new rules. Ongoing costs for applying these news rules to individual client cases are expected to be comparable to those associated with existing arrangements.

There is no impact on civil society organisations.

Operational impact (£m) (HMRC or other)

It is not anticipated that implementing this change will incur any additional costs or savings for HM Revenue and Customs, but it will be kept under review as the measure develops

Other impacts

Other impacts have been considered and none have been identified

Monitoring and evaluation

This measure will be monitored through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Marie Madden on Telephone 03000 529481 or email: marie.madden@hmrc.gsi.gov.uk.

Income Tax: new tax allowance for property and trading income

Who is likely to be affected

Individuals with small amounts of income from providing goods, services, property or other assets.

General description of the measure

This measure introduces two new annual tax allowances for individuals of £1,000 each, one for trading and one for property income. The trading allowance will also apply to certain miscellaneous income from providing assets or services. These new allowances will take effect from the tax year 2017 to 2018.

Where the allowances cover all of an individual's relevant income (before expenses) then they will no longer have to declare or pay tax on this income. Those with higher amounts of income will have the choice, when calculating their taxable profits, of deducting the allowance from their receipts, instead of deducting the actual allowable expenses. The trading allowance will also apply for Class 4 National Insurance contribution purposes.

The new allowances will not apply to partnership income from carrying on a trade, profession or property business in partnership.

The allowances will not apply in addition to relief given under the Rent-a-Room Relief legislation.

Policy objective

The new allowance provides simplicity and certainty regarding Income Tax obligations on small amounts of income from providing goods, services, property or other assets.

This measure supports the government's objective to simplify the tax system and to help the UK become leaders in the digital and sharing economy.

Background to the measure

At Budget 2016, the government announced two new £1,000 allowances each for property and trading income to take effect from 6 April 2017.

The government announced at Autumn Statement 2016 that the trading allowance will also apply to certain miscellaneous income from providing assets or services. This change will reduce the complexity for some individuals who will no longer have to decide if the activity amounts to a trade or not.

Detailed proposal

Operative date

For those individuals who choose for simplicity to report their income and expenses of a trade according to the tax year, the trading allowance will take effect for trading income in the period 6 April 2017 to 5 April 2018. Otherwise, it will take effect for periods ending on either, an accounting date or on such other date, on or after 6th April 2017 that forms the basis period for the 2017 to 2018 tax year.

This will take effect for property income and certain miscellaneous income arising from 6 April 2017.

Current law

Chapter 2, Part 2 of the Income Tax (Trading and Other Income) Act 2005 (ITTOIA 2005) charges Income Tax on the profits of a trade.

Chapter 3, Part 2 contains rules for the calculation of trade profits with reference to the receipts and expenses, to include any allowances or charges under the Capital Allowances Act 2001, and in accordance with generally accepted accounting practice (GAAP), subject to any tax adjustments required by law. This Chapter and Chapter 3A also provides that small businesses can elect for profits to be calculated on the cash basis.

The profits of a trade are taxed by reference to the amount of profit earned in a basis period for the tax year. Chapter 15 of Part 2, sets out the rules to determine the basis period for a tax year, and in general provides this to be a period of 12 months ending with the accounting date in the tax year.

Chapter 3, Part 3 of ITTOIA 2005 charges to Income Tax the profits of a property business arising in the tax year. Profits of a property business are calculated in the same way as the profits of a trade except that the cash basis does not currently apply. The government is consulting on introducing this in Finance Bill 2017.

Chapter 8 (income not otherwise chargeable), Part 5 of ITTOIA 2005 charges Income Tax on miscellaneous income from providing assets and services, not otherwise chargeable.

Part 7, Chapter 1, Rent-a-Room Relief, provides relief for income from the use of furnished accommodation in an individual's only or main residence. This can include trading income, property income and miscellaneous income. The form of the relief depends on whether the rent a room receipts exceed the individual's rent a room limit. If it does not, the income is not charged to tax unless the individual elects otherwise. If it does, the individual may elect for an alternative method of calculating the income by deducting the rent a room limit, instead of deducting the actual expenses.

Part 9 of ITTOIA 2005 contains special rules that apply to persons (‘partners’) carrying on a trade in partnership referred to collectively as a ‘firm’ and how the individual partners are taxed on this income.

Proposed revisions

Legislation in Finance Bill 2017 will introduce a new Part of ITTOIA 2005, to give relief for two new annual tax allowances for individuals of £1,000 each, a trading allowance and a property allowance.

This will set out the form of the relief, which will depend on whether either the trading or property income exceeds the £1,000 allowance or not. Where the individual’s trading or property income is less than the allowance, full relief will be given so that the income is not charged to tax, unless the individual elects otherwise.

Where the individual’s trading or property income is more than the allowance, the individual may elect for an alternative method of calculating the income, instead of the usual rules that would otherwise apply in calculating the profit of a trade or of a property business or miscellaneous income. The election for the trading or property allowance are made independently and apply for each particular tax year.

The new allowances will apply to all types of property and trading income of an individual but not to partnership income from carrying on a trade, profession or property business in partnership where special rules in Part 9 of ITTOIA 2005 apply.

The trading and property allowance will not apply to income on which rent a room relief is given. It will also not apply, if the alternative method is not elected, but instead the actual allowable expenses are deducted.

Trading allowance

The first chapter of the new Part of ITTOIA 2005 will cover the trading allowance.

This provides for full relief where the receipts that would otherwise have been brought in to account in calculating the profits of the trade for the tax year, are up to £1,000. The effect of the relief will be that the profits from the trade will be nil.

There will be an equivalent rule for certain miscellaneous income, chargeable under Chapter 8 of Part 5, of the Act. This will apply to the extent that the £1,000 trading allowance is not otherwise used against trading income.

There will be an optional alternative method for calculating profits where the receipts from a trade or miscellaneous income are more than £1,000. This will take the form of an election which will apply to the calculation of the profits of all trades for a particular tax year. For trading income, the effect of the alternative method will be to calculate the profits on the receipts that would otherwise have been brought in to account in calculating the profits of the trade for the tax year less the deduction of the £1,000 trading allowance. In calculating the profits, no deduction will be allowed for expenses generally or any other matter. There will be a rule to ensure that the total amount of the trading allowance cannot exceed £1,000, where the individual has both sources of income.

Property allowance

The second chapter of the new Part of ITTOIA 2005 will cover the property allowance. This will provide for full relief where the income arising in the tax year is up to £1,000. The effect of the relief will be that the income and expenses will not be brought in to account when calculating profits of a property business.

There will be an optional alternative method for calculating profits where the relievable receipts of a property business are more than £1,000. This will take the form of an election which will apply to the calculation of the profits from property businesses for a particular tax year. The effect of the alternative method will be that the income receipts are brought in to account only in calculating the profits for the tax year. Any expenses associated with the income receipts will not be brought in to account. In calculating the profit a deduction is allowed for the £1,000 property allowance.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021
-	-15	-235	- 195	- 200

These figures are set out in Table 2.1 of Budget 2016 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2016.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

Impact on individuals, households and families

This measure could benefit up to around 700,000 taxpayers depending on the proportion of eligible taxpayers that decide to take up the allowance.

The measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

It is not anticipated that this measure will have any particular impact on any group with protected characteristics.

Impact on business including civil society organisations

The additional one off cost of this measure is expected to be negligible. However, this measure is expected to have a significant ongoing saving for the self-employed and landlord population who will either no longer need to fill in a self-assessment trading or property return or no longer need to calculate their expenses and/or capital allowances for their self-assessment trading or property return due to the allowance(s).

This measure is expected to have no impact on civil society organisations as it only affects businesses or landlords where the proprietor reports their business income through self-assessment.

It is expected that when the affected population begin the process of preparing their self-assessment return they will read the guidance relating to the allowance(s) and experience a saving through either not having to file a self-assessment return or not having to calculate their expenses and capital allowances for their returns. The ongoing cost is estimated to be negligible as they will not experience any further burden beyond that which they experience currently. The self-assessment guidance with which they would normally engage when filling out their returns will now prompt them that either no return is needed or they can claim the allowance(s) instead of their expenses, depending on their circumstances. The measure intends to support the sharing economy. Estimates of compliance savings are shown in the table below.

Estimated on-going impact on administrative burden (£m)

Ongoing average annual impact	(£m)
Costs	negligible
Savings	19.1
Net impact on annual administrative burden	-19.1

Operational impact (£m) (HMRC or other)

The cost to update HM Revenue and Customs IT systems for this change is estimated at £260,000. Other operational costs are considered to be negligible.

The operational compliance costs are likely to be negligible.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored through information collected from tax returns etc.

Further advice

If you have any questions about this change, please contact Tony Page on Telephone: 03000 537842 or email: anthony.page@hmrc.gsi.gov.uk.

Tackling disguised remuneration

Who is likely to be affected

Employers, companies and individuals using tax avoidance schemes that fall within the disguised remuneration legislation.

Employers, companies and individuals that have used a disguised remuneration scheme and have yet to settle with HM Revenue and Customs (HMRC).

General description of the measure

At Budget 2016 the government announced a package of changes to tackle existing and prevent future use of disguised remuneration avoidance schemes.

The first part of the package was legislated in the Finance Act 2016. This tax information and impact note (TIIN) details the next part of the package the government will introduce in the Finance Bill 2017.

This measure is being introduced alongside two other measures that also tackle disguised remuneration; 'Tackling disguised remuneration: self-employed' and 'Tackling disguised remuneration: restricting tax relief for contributions'. TIINs have also been published to provide detail on those measures.

More detail on all the changes and measures can be found in the technical note and summary of responses also published on 5 December 2016.

This measure will prevent the future use of disguised remuneration schemes by strengthening the existing rules in Part 7A of Income Tax (Earnings and Pensions) Act 2003 (ITEPA 2003). The changes will put beyond doubt that Part 7A of ITEPA 2003 applies to loan transfers and the remuneration of employees, and directors, who have a material interest in their close company employer. A new charge on the write-off, or release, of a disguised remuneration loan will also be added to Part 7A of ITEPA 2003.

The measure will also tackle the existing use of disguised remuneration schemes with a new charge (the 'loan charge') on disguised remuneration loans outstanding on 5 April 2019.

Legislation will also be introduced to ensure there is no double taxation.

Policy objective

This measure supports the government's commitment to tackling tax avoidance and ensures users of disguised remuneration schemes pay their fair share of Income Tax and National Insurance contributions (NICs).

Background to the measure

These changes are part of a wider package of changes announced at Budget 2016 to tackle disguised remuneration schemes.

Disguised remuneration avoidance schemes are used by employers and individuals to avoid tax and NICs. There are various types but they commonly result in a loan from a third party that is on such terms that mean it is unlikely to ever be repaid.

This measure was outlined in the 'Tackling disguised remuneration: technical consultation' which was published on 10 August 2016 and closed on 5 October 2016. The consultation also outlined the related measures.

Detailed proposal

Operative date

Changes to prevent the future use of disguised remuneration schemes, such as loan transfers, the close companies' gateway and the release, or write-off, of a disguised remuneration loan, will have effect from 6 April 2017.

The loan charge will have effect from Royal Assent to Finance Bill 2017, and apply where a disguised remuneration loan, or part of it, is outstanding on 5 April 2019.

The new rules to prevent double taxation will be backdated to the introduction of Part 7A of ITEPA 2003 on 9 December 2010. However, where there are two, or more, existing liabilities arising under Part 7A of ITEPA 2003 the current rules at section 554Z5 of ITEPA 2003 will continue to apply. The new section 554Z5 of ITEPA 2003 will only apply where one of the multiple liabilities under Part 7A of ITEPA 2003 arises on or after 6 April 2017.

Current law

Finance Act 2011 introduced the employment income provided through third parties rules at Part 7A of ITEPA 2003, commonly referred to as the 'disguised remuneration rules'.

These rules give rise to an employment income charge on employment income paid through a third party as if it were paid directly to the employee by the employer.

For a charge to arise there must be an arrangement that meets the ‘gateway’ conditions set out in section 554A of ITEPA 2003. There must also be a ‘relevant step’ as defined in sections 554B to 554D of ITEPA 2003. Section 554C defines relevant steps that involve payments by the third party, including the issue of a loan, to an employee, referred to as the ‘relevant person’. Exclusions are detailed in sections 554E to 554X of Part 7A of ITEPA 2003.

Proposed revisions

<u>Preventing the future use of disguised remuneration schemes</u>
A new close companies’ gateway will be introduced to put beyond doubt when Part 7A of ITEPA 2003 applies to remuneration of employees and directors who have a material shareholding in a close company. This gateway must be considered in addition to the existing gateway at section 554A of ITEPA 2003. However, it only needs to be considered if the employer is a close company, as defined in section 439 of the Corporation Tax Act 2010. The close companies' gateway will not apply where the payment to the third party that provides the benefits to the employee is a distribution as ultimately defined by Part 23 of the Corporation Tax Act 2010.

Section 554C of ITEPA 2003 will be amended to put beyond doubt that Part 7A of ITEPA 2003 applies to loan transfers.

A further amendment to section 554C of ITEPA 2003 will result in the write-off, or release, of a disguised remuneration loan being a relevant step under Part 7A of ITEPA 2003.

Tackling the existing use of disguised remuneration schemes
The loan charge will apply to the outstanding balance of disguised remuneration loans on 5 April 2019 that were made after 5 April 1999. The amount of the loan outstanding is, broadly, the principal of the loan less any repayments. From 17 March 2016, only payments in money made by the relevant person are allowable as repayments. Any money repayment connected with a tax avoidance arrangement, excluding the arrangement under which the loan was made, will be disregarded. The loan charge will also apply to loan transfers, referred to in the legislation as quasi-loans.

The relevant person may apply to HMRC for postponement of the loan charge where the loan qualifies as an 'approved fixed term loan'. An officer of HMRC may grant an application where:

- the loan was made before 9 December 2010
- the loan has a term of 10 years, or less
- the loan has not been replaced, or varied, since it was made and
- the relevant person has made repayments of the principal at intervals not exceeding 53 weeks or
- the loan was made on commercial terms that fall short of the commercial transactions exemption

The relevant person can alternatively make a claim for postponement of the loan charge where they are unable to repay the loan because they have paid an Accelerated Payment. An Accelerated Payment is a payment of the disputed tax liability arising from an avoidance scheme, before the final amount has been agreed or determined. Postponement will only be available where the remaining loan balance is equal to, or less than, the Accelerated Payment. If the Accelerated Payment is later repaid to the relevant person, they will have 30 days to repay the outstanding loan balance, after which, the loan charge will apply.

Other technical changes
The current rule, in section 554Z5 of ITEPA 2003, provides for the value of the relevant step to be reduced by the value of an earlier relevant step if there is an overlap between the sum of money, or asset, which is the subject of the steps. The new section 554Z5 of ITEPA 2003 will only reduce the later relevant step by the value of the earlier relevant step where the liability from the earlier step is paid in full. The only exception will be where, before the later Part 7A charge arises, the relevant person has reached an agreement with HMRC to pay the earlier liability (for example, a time to pay agreement) or, the earlier tax liability is not yet due and payable.

Double taxation relief where the earlier charge has not been paid is provided for in the new sections 554Z12A to 554Z12C of ITEPA 2003. These only need to be considered where the new section 554Z5 of ITEPA 2003 doesn't already apply. The new sections treat a payment of one, of the two liabilities, as also being a payment on account of the other liability. Where the two liabilities only partially overlap with each other, the double taxation provisions will only apply to the overlapping part of each liability.

Where an earlier liability is disputed, there may be an overlap with an Accelerated Payment. The new section 554Z12D will allow the relevant person to opt to use the Accelerated Payment to meet the Part 7A of ITEPA 2003 charge. Where the relevant person chooses this option the Accelerated Payment will no longer be repaid.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021
+100	+335	+645	+1,235	+215

These figures are set out in Table 2.1 of Budget 2016 as 'Disguised remuneration: tackling historic and new schemes' and have been certified by the Office for Budget Responsibility.

These figures reflect the full package of changes to tackle disguised remuneration avoidance schemes announced at Budget 2016, some of which were legislated for in the Finance Act 2016 and so are not reflected in this note. More details can be found in the policy costings note published alongside Budget 2016.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

Impact on individuals, households and families

This measure is expected to affect up to 40,000 individuals who have entered into disguised remuneration avoidance schemes. Some of these individuals will be unable to repay the loans, agree a settlement with HMRC before 5 April 2019, or pay the loan charge arising on 5 April 2019. The government anticipates that some of these individuals will become insolvent as a result.

This measure is not expected to have a material impact on family formation, stability or breakdown.

Equalities impacts

It is likely that this measure will impact on those with above average incomes. It is not anticipated that this measure will have a significant, or disproportionate, impact on groups with legally protected characteristics as recognised in the Equality Act 2010.

Impact on business including civil society organisations

This measure is expected to have no impact on businesses and civil society organisations who are undertaking normal commercial transactions. The measure is only intended to impact on businesses that are engaging in avoidance schemes.

Operational impact (£m) (HMRC or other)

HMRC received additional financial resources at Budget 2016 to resource this measure. HMRC will, however, require further additional financial resource in the region of £3.5 million for the IT changes to support this measure.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored through disclosures of new avoidance schemes and through communication with affected customers and practitioners.

Further advice

If you have any questions about this change, please contact the Employment Income Policy Team by email: employmentincome.policy@hmrc.gsi.gov.uk.

Disguised remuneration: self-employed schemes

Who is likely to be affected

Individuals who are self-employed, trading on their own account or through a partnership, using schemes to avoid paying Income Tax and National Insurance contributions (NICs) on the earnings of their trade or profession.

General description of the measure

This measure is part of a package of changes to tackle existing and prevent future use of disguised remuneration avoidance schemes by individuals and employers. This particular measure applies to the self-employed and will prevent the future use of these avoidance schemes by introducing new legislation into the Income Tax (Trading and Other Income) Act 2005. This will ensure that the full earnings of the self-employment remain part of their taxable income subject to Income Tax and NICs and attempts to circumvent this position and still reward the individual are ignored.

The measure will also tackle the existing use of avoidance by the self-employed involving loans with a new charge (the 'loan charge') on outstanding loans taken out as part of the avoidance arrangements. This charge will apply if tax is not paid on the loan and the loan is not repaid by 5 April 2019.

More detail on all the changes and measures can be found in the technical note and summary of responses also published on 5 December 2016.

Policy objective

This measure supports the government's commitment to tackling tax avoidance and ensures that users of these types of avoidance schemes pay their fair share of Income Tax and NICs.

Background to the measure

Disguised remuneration avoidance schemes are used by employers and individuals to avoid tax and NICs. There are various types but they commonly result in a loan from a third party that is on such terms that mean it is unlikely to ever be repaid.

At Budget 2016 the government announced that legislation would be introduced in Finance Bill 2017 to tackle the use of avoidance schemes by the self-employed. This was alongside a package of changes to prevent the future, and to tackle the existing, use of disguised remuneration avoidance schemes by employees.

Following a technical consultation in the summer, this tax information and impact notice details the part of the package that relates to the avoidance by the self-employed. Other tax information and impact notes have also been published on the wider package of disguised remuneration avoidance measures, covering employment income and employer deductions.

Detailed proposal

Operative date

Changes to prevent the future use of disguised remuneration schemes by the self-employed will have effect from 6 April 2017.

The loan charge will apply where a disguised remuneration loan, or part of it, remains outstanding and tax has not been paid on it by 5 April 2019.

Current law

Trading profits of the self-employed are subject to Income Tax by virtue of the provisions of Part 2 Income Tax (Trading and Other Income) Act 2005 (ITTOIA). Earnings are subject to tax on the full amount of profits arising in the tax year. Profits are calculated, for the purposes of tax, either on principles of generally accepted accountancy practice or the cash basis and are subject to adjustments for tax as required by law.

Proposed revisions

Preventing the future use of disguised remuneration schemes by the self-employed
Legislation in Finance Bill 2017 will introduce new provisions into ITTOIA to counter schemes that are intended to exclude from tax all or part of the income arising to self-employed persons and enable all or part of the earnings to be excluded from their taxable income.

The legislation will counter arrangements that are intended to secure a deduction from income where such a deduction ultimately is used to provide a loan or other benefit to the individual or anyone connected to them.

The legislation will also counter arrangements involving the self-employed that seek to exclude an element of the taxable earnings of the self-employed individual whilst at the same time using that element to provide a loan or other benefit, either to themselves or persons connected with them.

Tackling the existing use of disguised remuneration schemes by the self-employed
Legislation in Finance Bill 2017 will also introduce a charge to apply to any balance of disguised remuneration loans made after 5 April 1999, as used by the self-employed as part of the avoidance arrangements. The charge will apply on 5th April 2019 to any such loans still outstanding on that date. The amount of the loan outstanding is, broadly, the principal of the loan less any repayments. Generally, only money payments will be recognised as repaying the loan. Any money payment connected with a tax avoidance arrangement, excluding the arrangement under which the loan was made, will be disregarded. The loan charge will also apply to situations where one loan is replaced by another loan, some other form of credit or a payment purporting to be a loan, referred to as quasi-loans in the legislation.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
+10	+ 25	+ 180	+310	+ 40	+ 65

These figures are set out in Table 2.1 of Autumn Statement 2016 as 'Disguised Remuneration: extend to self-employed and remove company deduction'. These figures represent the combined Exchequer impact of 'Corporation Tax and Income Tax: tackling disguised remuneration: restricting tax relief for contributions to avoidance schemes' and 'Disguised remuneration - self-employed schemes', and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2016.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

Impact on individuals, households and families

As well as preventing future use of this type of avoidance this measure is expected to affect up to 10,000 individuals who have previously entered into disguised remuneration schemes for the self-employed. Some of these individuals will be unable to repay the loans, agree a settlement with HMRC before 5 April 2019, or pay the loan charge arising on 5 April 2019. The government anticipates that some of these individuals will become insolvent as a result.

The households and families of these individuals are likely to be affected by the consequences of them entering into these avoidance schemes. The extent of the impact will vary from case to case.

Equalities impacts

There is no reason to suppose this measure will have a significant or disproportionate impact on groups with legally protected characteristics as recognised in the Equality Act 2010.

Impact on business including civil society organisations

This measure is expected to have no impact on business or civil society organisations who are undertaking normal commercial transactions; it will only impact businesses that are engaging in avoidance.

Operational impact (£m) (HMRC or other)

The operational resource costs to enable implementation of this measure will be in the region of £16 million.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored through disclosures of new avoidance schemes to circumvent the measure, and through communication with affected customers and practitioners.

Further advice

If you have any questions about this change, please contact the Business Profits Policy team on email: businessprofits.admin@hmrc.gsi.gov.uk.

Co-ownership authorised contractual schemes: reducing tax complexity

Who is likely to be affected

Operators of co-ownership authorised contractual schemes (CoACS) and investors in CoACS.

General description of the measure

This measure will do four things to reduce tax complexity in relation to CoACS:

- clarify the process for calculating any capital allowances which may be claimed by investors in CoACS
- introduce new requirements for information which the operator of a CoACS must provide to investors and to HM Revenue and Customs (HMRC)
- introduce new rules to clarify what is to be treated as an investor's income when a CoACS has invested in an offshore fund
- clarify the rules for investors to calculate capital gains arising from the disposal of units in a CoACS

Policy objective

In line with the government's UK Investment Management Strategy published in March 2013, this measure aims to reduce tax complexity for investors in CoACS and clarify requirements on operators of CoACS.

Background to the measure

CoACS are collective investment schemes which are authorised by the Financial Conduct Authority. CoACS were introduced in 2013 to satisfy industry demand for a UK based tax transparent fund vehicle. Following informal discussions with tax agents and other specialists on the practical application of tax rules for investors, the government formally consulted in August 2016 on how to apply the principles of capital allowances for investors and on information that should be provided to investors and HMRC. The measure also seeks to address technical issues raised by agents concerning capital gains and taxation of income rolled up in offshore funds.

Detailed proposal

Operative date

The new rules on calculating capital allowances will apply for those electing to apply them on or after Royal Assent to Finance Bill 2017 for accounting periods beginning on or after 1 April 2017. The new rules on information to be provided to investors and to HMRC and on investments in offshore funds will come into force at Royal Assent to Finance Bill 2017. The streamlined rules for investors to calculate capital gains on disposal of units in a CoACS will apply to disposals on or after an operative date in summer 2017.

Current law

Current law on capital allowances is contained in Part 2 of the Capital Allowances Act 2001, in particular Chapter 14 of Part 2.

There is no current law requiring a CoACS to provide information to investors or to HMRC.

Current law on capital gains tax on disposals of units in a CoACS or other transparent funds is contained in Chapter III of Part III of the Taxation of Chargeable Gains Act 1992. Current law on capital gains tax as it applies to insurers' investments in collective investment schemes is contained in Chapter III of Part VI of the same Act.

There is no current law concerning what is to be taxed as income to an investor in a CoACS where the CoACS has invested in an offshore fund.

Proposed revisions

New primary legislation will do the following:

- introduce a new elective scheme for capital allowances purposes for CoACS. The scheme will enable the operator to compute capital allowances at CoACS level and then to allocate those allowances to investors. Assets acquired by the CoACS will not be disposed of for capital allowances purposes until disposed of by the CoACS. Part disposals will no longer arise when an investor disposes of units
- enable the government to introduce new regulations requiring operators of CoACS to provide specified information to investors and to HMRC. The operator will be required to provide each investor with sufficient information to complete their tax return. The operator will also be required to provide certain information to HMRC annually and other information on request
- enable the government to introduce new regulations providing that where a CoACS has invested in an offshore fund, certain amounts will be treated as the income of the investors. The new rules will be broadly modelled on the existing rules for offshore transparent funds investing in other offshore funds

New secondary legislation will introduce a number of technical changes to the rules for calculating the capital gain on disposal of units in transparent funds including CoACS. It will bring all transparent funds under the same rules as CoACS. It will clarify how to establish the amount of allowable expenses, including the treatment of loan relationship and derivative contract debits and credits. It will clarify the interaction with expenditure which qualifies for capital allowances. Legislation will also clarify the capital gains treatment of insurers' seed investments in collective investment schemes by separating them from other investments.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	negligible	negligible	negligible	negligible	negligible

This measure is expected to have a negligible impact on the Exchequer.

Economic impact

This measure is not expected to have any significant economic impacts.

Impact on individuals, households and families

Only individuals investing a minimum of £1 million can invest in an ACS, so the impact on individuals is expected to be negligible.

The measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

The measure is expected to have no impact in relation to the protected characteristics.

Impact on business including civil society organisations

It is expected that this measure will be beneficial to institutional investors in CoACS such as insurance companies and pension funds, through a reduction in complexity for investors in, and operators of, CoACS. This measure is expected to have a negligible impact on businesses' administrative burdens. Administrators and advisers of CoACS will incur a one-off cost of need to familiarise themselves with the new rules and may also need to make minor systems changes to provide information to investors and HMRC. On-going costs include complying with new information requirements. On-going savings are expected from clarifying the process for calculating any capital allowances and the streamlining of the rules regarding calculation of capital gains. There is no impact on civil society organisations.

Operational impact (£m) (HMRC or other)

It is not anticipated that implementing this change will incur any additional costs or savings for HMRC.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

HMRC will monitor this measure through ongoing contact with the investment management industry.

Further advice

If you have any questions about this change, please contact Colin Strudwick on Telephone: 03000 585275 or email: colin.strudwick@hmrc.gsi.gov.uk.

Museums and galleries tax relief

Who is likely to be affected

Incorporated museums, galleries and other qualifying heritage institutions, including those run as charitable companies, their subsidiaries or those with trading subsidiaries that are run under the control of a local authority, that are directly involved in the production of new exhibitions. Commercial businesses are unable to claim this relief.

General description of the measure

This measure will enable eligible museums and galleries to claim tax relief for qualifying expenditure on new exhibitions, including those that tour. Relief will apply at rates of 20% for non-touring exhibitions and 25% for touring exhibitions and relief will be capped at an equivalent of £500,000 of qualifying expenditure per exhibition.

Policy objective

This measure is intended to encourage museums and galleries to develop creative new exhibitions and to display their collections to a wider audience, supporting British culture.

Background to the measure

At Budget 2016 the government announced its intention to introduce a new tax relief for temporary and touring exhibitions from April 2017. A consultation on the proposed design took place from 5 September to 28 October.

The government has now announced at Autumn Statement that it will broaden the scope of the relief to include permanent exhibitions so that it is accessible to a wider range of institutions across the country.

Detailed proposal

Operative date

The measure will have effect for qualifying expenditure incurred on and after 1 April 2017 and before 31 March 2022, though qualifying institutions will only be able to submit claims after Finance Bill 2017 receives Royal Assent.

The legislation will include a sunset clause which means the relief will expire in April 2022 unless renewed. In 2020 the government will review the tax relief and set out plans beyond 2022.

Current law

There are currently no targeted direct tax reliefs for this sector.

The new tax relief for museums and galleries is based on the existing creative sector tax relief model which includes the film and high-end television tax reliefs. These are found in Part 15 of the Corporation Act 2009.

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to provide a corporation tax relief for the production of new exhibitions by qualifying museums and galleries.

The relief will allow qualifying companies engaged directly in the production of exhibitions to claim an additional deduction in computing their taxable profits and where that additional deduction results in a loss, to surrender those losses for a payable tax credit. Qualifying companies may claim a credit worth up to £100,000 on exhibitions that are toured and £80,000 on non-touring exhibitions. The maximum credit allowable is the equivalent of qualifying expenditure of £500,000.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	-5	-30	-30	-30	-30

These figures are set out in Table 2.1 of Autumn Statement 2016 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2016.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

The costing includes a behavioural effect to account for increased spending on new or improved exhibitions and tours as a result of the relief.

Impact on individuals, households and families

This measure is not expected to have an impact on individuals, households or the formation, stability or breakdown of families.

Equalities impacts

This measure is not expected to have a significant impact on people with protected characteristics and the government has not identified any other equalities impacts.

Impact on business including civil society organisations

This measure is expected to have a small positive impact on businesses. This measure is expected to increase activity within the museums and galleries sector. Over 1,500 institutions are forecast to be within scope of this relief.

Eligible companies may face some negligible one-off and on-going administrative costs in order to qualify for this relief. HM Revenue and Customs (HMRC) expects the total one-off costs associated with familiarisation with the new legislation, processes and requirements to be minimal, particularly given that most museums and galleries are already expected to keep good financial records of each individual exhibition. The government consulted widely with the sector to ensure the design of the relief works well for museums and galleries and limits the administrative burden as much as possible.

Operational impact (£m) (HMRC or other)

HMRC expects to incur resource costs of approximately £450,000 a year as a result of administering the relief.

Other impacts

Competition assessment: this relief is targeted at a particular sector. All companies in this sector will be eligible, so the policy's introduction is unlikely to affect competition within the sector. There should not be any significant impact on competition with other business sectors.

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be kept under review through communication with affected taxpayer groups. HMRC will monitor this measure through the analysis of claims data and the publication of summary statistics.

Further advice

If you have any questions about this change, please contact Kerry Pope on Telephone: 03000 585740 or email: kerry.pope@hmrc.gsi.gov.uk.

Corporation Tax: tax deductibility of corporate interest expense

Who is likely to be affected

Large businesses within the charge to Corporation Tax (CT) which incur net interest expense and other similar financing costs (within the scope of CT) above £2 million per annum.

General description of the measure

From 1 April 2017, the UK will introduce new rules to limit tax deductions for interest expense and other similar financing costs, with the aim of aligning such deductions with the economic activities undertaken in the UK. The existing Debt Cap rules will be repealed and replaced with the new rules.

Policy objective

The new rules will restrict the ability of large businesses to reduce their taxable profits through excessive UK interest expense. They are part of the government's wider changes to encourage alignment of the location of taxable profits with the location of economic activity, and are consistent with the UK's more territorial approach to corporate taxation.

Background to the measure

The OECD published recommendations on preventing base erosion through the use of interest expense in October 2015 under Action 4 of the Base Erosion and Profit Shifting (BEPS) Project. The government undertook an initial consultation on how the OECD recommendations could be implemented domestically from 22 October 2015 to 14 January 2016.

At Budget 2016 the government announced that it would introduce new rules to limit the tax deductibility of corporate interest expense consistent with the OECD recommendations, effective from 1 April 2017.

A second government consultation, on the detailed design and implementation of the rules, ran from 12 May 2016 to 4 August 2016.

Detailed proposal

Operative date

The measure will have effect from 1 April 2017. Where a worldwide group has a period of account (as defined for the purposes of the interest restriction rules) that spans that date, it will have to split the results of the period so that the new rules have effect from 1 April 2017.

Current law

The loan relationship regime at Part 5 of Corporation Tax Act 2009 provides the current rules on corporate interest deductions. A number of other provisions deal with amounts that are equivalent to interest. The current Debt Cap rules are at Part 7 of Taxation (International and Other Provisions) Act 2010 (TIOPA).

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to be inserted into TIOPA, and will provide for repeal of the current Debt Cap rules. The main elements of the new rules are as follows.

The rules will operate on a worldwide group basis to allow groups to manage any restriction across their businesses. They will apply to the net interest expense within the charge to CT, including other similar financing costs. Groups with less than £2 million of net interest expense within the scope of CT per annum will not need to apply the rules.

The Fixed Ratio Rule will limit the amount of net interest expense that a worldwide group can deduct against its taxable profits to 30% of its taxable 'EBITDA' – earnings before interest, taxes, depreciation and amortisation. A modified debt cap within the new rules will ensure the net interest deduction does not exceed the total net interest expense of the worldwide group.

The Group Ratio Rule allows a 'group ratio' to be substituted for the 30% figure. The group ratio is based on the net interest expense to EBITDA ratio for the worldwide group based on its consolidated accounts.

The Public Benefit Infrastructure Exemption provides an exemption for qualifying interest expense incurred by qualifying companies on funds invested in long-term infrastructure projects for the public benefit.

There are rules to help address timing differences between interest expense and EBITDA. Amounts of restricted interest are carried forward indefinitely. They may be deducted in a later period if there is sufficient interest allowance. Unused interest allowance can be carried forward for up to five years.

There are special rules to deal with particular issues, for example: related parties, joint ventures, leases, securitisation vehicles, Real Estate Investment Trusts (REITs), payments to charities, the Oil and Gas tax regime, Double Taxation Relief, and the Northern Ireland CT rate.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021
-	+920	+1,165	+995	+885

These figures are set out in Table 2.1 of Budget 2016 as 'Corporation Tax: restrict relief for interest', and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2016.

Economic impact

Groups that have engaged in aggressive tax planning using debt to reduce their tax bill may face a higher cost of capital. This measure may also increase the cost of capital for large multinational businesses that have proportionately higher borrowing in the UK compared with the rest of the worldwide group, as it may restrict the amount of corporate interest payments allowed to be offset against corporation tax liability. A higher cost of capital could affect investment decisions and make some marginal investments uneconomic.

This measure helps address competitive distortions between multinational and domestic businesses (see competition assessment below).

Impact on individuals, households and families

This measure is not expected to directly impact on individuals or households. The measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

This measure is not expected to impact on any of the groups with protected characteristic.

Impact on business including civil society organisations

This measure is expected to have a significant impact on businesses. It is estimated to affect up to 3,800 large businesses operating in the UK, many of which will be multinationals. The £2 million threshold for net interest expense is expected to exclude 95% of groups from the rules, including the vast majority of small businesses. Groups with net interest expense below (but close to) £2 million will need to do some work to verify that they are outside of the scope of the rules. This has been factored into the cost estimates below.

Businesses may incur one-off costs in familiarising themselves with the new interest restriction rules, making systems changes and obtaining advice and assurance on how to comply with the rules. These one-off costs are estimated to be around £16 million. The on-going impact on the administrative burden for business is estimated to be £1 million a year, with a £6.4 million cost from the interest restriction rules offset by a £5.4 million saving from repeal of the existing worldwide debt cap. Individual businesses could experience an increase or decrease in on-going costs, depending on the balance of these effects.

There is no impact on civil society organisations.

The estimated one-off and on-going costs are set out in the tables below.

Estimated one-off impact on administrative burden (£m)

One-off impact	(£m)
Costs	15.6
Savings	-

Estimated on-going impact on administrative burden (£m)

Ongoing average annual impact	(£m)
Costs	6.4
Savings	5.4
Net impact on annual administrative burden	1.0

Operational impact (£m) (HMRC or other)

There will be a one-off IT cost to HMRC of approximately £0.3 million to implement this measure.

Other impacts

Competition assessment: by tackling base erosion and profit shifting through the use of interest expense, this measure helps to reduce competitive distortions between groups operating internationally - who have more opportunities for aggressive tax planning - and wholly or mainly domestic businesses.

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored to ensure the legislation is operating as intended and kept under review through regular communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact the Corporate Interest Restriction team on email: interest-restriction.mailbox@hmrc.gsi.gov.uk or Telephone: 03000 569068.

Corporation Tax: reform of loss relief

Who is likely to be affected

Companies and unincorporated associations that pay Corporation Tax (CT) and have carried-forward losses.

General description of the measure

Losses arising from 1 April 2017 when carried forward will have increased flexibility and can be set against the total taxable profits of a company and its group members ('loss relaxation').

For all carried-forward losses, whenever they arose, companies will be able only to use the losses against up to 50% of profits ('loss restriction'). Each standalone company or group will be entitled to a £5 million annual allowance. Profits within the allowance will not be restricted, ensuring 99% of companies are unaffected by the restriction.

Policy objective

The measure will modernise the UK's loss relief regime by increasing the flexibility over the profits that future carried-forward losses can be relieved against whilst ensuring that businesses pay tax in each accounting period that they make substantial profits.

Background to the measure

The reforms were announced at Budget 2016. The government consulted on the measure from 26 May to 18 August 2016, and will publish its official response to the consultation on 5 December 2016.

Detailed proposal

Operative date

The reforms will have effect for accounting periods ending on or after 1 April 2017. Any profits or losses of a company with an accounting period straddling 1 April 2017 will be allocated into notional periods falling before and after that date on a time apportioned basis or, if this does not give a just and reasonable result, on a more just and reasonable basis.

Current law

Carried-forward losses can only be used by the company that incurred the loss, and not used in other companies in a group. Additionally, certain losses can only be set against certain types of income, for example trading losses can only be used against trading profits.

Companies can currently reduce all their eligible taxable profits to nil with carried-forward losses. This can lead to a company paying no tax in a year that it makes substantial profits.

Proposed revisions

Legislation will be introduced in Finance Bill 2017.

The loss relaxation will mean that losses arising from 1 April 2017 when carried forward can be set more flexibility against the total taxable profits, rather than particular types of income, of a company and its group members.

From 1 April 2017, the loss restriction will have the effect that the amount of profit that can be relieved with carried-forward losses will be restricted to 50%. The loss restriction will apply to carried-forward losses incurred at any time. Each standalone company or group will be entitled to a £5 million annual allowance of unrestricted profit, ensuring 99% of companies are unaffected by the restriction.

Both the loss restriction and loss relaxation will apply to:

- trading losses
- non-trading deficits on loan relationships
- management expenses
- UK property losses
- non-trading losses on intangible fixed assets

Whilst pre-April 2017 trading losses will not be relaxed, companies will have the flexibility to choose whether or not to use pre-April 2017 trading losses before other available losses.

If a company's trade ceases and the company has unused carried-forward losses of that trade, those losses can be set without restriction against profits arising in the final 36 months of the trade. Post-April 2017 losses will be able to be set against total profits, whilst pre-2017 losses trading losses will only be able to be set against profits of the same trade. The profits that losses can be carried-back to will be limited to those generated from 1 April 2017.

The legislation contains loss buying rules which will mean that where a company or group of companies is acquired, any post-April 2017 carried-forward losses that arose before the company or group's acquisition will not be available to the purchaser's group for five years.

The legislation also contains a targeted anti-avoidance rule which will prevent any arrangements being entered into with a main purpose of obtaining a benefit from the loss reform rules.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021
-	+395	+415	+295	+255

These figures are set out in Table 2.1 of Budget 2016 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2016.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

A behavioural adjustment is made to reflect groups finding ways to mitigate the impact of this measure.

Impact on individuals, households and families

The measure is not expected to impact on individuals, households or family formation, stability or breakdown because it applies only to companies.

Equalities impacts

This measure concerns the taxation of companies, which have no protected characteristics in law. As such, it is very unlikely that there will be any impact on equality.

Impact on business including civil society organisations

This measure is expected to have a significant impact on businesses within the charge to UK corporation tax. Affected businesses will incur a one-off cost of £20 million to £25 million as a result of the need for familiarisation with the new rules and updating their systems and processes to cater for the new loss relief rules. The ongoing costs to the approximately 100,000+ businesses affected are estimated as £3 million to £5 million per year.

Loss relaxation: this measure will increase the flexibility in the types of profits that post-April 2017 losses can be set against. Businesses with an accounting period straddling 1 April 2017 will incur a one-off cost to allocate profits or losses into notional periods falling before and after that date on a time apportioned basis or, if this does not give a just and reasonable result, on a more just and reasonable basis. Companies also will need to track their carried-forward losses that arose up to 31 March 2017 separately from losses that arose from 1 April 2017. On-going costs include tracking losses, additional reporting regarding how losses are allocated on the CT600 and CT600C returns.

Loss restriction: one-off costs include familiarisation with the new rules. On-going costs include carrying out the loss restriction calculation. Companies in groups will also incur additional on-going costs including: submitting an annual statement to HM Revenue and Customs (HMRC) of how the £5 million allowance has been allocated, carrying out part-accounting period computations and submitting amendments to HMRC if required. This measure will also accelerate businesses' corporation tax payments, negatively impacting their near-term cash-flow.

Civil society organisations will be affected by this measure if they are liable to corporation tax and their annual profits exceed £5 million.

Small and micro business assessment: small companies are within the scope of this measure if they have carried-forward losses. It is expected that these businesses will benefit from the increased flexibility in the way losses can be used. The £5 million allowance will ensure that only those companies with profits in excess of £5 million will be impacted by the new loss restriction rules.

Estimated one-off impact on administrative burden (£m)

One-off impact	(£m)
Costs	20 -25
Savings	-

Estimated on-going impact on administrative burden (£m)

Ongoing average annual impact	(£m)
Costs	3 - 5
Savings	-
Net impact on annual administrative burden	3 - 5

Operational impact (£m) (HMRC or other)

HMRC will need to make changes to IT systems to deliver this change at an estimated cost of £815,000.

Other impacts

Competition assessment: the £5 million annual allowance will ensure 99% of companies are unaffected by the restriction.

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be subject to ongoing monitoring through receipts, information collected in tax returns and disclosure of new anti-avoidance schemes to circumvent the measure.

Further advice

If you have any questions about this change, please contact Claire White on Telephone: 03000 545597 or email: claire.white@hmrc.gsi.gov.uk or Clare Dunne on Telephone: 03000 585961 or email: clare.e.dunne@hmrc.gsi.gov.uk.

Northern Ireland rate of Corporation Tax: changes to small and medium-sized enterprise regime

Who is likely to be affected

Companies who are small and medium-sized enterprises (SMEs) trading in Northern Ireland (NI) currently or who may trade there in the future.

General description of the measure

The Northern Ireland Corporation Tax (NI CT) rate will apply to certain trading profits in NI.

This measure makes amendments to the NI CT regime to allow all SMEs with trading activity in NI the potential to benefit from NI CT. It also makes changes to NI CT to ensure it is robust against abuse and ready for commencement if the NI Executive demonstrates its finances are on a sustainable footing.

Policy objective

NI CT addresses the common objective of the UK government and the NI Executive to rebalance the NI economy, by providing a devolved fiscal instrument to encourage genuine economic activity and employment in NI.

Under the current rules, SMEs which do not have at least 75% of employment time and costs in NI have all trading profits taxed at the UK Corporation Tax (CT) main rate.

The changes give greater flexibility to SMEs and a fairer outcome: all SMEs with trading activity in NI will have the potential to benefit from the NI CT regime; while avoidance risks are managed to maintain the regime's focus on encouraging genuine economic activity in NI.

Background to the measure

In March 2015, Parliament passed the Corporation Tax (Northern Ireland) Act 2015 which, subject to commencement regulations, will devolve corporation tax rate setting powers to the Northern Ireland Assembly. The government has committed to commencing the regime if the NI Executive demonstrates its finances are on a sustainable footing. The NI Executive has publicly indicated its intention for the regime to begin in April 2018, and that the rate will be set at 12.5%.

Industry representations were made during the passage of the Bill seeking an option for SMEs which do not meet the 75% employment test to access the NI rate on the same terms as large companies.

HM Revenue and Customs (HMRC) is regularly assessing the risk of potential manipulation and abuse of NI CT, and the measure includes steps to ensure the regime is robust to abuse.

Detailed proposal

Operative date

The measure will have effect for accounting periods beginning on or after the first day of the financial year appointed by the Treasury in regulations.

Current law

Current law on NI CT is contained in Part 8B of the Corporation Tax Act 2010, as inserted by the Corporation Tax (Northern Ireland) Act 2015. Schedule 1 to that Act also made amendments to the Capital Allowances Act 2001 to make provision for NI CT.

Part 8B provides rules to identify profits of a company which are chargeable at the NI rate. This includes at Chapter 6 a regime for large companies and a separate simplified regime at Chapter 7 for SMEs.

Larger companies with both NI and rest of UK activity must use rules based on existing profit attribution principles to allocate profits to a NI trading presence (termed a Northern Ireland Regional Establishment or NIRE). This effectively means that the company treat their NI trading activity as if it were a separate business from its activity in the rest of the UK, and allocate profits to each appropriately.

There is a simplified regime for SME companies, many of which would find this profit attribution an excessive administrative burden. SMEs with more than 75% of their employment time and costs in NI are not required to allocate profits to NI and the rest of the UK: instead all of their trading profits are charged at the NI rate. SMEs which do not have at least 75% of employment time and costs in NI have all trading profits taxed at the UK CT main rate.

Chapter 4 provides the basic definitions for the regime, including that of 'Northern Ireland company'. An SME company must also be a Northern Ireland employer to be a Northern Ireland company. A Northern Ireland employer is a company which meets the 75% employment test which itself relies on the definition of a company's workforce as consisting of directors of the company, employees of the company and externally provided workers in relation to the company.

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to give an option for an SME which is not a Northern Ireland employer but has a NIRE to elect to use the large company rules for identifying profits and losses to which the Northern Ireland rate applies.

The meaning of Northern Ireland company in Chapter 4 is expanded to provide for this election, and similar provision is made for partnerships, by amending the meaning of Northern Ireland firm in Chapter 16. The large company rules in Chapter 7 are extended to apply to SMEs which are not Northern Ireland employers and which have made the election. Amendments are also made to refine the workforce conditions in section 357KE to ensure they are robust to abuse.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022

This measure is expected to have a negligible impact on the Exchequer.

Economic impact

The measure is not expected to have any significant economic impacts.

Impact on individuals, households and families

The measure only affects companies and so is not expected to impact on individuals and households or on family formation, stability or breakdown.

Equalities impacts

Allowing SMEs which are not Northern Ireland employers to elect to use the large company regime will not have any equalities impact.

Impact on business including civil society organisations

This measure gives greater flexibility for SMEs by providing an option to access the NI CT regime not available under the existing rules. If they do not want to exercise the option there is no increase in the administrative burden they bear, and they can stay with the simplified approach allowed for under the existing rules, which mitigates the impact on SMEs through an annual in/out test. Over 96% of SMEs with trading activity in NI have at least 75% of their employment in NI and so would not be affected by the thresholds applied in the in/out test.

The large company rules require allocation of profits between NI trading activity and trading activity in the rest of the UK using profit attribution principles with which SMEs are not familiar. If a business uses the option, it is expected that there will be additional one off and ongoing costs in setting up and applying the required profit attribution and transfer pricing methodologies. Up to 500 businesses with less than 75% of their employment in NI will need to evaluate whether the increase in administrative burden associated with using the large companies rules outweighs the benefits of accessing the NI CT regime.

Operational impact (£m) (HMRC or other)

There will be a one off IT cost estimated at £120,000 to implement this measure. It is expected that negligible additional resource will be needed to monitor this measure.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored through information collected from tax returns and receipts and communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact James Coward on Telephone: 03000 579560 or email: ct.devolution@hmrc.gsi.gov.uk.

Corporation Tax: deductions for contributions to grassroots sports

Who is likely to be affected?

Corporation Tax (CT) payers making contributions to grassroots sports.

General description of the measure

This measure extends the circumstances in which contributions to grassroots sports can be deducted from the taxable profits of CT payers. Companies will be able to make deductions for all contributions to grassroots sports through recognised sport governing bodies, and deductions of up to £2,500 in total annually for direct contributions to grassroots sports. Sport governing bodies will be able to make deductions for all their contributions to grassroots sports.

Policy objective

This measure will make it easier for CT payers to receive a deduction for contributions to grassroots sports, thereby encouraging sports participation at a local level, and reducing administrative burdens for some organisations which currently make contributions to grassroots sports.

Background to the measure

The government announced at Autumn Statement 2015 that it would consult on how to expand the support that can be given to grassroots sports through the CT system. The consultation was launched on 24 March 2016 and closed on 15 June 2016.

Detailed proposal

Operative date

This measure will have effect in relation to qualifying expenditure incurred on or after 1 April 2017.

Current law

Currently, the following provisions provide a relief for CT on payments to sports clubs or in connection with sporting events:

Under section 189 of the Corporation Tax Act 2010, sporting bodies registered as charities can receive payments that can be deducted against the donating company's CT liability.

Under section 202 of the Corporation Tax Act 2010, payments made to Community Amateur Sports Clubs (CASCS) can be deducted for CT in the same way as payments to a charitable body.

Otherwise, section 54 (1) (a) of the Corporation Tax Act 2009 is likely to prevent payments being deductible for CT because they do not meet the test of being 'wholly and exclusively for the purposes of the trade'.

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to amend Part 6 of the Corporation Tax Act 2010 to allow qualifying expenditure on grassroots sports as a deduction from the company's total profits in calculating the CT chargeable for an accounting period. This follows the normal rules for deductions against total company profits for charitable donations, as per Part 6 of the Corporation Tax Act 2010. Qualifying expenditure will be drawn quite widely and will, for example, include payments to coaches and officials. However, no payments to participators will be eligible, other than to cover the cost of travelling to competitions.

The legislation will contain similar protections to the charity and CASC legislation to ensure that payments are made for the intended purposes and to prevent payments being made for personal benefit.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	negligible	negligible	negligible	negligible	negligible

This measure is expected to have a negligible impact on the Exchequer.

Economic impact

This measure is not expected to have any significant economic impacts.

Impact on individuals, households and families

This measure relates to CT deductions and is not expected to significantly impact on individuals or households.

It is not expected to impact on family formation, stability or breakdown.

Equalities impacts

It is expected that there will be a beneficial impact for people in all of the groups with protected characteristics but it is not anticipated that there will be any adverse impacts.

Impact on business including civil society organisations

This measure may have an administrative impact on some organisations which currently make contributions to grassroots sports through charitable organisations set up specifically to benefit from a CT deduction.

As a result of this measure, contributions can receive a CT deduction even when they are not distributed via a charitable organisation. As such, organisations may choose to deregister their charities and instead receive deductions through the simpler route of direct contributions to grassroots sports.

Overall, there will be a negligible one-off cost for sport governing bodies and companies familiarising themselves with the new rules and perhaps deregistering their charities with HM Revenue and Customs (HMRC), and a negligible ongoing administrative burden saving from no longer needing to submit tax returns to HMRC for those charities. There are also likely to be wider administrative savings associated with deregistering charities.

Operational impact (£m) (HMRC or other)

The IT impacts of the measure for HMRC are expected to carry a one-off estimated cost of £275,000.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be subject to ongoing monitoring of information collected on tax returns.

Further advice

If you have any questions about this change, please contact Rawfiah Choudry on Telephone: 03000 559565 or email: rawfiah.choudry@hmrc.gsi.gov.uk.

Corporation Tax: Patent Box: cost sharing arrangements

Who is likely to be affected

UK companies which hold and exploit patents, or patent like rights, which claim relief under the UK Patent Box and carry out their research and development (R&D) collaboratively under a 'cost sharing arrangement' (CSA).

General description of the measure

The measure adds specific provisions to the revised UK Patent Box rules introduced in Finance Act 2016, covering the case where R&D is undertaken collaboratively by two or more companies under a CSA. The provisions ensure that such companies are treated neutrally if they organise their R&D in this way.

Policy objective

Delivering on its commitment to the G20-OECD Base Erosion and Profit Shifting (BEPS) project, the government legislated in Finance Act 2016 to amend the UK Patent Box in line with the international framework agreed as part of this project on the operation of preferential intellectual property (IP) regimes, such as Patent Boxes.

The UK was a driving force in creating this framework to ensure that substantive economic activity is required as a pre-requisite for access to all preferential IP regimes, so that they cannot be used for profit shifting. This is done by linking benefits afforded to income generated by IP under such regimes to the research and development (R&D) expenditure incurred to develop that IP. This helps to level the playing field for tax internationally, preventing unfair tax competition while retaining the ability for countries to attract genuine activity that contributes to growth and prosperity.

As with the original UK Patent Box, the government is clear that such innovative activity should be incentivised under the revised UK Patent Box, whether undertaken independently or collaboratively through a CSA.

Background to the measure

The UK Patent Box was introduced in the Finance Act 2012, effective from 1 April 2013, and was originally announced in the 2010 Corporate Tax Roadmap.

Following agreement on the new international framework, the UK government sought views on its preferred approach for amendments to bring the UK Patent Box in line with this in a consultation document, 'Patent Box: substantial activities', published on 22 October 2015. The consultation document stated the government's aim to include specific rules covering cost-sharing arrangements.

The government published partial draft legislation in December 2015. However, provisions on CSA were not able to be included in the Finance Bill, requiring further consultation to ensure that these complex collaborative arrangements were appropriately addressed under the revised UK Patent Box.

Detailed proposal

Operative date

The measure will have effect for accounting periods beginning on or after 1 April 2017 with periods straddling that date split. It will apply to IP held under a CSA which comes into the arrangement on or after that date as well as IP already held at that date in a CSA which a company subsequently joins.

Current law

Current law is included in Part 8A of the Corporation Tax Act 2010 (CTA 2010).

The rules were extensively modified by Finance Act (FA) 2016 (although for companies making elections applying to periods before 1 July 2016, the previous rules continue to apply, until 2021, to older IP). In particular, section 357BLA of CTA 2010 (introduced by Finance Act 2016) defines a fraction, the R&D fraction, which governs how much of the profit from an IP asset or product can benefit from the UK Patent Box. This depends on how the development underlying the asset or product is carried out.

Proposed revisions

The proposed revisions will apply where the changes to the Patent Box included in FA 2016 have effect.

- the definition of a cost-sharing arrangement in section 357GC of CTA 2010 will be modified so that an R&D fraction can be calculated for IP from which a company benefits under the arrangement
- payments made between participants to a CSA to compensate for periodic fluctuations in contributions, so called 'balancing payments', will be set off so that it is the net amount that contributes to the company's R&D fraction
- where a company acquires an interest in or increases its interest in a cost-sharing arrangement, it will include an appropriate amount of the consideration paid as acquisition cost for the purpose of calculating the R&D fraction, to the extent any IP assets are held within the CSA
- where a company disposes of an interest or reduces its interest in a CSA, an appropriate amount of any consideration received is treated as IP income, to the extent any IP assets are held within the CSA

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021
nil	+15	+25	+35	+45

These figures are set out in Table 2.1 of Budget 2016 as 'Corporation Tax: implement agreed patent box nexus approach', and represent the impact of the whole package of changes introduced in Finance Act 2016. These figures have been certified by the Office for Budget Responsibility and more details can be found in the policy costings document published alongside Budget 2016.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

Impact on individuals, households and families

The measure is not expected to impact individuals, households or to affect family formation, stability or breakdown.

Equalities impacts

Patent Box is a corporate tax relief claimed by companies holding and exploiting intellectual property. As such, the government does not expect that the changes proposed will have any equalities impacts.

Impact on business including civil society organisations

Details of the administrative costs associated with the package of changes introduced at Finance Act 2016 are set out in the 'Corporation Tax: Patent Box - compliance with new international rules', published on 9 December 2015.

The new cost sharing provisions are expected to result in a negligible one-off cost to approximately 750 patent holding companies, who will need to familiarise themselves with the guidance and train staff. Companies are also expected to incur negligible on-going costs as a result of applying the different rules regarding cost sharing arrangements.

Operational impact (£m) (HMRC or other)

It is likely that the changes included in Finance Act 2016 will already generate further enquiries to HM Revenue and Customs (HMRC) from customers and their agents given the new calculation required and potentially in respect of other elements such as the interaction with existing claims (grandfathering) or eligibility more generally. Any additional impact due to the further changes proposed now is expected to be negligible.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be monitored through information collected in CT returns, and through communication with eligible companies. HMRC will continue to engage with the OECD to ensure the legislation is operating as intended.

Further advice

If you have any questions about this change, please contact David Harris on Telephone: 03000 586834 or email: david.harris@hmrc.gsi.gov.uk.

Offshore funds: calculation of reportable income

Who is likely to be affected

UK taxpayers with investments in some offshore reporting funds.

General description of the measure

UK taxpayers with investments in offshore reporting funds pay tax on their share of a fund's reportable income, and capital gains tax on any gain on disposal of their shares or units. This measure makes a change to the calculation of reportable income. Where performance fees are charged by investment managers to such funds they can substantially reduce or eliminate investors' reportable income, even though they are charged by reference to the increase in value of a fund's assets rather than its reportable income. Performance fees will no longer be deductible against reportable income and will instead reduce any gain on disposal.

Draft regulations will be published for comment by 27 January 2017.

Policy objective

This measure will ensure that UK taxpayers are taxed fairly on returns from their investments in offshore reporting funds.

Background to the measure

The rules for the treatment of UK taxpayers with investments in offshore funds were substantially reformed in 2009. From time to time, HM Revenue and Customs (HMRC) has made changes to the rules to ensure that they operate effectively and do not provide unfair advantages to those investing in offshore funds compared to UK equivalents. This change follows a review of the effect of performance fees being set against reportable income.

Detailed proposal

Operative date

The Regulations take effect for reporting periods commencing on or after 1 April 2017.

Current law

Current law on the computation of reportable income is included in Chapter 5 of Part 3 of the Offshore Funds (Tax) Regulations 2009 (Statutory Instrument 2009/3001 - 'the Regulations').

Proposed revisions

The Regulations provide that the starting point for computing the reportable income of a reporting fund for a period of account is 'total comprehensive income for the period' as that expression is used in international accounting standards, or a sum that equates to it. This sum must then be adjusted for particular items, including capital items and certain special classes of income.

The Regulations will be amended so that the sum must also be adjusted for payments of fees made to the manager of a reporting fund where they are calculated by reference to an increase in the net asset value of the fund. The change will take effect for reporting periods beginning on or after 1 April 2017.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	+10	+25	+15	+60	+70

These figures are set out in Table 2.1 of Autumn Statement 2016 as 'Offshore Tax: close loopholes and improve reporting'. These figures represent the combined Exchequer impact of 'Offshore funds: Calculation of reportable income', 'Foreign pension schemes' and Tackling offshore tax evasion: A requirement to correct', and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2016.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

The costing includes a behavioural effect to account for possible changes to the way fees are charged or an increase in tax planning.

Impact on individuals, households and families

This measure will affect UK investors in some offshore reporting funds. It is expected that this will therefore only impact high net worth individuals.

The measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

This measure is expected to only impact high net worth individuals. Such individuals are more likely to be older males.

Impact on business including civil society organisations

This measure is expected to have a negligible impact on businesses. Affected businesses will incur negligible one-off costs of familiarisation with the new rules and making a minor adjustment to a calculation. There are not expected to be any on-going costs. There is no impact on civil society organisations.

Operational impact (£m) (HMRC or other)

This measure is not expected to have any significant operational impact for HMRC.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

HMRC will monitor and evaluate this measure through reviews of information returns from offshore reporting funds, and as part of regular and continuing engagement with the asset management industry and advisers.

Further advice

If you have any questions about this change, please contact Wayne Strangwood on Telephone: 03000 585493 or email: wayne.a.strangwood@hmrc.gsi.gov.uk.

Reform of Substantial Shareholding Exemption: an exemption for qualifying institutional investors

Who is likely to be affected

The measure will affect companies with shareholdings of 10% or more in another company who make a disposal of some or all of those shares otherwise than by on trading account, subject to certain conditions.

General description of the measure

The Substantial Shareholdings Exemption (SSE) exempts from the charge to tax gains or losses accruing on the disposal by companies of shares where certain conditions are met. The measure introduces changes to some of these qualifying conditions for the SSE for corporate capital gains.

The condition that the investing company is required to be a trading company or part of a trading group is being removed.

The condition that the investment must have been held for a continuous period, at minimum, of 12 months in the 2 years preceding the sale is being extended to a continuous period of 12 months in the 6 years preceding the sale.

The condition that the company in which the shares are sold continues to be a qualifying company immediately after the sale is withdrawn, unless the sale is to a connected party.

For a class of investors defined as Qualifying Institutional Investors, the condition that the company in which the shares were sold is a trading company has also been removed. The legislation contains a list of Qualifying Institutional Investors.

The changes have effect for disposals on or after 1 April 2017.

Policy objective

The measure will simplify the SSE regime by removing some conditions which increase administrative burdens while still delivering on the original policy objectives, and to introduce a new and simpler exemption for companies owned by certain defined institutional investors, promoting the UK as a place where global investors can establish and manage their investments in trading businesses, infrastructure projects and real estate.

Background to the measure

The SSE was introduced in 2002 with the aim of eliminating the potential double taxation of trading profits in a company or sub-group being disposed of when these are realised by the shareholder by way of a disposal of their shareholding rather than, for example, by way of a dividend which would be exempted from tax in the hands of a corporate shareholder, and to facilitate the restructuring of groups without triggering a tax charge.

A review of the existing SSE rules was announced at Budget 2016, and a consultation document was issued on 23 May 2016. The consultation closed on 18 August 2016.

Detailed proposal

Operative date

The changes outlined below will apply in respect of disposals on or after 1 April 2017.

Current law

Finance Act 2002 introduced the SSE legislation.

The SSE legislation is set out as five distinct parts:

Part 1 - The exemptions available. The main exemption applies where the conditions in Parts 2 and 3 are met. Two subsidiary exemptions apply in certain circumstances where these requirement are not fully met.

Part 2 - The shareholding requirement. A company has a substantial shareholding in another company if it holds 10% or more of the ordinary share capital for a continuous period of twelve months beginning no more than two years before the date of a disposal.

Part 3 - The conditions for both the company that makes the disposal and for the company, the shares in which have been disposed of. These are referred to as “the investing company” and “the company invested in” respectively. Generally these require that the two companies are members of a trading group (or a sole trading company) throughout the period mentioned in part 2, and immediately after the disposal.

Part 4 - Interpretation.

Part 5 - Certain consequential matters.

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to amend the following:

Part 2 - the shareholding requirement - will be amended so that the substantial shareholding condition may be met where a substantial shareholding is held throughout a continuous 12-month period beginning not more than six years before the day on which the disposal takes place. The shareholding requirement will be met in respect of qualifying shareholdings held up to four years earlier than at present.

Where the additional exemption relating to companies owned by qualifying institutional investors applies, the substantial shareholding condition may be met if the investing company’s shareholding is below 10% of the ordinary share capital but cost more than £50 million.

Part 3 - the requirements for the investor company and the company invested in - the conditions set out in Paragraph 18, specifying trading conditions which the investor company must satisfy, will be removed. There will be no requirement for the investor company to meet any trading requirement either individually or as part of a wider trading group.

The requirements for the company invested in, in Paragraph 19, will be amended so that the requirement for the trading condition to be met immediately post-disposal will apply only in circumstances where the sale is to a person connected to the investing company. There will be no requirement for the company invested in to meet the trading conditions post-disposal where the sale is to an unconnected party.

For companies owned by a specific class of investors, defined as Qualifying Institutional Investors, the measure provides for a further exemption which only requires that the substantial shareholding condition is met; the requirements in Part 3 do not apply. If at least 80% of the ordinary share capital of that company is owned directly or indirectly by one or more qualifying investors, then gains and losses of a disposal of shares will be exempt in full. Where between 25% and 80% is so owned, then a proportionate exemption is available.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	negligible	negligible	negligible	negligible	negligible

This measure is expected to have a negligible impact on the Exchequer.

Economic impact

This measure is not expected to have any significant economic impacts.

Impact on individuals, households and families

No impact on individuals or households expected.

The measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

There are no significant impacts on protected equality groups

Impact on business including civil society organisations

There will be a negligible one-off cost to businesses as they familiarise themselves with the changes. Companies making share disposals who are part of a larger group and who spend time internally or pay an agent to demonstrate that the “trading group” investor test is passed should expect to see a reduction in administrative costs thanks to the removal of the trading test for the investor company.

The changes proposed also relieve both companies and where applicable, their groups, of the necessity to restructure shareholdings to benefit from SSE.

There is no impact on civil society organisations.

Operational impact (£m) (HMRC or other)

There are no significant operational impacts on HMRC or HMT.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be kept under review through regular communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Corey Herbertson on Telephone: 03000 542955 or email: corey.herbertson@hmrc.gsi.gov.uk.

Non-domicile taxation: Business Investment Relief

Who is likely to be affected

These changes will affect anyone who is a non-UK domiciled individual who qualifies to use the Business Investment Relief (BIR) scheme.

Policy objective

The measure expands the scope of BIR and makes it easier and more attractive to potential investors to bring their money from overseas to invest in UK businesses.

Background to the measure

At Autumn Statement 2015 the government announced it would consult on ways BIR could be changed and expanded to increase investment in the UK. Some of the rules governing the relief were seen as complicated and discouraged investment. The proposed changes to the rules of the scheme seek to rectify this and so seek to encourage further investment in UK business. They also seek to clarify the rules where these were seen to be unclear.

A consultation on the proposed changes commenced on 19 August 2016 and ran for 8 weeks before closing on 20 October 2016.

Changes arising from the consultation will be announced in new published legislation on 5 December 2016.

Detailed proposal

Operative date

The measure will have effect for any new BIR investments made on or after 6 April 2017.

Current law

The current legislation for the BIR scheme can be found at sections 809VA to 809VO of Income Tax Act 2007 (ITA 2007).

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to add a new trading/stakeholder hybrid company to the qualifying list of target companies.

New rules will extend the start-up period for a company which is carrying on a commercial trade or is preparing to do so from the current 2 years to 5 years.

The revised legislation will remove any reference to an involved company in the Extraction of Value rules. Currently this rule is breached if an investor receives any benefits directly or indirectly from the target company or any company associated with it, whether or not the benefit is connected to the investment. This change means that the legislation will instead treat the rule as having been breached where a benefit is received from anyone in circumstances directly or indirectly attributable to the investment.

The new rules will extend the definition of a qualifying investment to also make it available on the acquisition of existing shares as well as on the acquisition of new shares in qualifying target companies.

When BIR was introduced, the rules specifically prevented extending the relief to investments in partnerships. It has been the government's position from the outset that this exclusion extends to corporate members of partnerships and HM Revenue and Customs (HMRC) have consistently refused claims for BIR on investment in such corporate members. Consultation response has suggested that the legislation is not clear on this point. The legislation which defines a trading company for BIR purposes has now therefore been amended to clarify the position on corporate partners. The changes make clear that a company which is a partner in a partnership is not to be regarded as carrying on the trade of the partnership, meaning that unless the target company is carrying on a commercial trade in its own right, it will not qualify for BIR.

Finally, changes to the grace period for a potentially chargeable event will enable any income or gains to remain in a company for a period of up to 2 years after the date upon which the investor becomes aware that the target company has become non-operational.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	nil	negligible	negligible	negligible	negligible

This measure is expected to have a negligible impact on the Exchequer.

Economic impact

This measure is not expected to have any significant economic impacts.

Impact on individuals, households and families

This measure is not expected to impact on family formation, stability or breakdown.

This measure is expected to improve access to the BIR for non-UK domiciled individuals on the remittance basis of taxation. Since BIR was launched in April 2012 it has been used by around 200 to 400 individuals each year.

Equalities impacts

Section 149 of Equality Act 2010 and relevant Northern Ireland legislation have been considered and the measure will have no adverse equality impacts.

Impact on business including civil society organisations

This measure is expected to have no impact on businesses or civil society organisations' administrative burden.

This measure is aimed at non-UK domiciled individuals on the remittance basis of taxation and is expected to benefit UK businesses by improving access to the Business Investment Relief.

Operational impact (£m) (HMRC or other)

There will be no significant operational impact on HMRC.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

Monitoring and evaluation will take place through HMRC regular contact with affected taxpayers and their representatives as well as other channels.

Further advice

If you have any questions about this change, please contact Aidan Close on Telephone: 03000 585255 or email: aidan.close@hmrc.gsi.gov.uk.

Inheritance Tax: overseas property whose value is attributable to UK residential property

Who is likely to be affected

Non-domiciled individuals who hold residential property in the UK through an overseas company, trust or partnership.

General description of the measure

The measure will extend the scope of Inheritance Tax (IHT) to residential properties situated in the UK which are held by non-domiciled individuals through overseas vehicles. This will be the case whether or not the individual is resident in the UK.

Policy objective

The measure will ensure that residential properties in the UK are subject to IHT where they are held by non-domiciled persons through overseas structures.

Background to the measure

The extension of IHT to UK residential properties held indirectly by non-domiciled individuals was announced at Budget 2015 and further detail was provided in a consultation document published on 19 August 2016. This is part of a wider package of reforms to the way in which non-domiciled individuals are taxed in the UK. The government's response to the consultation was published on 5 December 2016.

Detailed proposal

Operative date

The measure will apply to all chargeable transfers which take place on and after 6 April 2017.

Current law

The current IHT legislation is set out in the Inheritance Tax Act (IHTA) 1984. Section 6 of the Act provides that an individual who is not domiciled in the UK is not liable to IHT on any of their property which is situated outside the UK. Section 48 provides the same treatment where property is held by a settlor of a trust who is domiciled outside the UK.

Currently, a UK residential property which is held by such an individual through an overseas company, trust or similar structure, would be treated as situated outside the UK and therefore outside the scope of IHT.

Proposed revisions

Legislation will be introduced in Finance Act 2017 to amend IHTA by inserting a new Schedule A1. The effect of the new Schedule will be to bring property within the scope of IHT to the extent that its value is attributable to a UK residential property where it is held by a non-domiciled individual. It does so by treating the interests of participators in a close company, or of members of an overseas partnership, as not excluded property for the purposes of IHT where its value is attributable to a UK residential property interest.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021
-5	+30	+90	+60	+70

These figures are set out in Table 2.2 of Budget 2016 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costing document published alongside Summer Budget 2015.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

Changes to the IHT rules may incentivise some non-domiciled individuals to remove their UK residential properties from overseas vehicles and move into a simpler structures outside the scope of Annual Tax on Enveloped Dwellings charges which currently apply to them.

Impact on individuals, households and families

This measure affects non-domiciled individuals who hold UK residential properties through overseas vehicles.

It is not anticipated that there will be adverse impacts on any other group with protected characteristics.

Equalities impacts

Section 149 of the Equality Act 2010 and relevant Northern Ireland legislation have been considered and the measure will have no adverse equality impacts.

Impact on business including civil society organisations

This measure is expected to have no impact on businesses or civil society organisations' administrative burden as it only affects non-domiciled individuals who hold UK residential properties through overseas vehicles.

Operational impact (£m) (HMRC or other)

There will be no significant operational impact on HM Revenue and Customs.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be monitored through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Aidan Close on Telephone: 03000 585255 or email: aidan.close@hmrc.gsi.gov.uk.

Income tax, Inheritance tax and Capital Gains tax: deemed domicile rule

Who is likely to be affected

This measure will affect:

- non-domiciled individuals (non-doms) who have been resident in the UK for 15 out of the past 20 years
- individuals who were born in the UK with a UK domicile of origin who return to the UK having obtained a domicile of choice elsewhere
- settlors and beneficiaries of overseas trusts
- individuals who become deemed domicile from April 2017 who have overseas assets acquired before 6 April 2017
- individuals who have been taxed on the remittance basis in any tax year before 2017 to 2018 who hold a mixed fund in an overseas bank account

General description of the measure

The measure implements Income Tax, Inheritance Tax (IHT) and Capital Gains Tax (CGT) changes to reform the treatment of individuals who are long term resident in the UK for tax but domiciled abroad.

This measure provides that those individuals who are not domiciled in the UK will be deemed to be UK domiciled for tax purposes if they are either resident in the UK for 15 of the past 20 tax years, or if they are born in the UK with a UK domicile of origin and return to the UK having obtained a domicile of choice elsewhere.

They will be taxed on any arising worldwide income and gains in the same way as UK domiciles. At the same time the existing IHT deeming provisions will be aligned with the new 15 out 20 rule.

Transitional protections will be given where an individual becomes deemed-UK domicile under the 15 out of 20 rule in April 2017, including the facility to rebase offshore assets for CGT purposes. The measure will also ensure that any non-dom who sets up a qualifying trust before becoming deemed domiciled would not pay Income Tax /CGT on income/gains in the trust, as long as they did not receive a benefit from the trust. However, the new legislation to cover the Income Tax changes will follow in due course. Once a benefit is taken, CGT would be payable on trust gains and Income Tax on family benefits received.

There will also be a facility for remittance basis taxpayers to rearrange their overseas mixed funds to allow them to remit clean capital from overseas ahead of income and gains.

Policy objective

The measure deems certain individuals, who would otherwise be non-domiciled in the UK as a matter of general law, to be domiciled here for the purposes of IHT, Income Tax and CGT.

Background to the measure

At Summer Budget 2015, the government announced that it would change the tax regime for individuals who have a foreign domicile ('non-doms'). These changes will bring an end to permanent non-dom status for tax purposes and will apply for the purposes of Income Tax, IHT and CGT.

Further detail was provided in a consultation document published on 19 August 2016 and consultation closed on 30th October 2016. The government's response to the consultation was published on 5 December 2016.

Detailed proposal

Operative date

The measure will have effect on or after 6 April 2017.

Current law

A non-domiciled individual who is resident in the UK has the option of being taxed on the remittance basis. The remittance basis rules are provided in Chapter A1, Part 14 of Income Tax Act 2007.

Where an individual who is taxed on the remittance basis, remits amounts to the UK from a mixed fund, special rules in section 809Q of the Income Tax Act (ITA) 2007 apply which prevent the capital being remitted before the income and gains. Further rules in section 809R (4) ITA apply where amounts are transferred between mixed funds.

Under section 38 of the Taxation of Chargeable Gains Act (TCGA) 1992, when computing the amount of gain chargeable to CGT on the disposal of an asset, the sums deductible from the amount of consideration for the disposal are normally the acquisition cost, enhancement costs and incidental costs of acquisition and disposal.

The current legislation for trusts is set out in sections 86 and 87 TCGA 1992, sections 620 to 648 of Income Tax (Trading and Other Income) Act (ITTOIA) 2005 (settlements legislation) and Chapter 2, part 13 of ITA 2007 (Transfer of Assets legislation).

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to deem certain individuals to be domiciled here for the purposes of Income Tax, CGT and IHT.

This will be the case where they meet one of two conditions:

- where an individual was born in the UK with a UK domicile of origin and whilst they are UK resident or return to the UK having obtained a domicile of choice elsewhere
- where an individual who has been resident in the UK for at least 15 out of the previous 20 years

The measure amends the remittance basis at Chapter A1, Part 14 of ITA 2007 so that anyone deemed UK domiciled by virtue of either condition cannot access the remittance basis.

The legislation allows a non-domiciled individual who has been taxed on the remittance basis to transfer amounts between overseas mixed fund bank accounts without being subject to the offshore transfer rules. This will allow the different elements within the accounts to be separated, thereby allowing clean capital to be remitted to the UK in priority to income and gains.

The individual must transfer the funds in the 2017 to 2018 tax year or the 2018 to 2019 tax year and must make a nomination when they do so. This will be available to any individual who has been taxed on the remittance basis in any tax year before the 2017 to 2018 tax year. However, they do not apply to individuals who were born in the UK with a UK domicile of origin.

The draft legislation will provide that the market value of an asset at 5 April 2017 will be able to be used as the acquisition cost for CGT purposes when computing, for CGT purposes, the gain or loss on its disposal where the asset was situated outside the UK between 16 March 2016 and 5 April 2017. This will apply to any individual who becomes deemed domicile from April 2017, other than one who is born in the UK with a UK domicile of origin.

The measure will also amend TCGA legislation so that where capital payments are made to the settlor or a close family member they are taxed on the settlor under a modified version of Section 87. Capital payments to a non-resident made on or after 6 April 2017 will not be matched against the pool of trust gains for the purposes of section 87, regardless of the domicile status of the settlor and whether or not the recipient of the payment is the settlor or another beneficiary of the trust.

For Income Tax purposes, foreign domiciled settlors and deemed domiciled settlors will be subject to Income Tax under section 731 of ITA in respect of benefits received by the settlor or close family member (i.e. a spouse, cohabitee and minor children but not minor grandchildren) and according to the status of the settlor at the date the benefits received are matched to trust income. New legislation to cover the Income Tax changes will be published at a later date.

Foreign income arising to a trust will only be taxed under the modified settlements legislation in cases where the benefit is not taxed under section 731 (i.e. because of the motive or EU defence) or because there is no income available for the benefit of the settlor. Income at trust level matched to benefits received by the settlor or close family member under the transfer of assets provisions will not be taxed again under the settlements legislation.

Trusts will lose their protection if property is added by the settlor after he is deemed domiciled and any payments from a trust made to non-residents or remittance basis users who hold the money for a period of time before giving or lending it back to a beneficiary in the UK will be taxed on the UK resident beneficiary if the payment is made to the UK resident beneficiary within three years of the payment made by the trustees.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021
-	-20	+395	+310	+310

These figures are set out in Table 2.2 of Budget 2016 as 'Non-domiciles: abolish permanent status', and have been certified by the Office for Budget Responsibility. More details can be found in the policy costing note published alongside Summer Budget 2015.

The transitional protections, including the ability to rebase offshore assets for CGT purposes, are expected to cost the Exchequer approximately £20 million per annum from April 2018. The Office for Budget Responsibility has included this in its forecast.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

The costing includes adjustments to account for behaviour, which includes increased tax planning on offshore income, non-compliance and choosing to become non-UK resident.

Impact on individuals, households and families

This measure is not expected to impact on family formation, stability or breakdown.

The measure will impact on non-UK domiciled individuals who have been resident in the UK for 15 out of the last 20 years and those born in the UK will become deemed-UK domicile.

The vast majority of non-domiciled UK residents leave the UK within 15 years from the date of their arrival and will not be affected by these reforms. Around 3,000 people will become UK domiciled for tax purposes as a result of these changes from April 2017.

Equalities impacts

The main impact will be on non-UK domiciled individuals who have been resident in the UK for 15 out of the last 20 years and who currently use the remittance basis of taxation.

This will generally have an adverse effect on non-UK nationals of above average means.

Impact on business including civil society organisations

This measure is expected to have no administrative burden impact on businesses or civil society organisations. This measure will affect non-UK domiciled individuals who have been resident in the UK for 15 out of the past 20 years.

Operational impact (£m) (HMRC or other)

There will be no significant operational impact on HM Revenue and Customs.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored through information collected from tax returns.

Further advice

If you have any questions about this change, please contact Aidan Close on Telephone: 03000 585255 or email: aidan.close@hmrc.gsi.gov.uk.

Fulfilment House Due Diligence Scheme

Who is likely to be affected

UK fulfilment houses that handle imported goods on behalf of third parties located outside the EU.

General description of the measure

The Fulfilment House Due Diligence Scheme is part of a package of measures announced at Budget 2016 that will disrupt and deter abuse by some overseas businesses selling goods to UK customers via online marketplaces. Fulfilment businesses in the UK will have to register with HM Revenue and Customs (HMRC) from 2018, keep certain records and carry out robust due diligence checks on their overseas customers. This will make it more difficult for non-compliant overseas businesses to trade in the UK and will enable HMRC to identify and tackle them more easily. HMRC will publish the register to allow businesses to check whether they are dealing with compliant fulfilment businesses.

Policy objective

The measure will tackle non-compliance by some overseas businesses and ensure a level playing field for compliant businesses in the UK.

Background to the measure

At Budget 2016 the government announced the introduction of the Fulfilment House Due Diligence Scheme in 2018 and HMRC consulted on the design of the scheme over the summer.

Detailed proposal

Operative date

The measure will have effect on 1 April 2018. Existing fulfilment house businesses should apply to register with HMRC by 30 June 2018. New fulfilment house businesses, established after 30 June 2018, will need to apply to register 45 calendar days in advance of the date they intend to commence trading.

Current law

This is a new scheme that will be free standing in Finance Bill 2017.

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to implement the Fulfilment House Due Diligence Scheme. This will set out the scope of the scheme and require affected businesses to register with HMRC. Secondary legislation will require registered fulfilment businesses to keep certain records and carry out due diligence checks on their overseas customers. There will be new legislation to provide the necessary penalties to enable HMRC to assure the scheme. A new criminal sanction is being considered, subject to clearance by the Home Affairs Committee.

Legislation will be introduced in Finance Bill 2017 to allow HMRC to publish a register of fulfilment houses. This will encourage compliance by allowing businesses to check whether they are dealing with compliant fulfilment businesses.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021
-	+ 65	+ 130	+ 315	+ 365

These figures are set out in Table 2.1 of Budget 2016 as 'Value Added Tax: tackling overseas trader evasion' and have been certified by the Office for Budget Responsibility. They represent the combined Exchequer impact of the Fulfilment House Due Diligence Scheme and the new HMRC powers to deal with overseas businesses also announced at Budget 2016 that came into force with Finance Act 2016. Further details can be found in the policy costings document published alongside Budget 2016.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

The costing accounts for a behavioural response whereby some overseas businesses or fulfilment houses may find ways to mitigate the impact of this measure.

Impact on individuals, households and families

This is a VAT compliance measure, and could result in a minor increase in inflation which would increase prices. It is expected to have a negligible impact on individuals and households, and is not expected to impact on family formation, stability or breakdown.

Equalities impacts

It's not anticipated that there will be any impacts as those directly affected are mostly corporate entities.

Impact on business including civil society organisations

This measure will help to tackle non-compliance by some overseas businesses and ensure that compliant businesses compete on a level playing field.

Affected businesses will incur one-off compliance costs of registration and familiarisation with the new scheme.

Businesses registered for the Fulfilment House Due Diligence Scheme will be required to keep records in relation to relevant goods. They will also be required to carry out due diligence checks on their overseas customers and issue them with a standard notice setting out their VAT and duty obligations. This will ensure that they have controls in place to identify what goods are stored on their premises and retain details of the overseas owners of such goods.

The overall impact upon fulfilment houses will depend upon how many businesses register for the scheme, and the final design of the scheme.

This measure is not expected to have any impact on any civil society organisations.

Operational impact (£m) (HMRC or other)

HMRC expects to incur one-off capital costs to develop the system to register affected businesses. There will also be ongoing resource costs for HMRC to implement this change and monitor compliance.

Other impacts

Justice Impact Test: there may be a minor impact on the Tribunal Service. A Justice Impact Test will be prepared and HMRC will liaise with the Ministry of Justice to ensure that resources are in place.

Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be kept under review through communication with affected taxpayer groups and ongoing enforcement and compliance activity.

Further advice

If you have any questions about this change, please contact Martin Jones on 03000 593311 or email: martin.jones@hmrc.gsi.gov.uk.

VAT: relief on adapted motor vehicles for disabled wheelchair users

Who is likely to be affected

Businesses involved in the sale of motor vehicles that have been substantially and permanently adapted for disabled wheelchair users; purchasers of such vehicles that qualify for the relief and charities purchasing on behalf of eligible customers and groups representing motor dealers or disabled people.

General description of the measure

This measure introduces primary legislation that will end abuse of the VAT relief on substantially and permanently adapted motor vehicles for disabled wheelchair users.

It will specify a limit on the number of vehicles within a specified period of time that an individual can purchase under this relief and require the electronic or written submission of the eligibility declaration form published on GOV.UK. Motor dealers selling adapted motor vehicles under this relief will also be required to provide information regarding those sales to HM Revenue and Customs (HMRC) within a specified time frame.

Individuals in breach of these new requirements may be denied the benefit of the zero rate or may be subject to a section 62 Value Added Tax Act (VATA) 1994 penalty if the declaration they make is incorrect.

Policy objective

The government wants to continue supporting disabled wheelchair users in purchasing vehicles that have been substantially and permanently adapted to meet the needs of their disability.

However, there has been abuse of this relief, with some people purchasing numerous adapted vehicles in a single year, removing the adaptations and then selling the vehicles on for a profit. This is not what the relief was intended for.

The government is therefore amending legislation to reduce the exploitation of the scheme whilst ensuring those who are eligible can still benefit.

Background to the measure

It was announced at Autumn Statement 2012 that the government would carry out a review of this relief to ensure it was meeting its policy objectives. HMRC collected evidence and it became apparent that the relief was open to abuse.

Therefore a consultation was launched on 30 June 2014 to establish whether the relief should be reformed and, if so, how this could best be done. There was overwhelming support to reform the relief and the vast majority of the proposals put forward in the consultation were supported by a range of respondents, including disabled individuals, charities representing disabled individuals and motor dealers.

Following publication of the responses document in December 2014, in which the government set out its intentions for reform, HMRC has worked closely with external stakeholders to ensure the amendments to legislation do not negatively affect genuine beneficiaries of this relief.

Detailed proposal

Operative date

The measure will have effect on and after 1 April 2017.

Current law

The relevant legislation concerning the VAT relief for adapted motor vehicles is the Value Added Tax Act (VATA) 1994, Schedule 8, Group 12, Item No. 2(f) and 2A and Notes (5) and (5L).

Proposed revisions

The amendments are to Group 12, Schedule 8 of VATA. They substitute a new Item 2A, insert a new Item 2B, omit Note (5L) insert new Notes (5M) to (5U).

There will be a limit on the number of vehicles that can be purchased under this relief in a set period of time. An eligible individual will be able to purchase one vehicle every three years. There are some instances when this limit can be exceeded, so if an individual's car is written off or stolen or if the vehicle has ceased to be suitable for the disabled person's use because of changes in the person's condition. These exceptions to the limit will be covered in primary legislation.

The government is also making the use of eligibility declaration forms which are available on GOV.UK mandatory. This form clarifies exactly what information an individual needs to provide to support their claim to a zero rated supply.

Motor dealers are also required to send information regarding these zero-rated sales to HMRC. The information required will be specified by a public notice, HMRC will use this information to monitor the exemption to guard against abuse and fraud.

The section 62 penalty will apply to a person who gives an incorrect eligibility declaration to the supplier of a vehicle. The relevant penalty is equivalent to the amount of VAT chargeable on a standard-rated supply of the vehicle. In severe cases of abuse, where fraudulent intent can be established, the individual can be prosecuted in a criminal court.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	+20	+15	+15	+15	+15

These figures are set out in Table 2.1 of Autumn Statement 2016 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2016.

Economic impact

This measure is not expected to have any significant macroeconomic impact.

The costing also accounts for a behavioural response whereby some of those affected may find alternative routes of avoidance.

Impact on individuals, households and families

The measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

Reform of the relief is aimed at tackling fraudulent use of the current scheme but it will impact disabled wheelchair users who wish to purchase more than one adapted motor vehicle over a three year period. The change builds in legal provisions allowing exceptions to this limit, for example if the medical needs of the wheelchair user change.

There may be a small minority of wheelchair users who wish to change their vehicle on a more regular basis for reasons not covered by the exceptions allowing an individual to purchase more than one vehicle every three years. We expect that this will rarely be the case.

Impact on business including civil society organisations

Changes to the scheme will affect around 6,000 car dealers that sell adapted motor vehicles. They will incur negligible one-off costs familiarising themselves with the new rules and negligible on-going costs from sending declarations to HMRC and going through their records to check if individuals have purchased cars from them in the past 3 years. Dealers are estimated to sell a very small number of adapted motor vehicles on average each year so we expect these compliance costs will be negligible.

Operational impact (£m) (HMRC or other)

Overall this change will be resource neutral for HMRC.

Reform of the relief will improve compliance and make it easier to police the scheme which will provide a small cost saving for HMRC.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be kept under review using information on the mandatory eligibility declaration forms sent to HMRC by motor dealers. If the information sent in by motor dealers indicates that the relief is still being abused then there may be a case for additional reforms.

Further advice

If you have any questions about this change please contact Christopher Maudsley on Telephone: 03000 518538 or email: christopher.maudsley@hmrc.gsi.gov.uk.

VAT: tackling aggressive abuse of the VAT Flat Rate Scheme

Who is likely to be affected

Any users or prospective users of the Flat Rate Scheme (FRS).

General description of the measure

The measure will introduce a new 16.5% FRS rate for businesses with limited costs, such as many labour only businesses. This will prevent abuse and make the FRS fairer. This will reduce the incentive for firms and agencies to move employees to self-employment to exploit VAT simplification aimed at small businesses.

Businesses using the FRS, and new businesses joining the FRS, will complete a simple test, using information they already hold, to work out whether they must use the new 16.5% rate. To support businesses we will introduce an online tool that will enable both current and prospective users of the FRS to determine whether they must use the new rate.

Draft secondary legislation will be published on 5 December 2016 and businesses will have 8 weeks to comment. During this time we will engage with representative bodies to explore the practical implementation of the test and the online calculator.

Policy objective

VAT rules require businesses to offset the VAT on costs against VAT on sales to produce a net VAT payable to HM Revenue and Customs (HMRC). To save small businesses from having to doing this, the FRS sets flat rates for trade sectors as a proxy for the amount of net VAT for a normal business in that sector.

However, where the self-employed, labour only businesses or other businesses with limited costs - register for VAT and use the FRS, this results in a large cash advantage. This is because they use the flat rate appropriate to their trade sector but have significantly lower costs than most small businesses in that sector.

The new 16.5% flat rate will remove the cash advantage for those businesses with limited costs.

These changes will create a more level playing field for all small businesses, while keeping VAT accounting simple for the small businesses that use the FRS.

Background to the measure

The FRS was introduced in 2002 to simplify VAT for small businesses.

Detailed proposal

Operative date

The measure will have effect on and after 1 April 2017.

Current law

Section 26B of the VAT Act 1994 gives HMRC the power to make provisions that allow eligible businesses to calculate their VAT due as a percentage of their turnover. The regulations can be found in SI 1995/2518, Regulation 55 (as amended). Details of the current FRS provisions can be found in VAT Notice 733. This also contains the new anti-forestalling provisions, which have the force of law.

Proposed revisions

Currently businesses determine which flat rate percentage to use by reference to their trade sector. This measure introduces a new 16.5% rate for all 'limited costs' businesses where costs of goods are either: less than 2% of turnover; or greater than 2% of turnover but less than £1000 per annum. Goods are specifically defined for the purposes of the measure.

When the measure is introduced, businesses using the FRS or considering joining the FRS will need to consider whether they are a 'limited costs' business. For some businesses this will be obvious; others will need to complete a simple test to determine whether they must use the new 16.5% rate. Businesses using the FRS will be expected to ensure that, for each accounting period, they use the appropriate flat rate percentage.

Anti-forestalling legislation was published on 23 November 2016 in a revision to Public Notice 733 and should be read alongside this measure.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	+195	+130	+130	+125	+115

These figures are set out in Table 2.1 of Autumn Statement 2016 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2016.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

Behavioural effects have been included in the costing to account for expected trader responses including switching from the FRS to standard VAT accounting, deregistering for VAT and other possible mitigation.

Impact on individuals, households and families

This measure will only affect individuals that are VAT registered and only to the negligible extent set out in the business impacts section below. The measure has no impact on other individuals, households and families. Neither is it expected to impact on family formation, stability or breakdown.

Equalities impacts

It is not anticipated that there will be adverse impacts on any group sharing protected characteristics.

Impact on business including civil society organisations

This measure is expected to have a negligible one-off impact on FRS businesses that will need to familiarise themselves with the new rules, but there will be an on-going cost of applying the new test. Estimates of compliance costs are shown in the tables below.

To support businesses we will introduce an online tool that will enable both current and prospective users of the FRS to determine whether they must use the new 16.5% rate.

Businesses using the new rate will pay more tax than previously if they continue to use the FRS. We estimate that approximately 4,000 businesses may decide to switch to standard VAT accounting, as this could mean they pay less VAT. If businesses make this decision, the compliance cost of switching to standard VAT accounting may be about £180 per business. Alternatively, some businesses may choose to de-register from VAT. Almost two thirds of the FRS population consists of businesses under the compulsory VAT registration threshold and if their financial gain from the FRS is greatly reduced then many of them may decide to de-register. If businesses make this decision, their administrative burdens may reduce by about £390 per business on average.

For some businesses, it will be very clear whether the value of goods they purchase is above the test threshold. However, many will be close to the threshold and will need to complete the test to determine whether they are a limited costs business. These businesses will incur an administrative burden of about £65 per business. It is likely that a large proportion of FRS users are employing an accountant or a tax advisor who would carry out the test as part of their service. The administrative burden will only increase for a small proportion of FRS businesses whose costs are close to the test threshold, do not employ an accountant and do not wish to de-register. This is estimated to be around 24,000 businesses.

Estimated one-off impact on administrative burden (£m)

One-off impact	£m
Costs	negligible
Savings	-

Estimated ongoing impact on administrative burden (£m)

Ongoing average annual impact	£m
Costs	1.5
Savings	-
Net impact on annual administrative burden	+1.5

HMRC will be engaging with representative bodies, to discuss practical aspects of the implementation of the test and the online calculator and further understand the impacts on businesses.

There is no impact on civil society organisations.

Operational impact (£m) (HMRC or other)

HMRC will incur one-off capital costs estimated at £415,000 plus £4,000 service cost per annum for a 5-year period. This will be used to provide an online calculator and to update the online VAT registration service.

All costs are estimated at a high level, based on the limited requirements available and subject to change.

Other impacts

Other impacts have been considered and none has been identified.

Monitoring and evaluation

This measure will be kept under review through information collected on VAT returns and communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Alison Evans on email: itpt.vatregistration&accountingpolicy@hmrc.gsi.gov.uk.

Insurance Premium Tax: increase to standard rate

Who is likely to be affected

All insurers who provide non-exempt insurance cover for UK risks and the brokers and agents who act for them.

Purchasers of insurance which is not exempt from Insurance Premium Tax (IPT) whose insurers choose to pass on the IPT rate rise to their customers.

General description of the measure

The measure will increase the rate of IPT paid on premiums which are taxed at the standard rate of IPT by 2%.

Policy objective

This measure will increase the revenue raised by IPT.

Background to the measure

This measure was announced at Autumn Statement 2016.

Detailed proposal

Operative date

The new standard rate of IPT will be due from 1 June 2017 on insurance premiums received on or after 1 June 2017 which relate to risks for which the period of cover under the terms of an insurance contract begins on or after that date. Premium payments relating to risks for which the cover begins prior to 1 June 2017 that are treated as received prior to the 1 June 2018 will be liable to IPT at the old rate. Premium payments relating to risks for which the cover begins prior to 1 June 2017 that are treated as received on or after the 1 June 2018 will be liable to IPT at the new rate.

Current law

The relevant legislation is Part III of Finance Act (FA) 1994. Currently the IPT standard rate is 10%, as provided by section 51 of FA1994. Insurance contracts which are exempt from IPT are set out in Part 1 of Schedule 7A to FA1994. Certain categories of insurance are subject to a higher rate (20%) of IPT and these are set out in Part II of Schedule 6A to FA1994.

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to amend section 51(2) of FA1994 to change the standard rate of IPT to 12%.

The new standard rate will be due from 1 June 2017 on premiums received on or after 1 June 2017 which relate to risks for which the period of cover under the terms of an insurance contract begins on or after that date.

There will be a backstop date of 1 June 2018 from which all premiums received will be subject to the increased standard rate of IPT regardless of whether they are received in respect of new or existing risks and regardless of when the cover for those risks begins under the contract.

The anti-forestalling provisions will be reviewed and any changes will be announced at Budget 2017.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	+680	+840	+840	+845	+855

These figures are set out in Table 2.1 of Autumn Statement 2016 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2016.

Economic impact

The changes to IPT will have a small positive impact on CPI inflation.

The costing is adjusted for behavioural responses resulting from any change associated to prices of general insurance products. It also takes into account a small reduction in the demand for standard-rated insurance and a small increase in tax planning activity by insurance companies.

Impact on individuals, households and families

The measure is expected to have a small impact on individuals and households purchasing non-exempt insurance if insurers choose to pass on the IPT rate rise to customers.

The measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

This measure will not impact on those disabled people who are eligible for the Motability Scheme as insurance for vehicles provided under the scheme is exempt from IPT.

No other impacts affecting those sharing other protected characteristics have been identified.

Impact on business including civil society organisations

This measure is expected to have no administrative impact on businesses purchasing insurance which is not exempt from IPT, but the cost of purchasing insurance may rise, if Insurers choose to pass on the IPT rate rise.

There are in the region of 1,000 insurers in the UK who will incur one-off costs in updating their systems to apply the new tax rate. The government expects this additional burden to be negligible. This measure is expected to have no ongoing administration burdens.

Insurers, brokers and agents will have to change the details of their contracts but by allowing a delay to 1 June 2017 before the full impact of the rate rise is felt, the impact of this will be minimised.

Operational impact (£m) (HMRC or other)

HM Revenue and Customs will need to make changes to IT systems to implement this measure, at an estimated cost of £100,000.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored through information collected from tax returns and receipts.

Further advice

If you have any questions about this change please contact Helen West on Telephone: 03000 585836 or email: helen.west@hmrc.gsi.gov.uk.

Minimum Excise Tax

Who is likely to be affected

Manufacturers, importers, distributors, retailers and consumers of cigarettes.

General description of the measure

This measure introduces a Minimum Excise Tax (MET) for cigarettes. A MET will set a minimum level of excise duty for any packet of cigarettes. This means that the total excise duty on a packet of cigarettes is the higher of either the MET, or the usual application of duties.

The rate of the MET will be announced at Budget 2017.

Policy objective

Introducing a MET will support public health objectives, tackle the very cheapest cigarettes and promote fiscal sustainability.

Background to the measure

The government announced at Budget 2016 that a MET would be introduced in Finance Bill 2017. This followed a formal consultation with stakeholders.

Detailed proposal

Operative date

This measure will have effect through Finance Bill 2017.

Current law

The structures of duties on tobacco products are set out in the Tobacco Products Duty Act 1979. The duty rates on tobacco products are set out in the table in Schedule 1 to the Tobacco Products Duty Act 1979.

Proposed revisions

Legislation in Finance Bill 2017 will amend the Tobacco Products Duty Act 1979.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022

The final costing will be subject to scrutiny by the Office for Budget Responsibility, and will be set out at Budget 2017. Until the rate is set, it is not possible to estimate the precise impacts of the change.

Economic impact

Until the MET's rate is announced at Budget 2017, it is not possible to estimate the impacts of the change.

Impact on individuals, households and families

Until the MET's rate is announced at Budget 2017, it is not possible to estimate the impacts of the change.

Equalities impacts

Due to differences in cigarette consumption, any change to cigarette duties will have a small equalities impact that reflects cigarette consumption trends across the adult population.

Impact on business including civil society organisations

The introduction of the MET will impose negligible one off and on-going costs to businesses, which will need to familiarise themselves with the new duty and integrate it into existing duty accounting systems and processes.

Operational impact (£m) (HMRC or other)

Introducing the MET will impose a negligible one-off cost on HMRC.

Other impacts

Health impact assessment: this will be assessed when the rate of MET is set.

Other impacts will be considered when the rate of MET is set.

Monitoring and evaluation

The measure will be kept under review through communication with interested parties.

Further advice

If you have any questions about this change, please contact the Excise and Customs Helpline on 0300 200 3700.

Remote Gaming Duty: reforming the tax treatment of freeplays

Who is likely to be affected

Any remote gambling operators who are liable to account for Remote Gaming Duty (RGD).

RGD applies to gaming over the internet, telephone, by television, radio or other electronic communications.

General description of the measure

Gambling operators make use of a range of incentives and promotions including free bets, freeplays and other similar offers and discounts. For the purpose of this measure these are collectively referred to as freeplays.

Freeplays that are staked by customers when they participate in remote gaming are treated as having no value when calculating an operator's profit for RGD.

Changes are being made to amend the current legislation that offers remote gaming operators a more generous tax treatment for freeplays compared to free bets in General Betting Duty.

This will mean that freeplays that are staked by a customer will, in certain circumstances, have a value for the purpose of calculating an operator's remote gaming profits. These changes will also mean that freeplays given out by an operator cannot be treated as prizes and will have no value for the purposes of calculating profits. The net effect of these changes is to broaden the tax base and increase the amount of duty payable by remote gaming operators.

Policy objective

This measure is intended to bring the tax treatment of freeplays for remote gaming more into line with the treatment for free bets under General Betting Duty. This will contribute to sustainable government finances by broadening the gambling tax base.

Background to the measure

This measure was announced at Budget 2016 and was the subject of a technical consultation which ran between 9 August and 17 October 2016.

Detailed proposal

Operative date

The measure will have effect for any Remote Gaming Duty accounting periods that begin on or after 1 August 2017.

Current law

The current law for RGD is provided by chapter 3 of part 3 of the Finance Act (FA) 2014. Sections 159 and 160 of FA 2014 define 'gaming payments' and 'prizes' for the purpose of calculating profits for RGD.

Proposed revisions

Legislation will be introduced in Finance Bill 2017. This will ensure where a customer makes use of an offer that allows them to gamble for free, or at a reduced rate, the operator will, in certain circumstances, be required to account for duty on the amount that the consumer would have paid without the offer.

The definition of 'prizes' will also be amended to ensure that operators cannot use the value of freeplays given as prizes to reduce their dutiable profit. These changes will have effect for accounting periods that begin on or after 1 August 2017.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021
-20	+45	+90	+100	+110

These figures are set out in Table 2.1 of Budget 2016 as 'Gambling Duties: reform treatment of freeplays', and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2016. There will be revisions to these figures which will be set out in Table 2.2 of Budget 2017.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

The costing includes a behavioural effect to account for a change in the marketing strategy of affected operators as well as the potential for firms finding ways to mitigate the impacts of the measure.

Impact on individuals, households and families

The impact on individuals and households in the UK is expected to be negligible as this measure is not expected to have a significant impact on the availability, price and payouts of remote gambling.

The measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

This measure is not expected to have different impacts on any protected equality groups.

Impact on business including civil society organisations

This measure is expected to have a negligible impact on businesses.

Currently there are around 130 businesses registered for RGD, who are expected to incur negligible one-off transitional costs associated with changing IT systems and familiarisation with the new rules. HM Revenue and Customs (HMRC) expects that operators will be able to access information on freeplays given out to customers and winnings from freeplays that can be paid out to customers, and therefore additional on-going burdens should be negligible.

This measure will have no impact on civil society organisations.

Operational impact (£m) (HMRC or other)

There will be no significant operational impact to HMRC.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Brian O'Kane on Telephone: 03000 588011 or email: brian.okane@hmrc.gsi.gov.uk.

Landfill Tax: definition of taxable disposal

Who is likely to be affected

Landfill site operators who are liable to pay Landfill Tax in England, Wales and Northern Ireland.

General description of the measure

This measure will redefine a taxable disposal for Landfill Tax purposes so that any material disposed of at a landfill site will be taxable unless expressly exempt. New exemptions will be introduced so that a charge to Landfill Tax does not arise on material currently outside the scope of the tax.

This measure will also remove the requirement to notify HM Revenue and Customs (HMRC) of certain activities undertaken on a landfill site.

Policy objective

This measure will simplify the tax system, providing greater clarity and certainty to landfill operators and put beyond doubt when there is a charge to Landfill Tax on material deposited at a landfill site.

Background to the measure

Landfill Tax was introduced on 1 October 1996 to discourage the disposal of waste to landfill, and encourage more sustainable ways of managing waste.

In response to ongoing challenges by a number of landfill operators, Budget 2016 announced a consultation on changes to the criteria for determining when Landfill Tax is due. A consultation paper was published in May setting out proposals to amend the criteria, acknowledging that a number of new exemptions would be required to avoid inadvertently extending the scope of the tax. HMRC shared a list of proposed exemptions with key stakeholders during the consultation period and subsequently shared a simplified list reflecting feedback from the consultation.

As Landfill Tax was devolved to Scotland in April 2015 these changes will not apply to landfill operators in Scotland. From April 2018, Landfill Tax will devolve to Wales. These changes will apply to landfill operators in Wales until the tax is devolved, when it will be for the Welsh government to determine the structure of the Welsh Landfill Disposals Tax.

HMRC will publish revised guidance on GOV.UK and issue a mailshot to inform industry of the changes before they come into effect.

Detailed proposal

Operative date

The reforms will have effect after Royal Assent on a day to be appointed by Treasury Order.

Current law

Landfill Tax primary legislation is contained in Finance Act 1996. Section 40 defines a taxable disposal on which a charge to Landfill Tax can be made. Section 65A allows the Treasury to prescribe in an order activities at a landfill site that are within the scope of the tax. Paragraphs 1A and 1B of Schedule 5 to the Act provide for regulations requiring a person to designate an information area on a landfill site and requiring record-keeping relating to site restoration.

The Landfill Tax (Prescribed Landfill Site Activities) Order 2009 (SI 2009/1929) prescribes a number of activities at a landfill site that are within the scope of the tax.

The Landfill Tax Regulations 1996 (SI 1996/1527) deal with various administrative aspects for the tax, including provisions relating to information areas in paragraph 16A.

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to amend section 40 of Finance Act 1996. This will remove the waste criteria and the requirement for a disposal to be made by way of landfill. It will provide for exemptions to be set out in secondary legislation so that a charge to Landfill Tax does not arise on material currently outside the scope of the tax.

Changes will be made to Schedule 5 to the Act and to The Landfill Tax Regulations 1996 to remove various notifications that landfill operators are required to make to HMRC, including activities taking place in site information areas and the carrying out of site restoration.

Section 65A of the Finance Act 1996 will be repealed along with The Landfill Tax (Prescribed Landfill Site Activities) Order 2009. There will also be consequential amendments to Finance Act 1996 and Landfill Tax Regulations 1996.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	nil	nil	nil	nil	nil

This measure is not expected to have an Exchequer impact.

Economic impact

This measure is not expected to have any significant economic impacts.

Impact on individuals, households and families

Landfill Tax is charged only to businesses. There are no impacts arising for individuals or households.

The measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

This measure will affect businesses and other organisations liable to Landfill Tax. There will be no direct impact on individuals. As such, the government expects that there will be no differential impact on different equality groups.

Impact on business including civil society organisations

This measure is expected to have a negligible impact on business. There are approximately 150 landfill operators registered for the tax. There will be a negligible one-off cost relating to familiarisation with the new rules. They will incur negligible on-going savings through the removal of the requirement to inform HMRC about certain non-taxable activities.

There is no impact on civil society organisations.

Operational impact (£m) (HMRC or other)

HMRC will incur negligible costs implementing this policy.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored through the existing compliance programme for Landfill Tax.

Further advice

If you have any questions about this change, please contact Daniel Taylor on Telephone: 03000 585973 or email: daniel.taylor@hmrc.gsi.gov.uk.

Soft Drinks Industry Levy

Who is likely to be affected

UK producers of soft drinks, importers of soft drinks, retailers of soft drinks and consumers who buy soft drinks in the UK.

There will be an exemption for the smallest producers and also operators importing of soft drinks from the smallest producer abroad.

General description of the measure

This is a new levy that applies to the production and importation of soft drinks containing added sugar.

The levy will apply to the producers and importers of these types of drinks. It will have a lower rate which will apply to added sugar drinks with a total sugar content of 5 grams or more per 100 millilitres and a higher rate for drinks with 8 grams or more per 100 millilitres.

It will not apply to any drink where no sugar is added.

Alcoholic drinks with an ABV of up to 1.2% are included in the levy. The government will make provision to exempt certain drinks that fall within this category from the Levy.

Policy objective

A levy on soft drinks will contribute to the government's plans to reduce childhood obesity by removing added sugar from soft drinks. The levy encourages producers of added sugar soft drinks to: reformulate their products to reduce the sugar content; reduce portion sizes for added sugar drinks and importers to import reformulated drinks with low added sugar to encourage consumers of soft drinks to move to healthier choices.

If they do this, producers and importers of added sugar soft drinks can pay less or even escape the charge altogether.

Background to the measure

At Budget 2016 the government announced the introduction of a new levy on soft drinks that contain added sugar to help tackle childhood obesity. HM Revenue and Customs (HMRC) and HM Treasury (HMT) launched a consultation on the design and implementation of the levy in August 2016 and have now set out a response confirming the broad policy design.

Detailed proposal

Operative date

The levy will take effect from April 2018.

Current law

The levy is new so there is no current law.

Proposed revisions

Legislation will be introduced in the Finance Bill 2017 that will set out:

- the scope of the levy by reference to the type of product, added sugar and sugar thresholds
- what drinks are not within scope of the levy
- who will be liable to register in relation to the levy and who will need to pay the levy
- liability for registering and paying the levy by defining the taxable person when that person is an importer
- provisions for an export credit scheme
- who will benefit from exemptions
- how the levy will be paid, collected recovered and enforced
- the levy rates for the 5g and 8g thresholds

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021
-	-	+ 520	+ 500	+455

These figures are set out in Table 2.1 of Budget 2016 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2016. There will be revisions to these figures which will be set out in Table 2.2 of Budget 2017.

Economic impact

The implementation of a soft drinks industry levy is expected to add around a quarter of a percentage point to CPI growth in 2018 to 2019.

The costing accounts for a behavioural response whereby producers reformulate their product mix by lowering sugar content, promoting lower sugar alternatives, and reducing portion sizes. It also accounts for the behavioural responses resulting from any change to the associated prices.

Impact on individuals, households and families

The levy is expected to have a positive impact on the health of individuals in the UK. Excess sugar consumption is associated with obesity and excess weight, which increases the likelihood of individuals developing a wide range of serious health problems, such as type 2 diabetes, heart disease and a number of cancers. These health conditions can have major costs for individuals and families and can reduce individuals' quality of life and ability to work.

The financial impact of the levy on individuals and households will depend on how many producers and importers are able to reformulate and avoid the charge and whether or not those who are unable to do so pass on the charge to the consumer.

The levy is not expected to directly impact on family formation, stability or breakdown.

Equalities impacts

Overall the levy is expected to have a positive impact on the health of individuals in the UK. The measure may have an impact on people with Type 1 or Type 2 diabetes or those with lactose intolerance. Alternative, levy free, options are available so it is anticipated that any impact will be minimal. HMT and HMRC will undertake ongoing monitoring of the levy.

Impact on business including civil society organisations

This measure is expected to have an impact on businesses. UK producers and importers of soft drinks within the scope of the levy will incur one-off costs of familiarisation with the new rules and training for staff, registration with HMRC, and developing the required reporting framework to complete tax returns. There will also be on-going costs including completing, filing and paying quarterly returns, keeping appropriate records (including those required to claim the export credit), and amending returns. It is expected that businesses will already keep most of these records as good business practice. There will also be new registrations and de-registrations each year.

The overall impact will depend upon how many businesses register for the levy. The impact on the estimated 300 UK producers of soft drinks is expected to be negligible.

Small and micro business assessment: the smallest businesses with low volumes of productions or importing from the smallest producers will be exempt from the levy.

Operational impact (£m) (HMRC or other)

HMRC expects to incur one-off capital costs to develop the system for collecting the levy. There will also be on-going resource costs for HMRC to implement this change and monitor compliance.

Other impacts

Health impact assessment: the levy is expected to have a positive impact on the health of individuals in the UK. Reformulation should help reduce obesity, which is a health condition that increases the likelihood of individuals developing a wide range of related serious health problems.

This includes type 2 diabetes, heart disease and a number of cancers and other diseases that can reduce an individuals' quality of life and ability to work.

Justice Impact Test: in line with other taxes there will be civil penalties for failing to comply with the levy, including penalties for failure to register, and failure to file returns and pay the levy. HMRC is considering a new criminal offence for avoiding the levy. A Full Justice Impact Test will be completed.

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored through information collected from tax returns, and will also be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Lorna Horton on Telephone: 03000 574225 or email:indirecttax.projectteam@hmrc.gsi.gov.uk.

Annual tax on enveloped dwellings: annual chargeable amounts

Who is likely to be affected

Certain companies, partnerships with company members and collective investments schemes (collectively referred to as non-natural persons (NNPs)) which own residential property in the UK valued at more than £500,000 and which are not eligible for relief

General description of the measure

This annual charges for the annual tax on enveloped dwellings (ATED) will be increased by inflation.

Policy objective

The ATED annual chargeable amounts are fixed charges as opposed to percentage charges. The annual charges are therefore increased annually to keep pace with inflation in line with rises in the Consumer Prices Index (CPI).

Background to the measure

ATED was introduced from 1 April 2013 as part of a package of measures to tackle tax avoidance.

It is an annual charge on NNPs which own UK residential property valued at more than £500,000. The ATED chargeable period runs from 1 April to 31 March and the amount of tax charged is by reference to a banding system based on the value of the property. There are a number of reliefs where a property is used for commercial purposes.

Autumn Statement announced that the 2017 to 2018 annual charges will be increased by CPI. This is to provide taxpayers with advance notice to plan their tax affairs.

Detailed proposal

Operative date

The new charges will apply from 1 April 2017.

Current law

Section 94 of Finance Act (FA) 2013 gives rise to ATED charges in respect of a chargeable interest (the property) held by NNP.

Section 99 of FA 2013 details the amount chargeable by reference to various bands into which a property falls according to its value on a particular date.

Section 101 requires the charge to be increased annually by reference to the previous September CPI, and rounded down to the nearest £50. Section 101(5) requires a Treasury Order to be published stating the annual chargeable amounts before each 1 April.

Proposed revisions

A Treasury Order stating the ATED charges for the 2017 to 2018 chargeable period which are increased in line with the September 2016 CPI, which was 1%.

The Table below shows the annual charges amounts for the 2016 to 2017 chargeable period and the revised chargeable amounts for 2017 to 2018 chargeable period beginning on 1 April 2017.

Property Value	Annual chargeable amounts for the 2016 to 2017 chargeable period	Annual chargeable amounts for the 2017 to 2018 chargeable period
£500,001 to £1,000,000	£3,500	£3,500
£1,000,001 to £2,000,000	£7,000	£7,050
£2,000,001-£5,000,000	£23,350	£23,550
£5,000,001 to £10,000,000	£54,450	£54,950
£10,000,001 to £20,000,000	£109,050	£110,100
£20,000,0001 and over	£218,200	£220,350

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	nil	nil	nil	nil	nil

This measure is not expected to have an Exchequer impact.

Economic impact

This measure is not expected to have any significant economic impacts.

Impact on individuals, households and families

Individuals are not directly affected by this measure, except to the extent that those individual indirectly own property via NNPs.

This measure is not expected to have an impact on family formation, stability or breakdown

Equalities impacts

This measure concerns the taxation of companies, corporate partnerships and collective investments schemes falling within ATED. This measure is not expected to impact on any of the legally protected equality groups.

Impact on business including civil society organisations

This measure is expected to have a negligible impact on businesses. NNPs that will be affected by the increased charges will pay a higher annual charge and may incur a negligible one-off cost to update their systems. Those businesses holding UK residential property for genuine commercial reasons and who are eligible to claim relief from the charge will be unaffected by these increases.

There are not expected to be any additional on-going costs. This measure is not expected to have any impact on civil society organisations.

Operational impact (£m) (HMRC or other)

HM Revenue and Customs (HMRC) processing systems are designed to accommodate tax changes. The change will not increase HMRC processing or compliance resource.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be monitored and assessed through existing data-gathering systems and information collected from tax returns. It will be published as Official Statistics.

Further advice

If you have any questions about this change, please contact HMRC Helpline on 03000 200 3510 or email: ated.technicalqueries@hmrc.gsi.gov.uk.

Strengthening sanctions and deterrents for tax avoidance

Who is likely to be affected

The new penalty will apply to anyone who enables someone to use a tax avoidance scheme that HM Revenue and Customs (HMRC) later defeats, and will focus on abusive schemes that no-one could mistake for a reasonable commercial arrangement. The changes to reasonable care will apply to taxpayers who use tax avoidance arrangements that are defeated by HMRC.

General description of the measure

The measure will introduce a new penalty on those individuals or entities who enable the use of tax avoidance arrangements which HMRC later defeats ('enablers').

The vast majority of professionals who provide clients with advice on genuine commercial arrangements will not be impacted.

The measure will also provide clarification as to what is considered to constitute "reasonable care" in relation to the application of the penalties charged on taxpayers following the defeat of tax avoidance arrangements. This will prevent tax avoiders from relying on non-independent advice to demonstrate that they took reasonable care to avoid inaccuracies in their tax returns arising from their use of tax avoidance arrangements which have been defeated by HMRC.

Policy objective

The government believes that all individuals and businesses have a responsibility to pay the tax they owe. It wants a level playing field for the majority of people who pay their tax, so that everyone pays their fair share. The government's objective is to influence and promote behavioural change in the minority of tax agents, intermediaries and others who design, market or facilitate the use of abusive avoidance, and benefit financially from their use. The aim of the measure is to ensure that these enablers can be held accountable for their activities should the tax avoidance they have enabled later be defeated. The aim of the changes to the meaning of reasonable care is to influence the behaviour of would be tax avoiders by ensuring that penalties are chargeable in all appropriate circumstances where tax avoidance is defeated.

Background to the measure

At Budget 2016, the government signalled its intention to explore options to introduce downsides for those who enable tax avoidance. The government also signalled that it would clarify what constitutes the taking of reasonable care in relation to the penalty provisions in Schedule 24 to the Finance Act 2007, when a person uses tax avoidance arrangements which HMRC later defeats.

The consultation period for this measure ran from 17 August to 12 October 2016, receiving significant engagement from stakeholders from individuals and businesses to industry representative bodies. A summary of those responses will be published on 5 December 2016.

Detailed proposal

Operative date

The changes relating to reasonable care come into effect at Royal Assent to Finance Bill 2017 and apply to inaccuracies in documents relating to tax periods which begin on or after 6 April 2017 and end on or after the day the Act is passed.

The penalty for enablers will apply prospectively from Royal Assent and will apply only to steps taken by enablers after Royal Assent to Finance Bill 2017.

Current law

The current law in relation to reasonable care is included in Schedule 24 to Finance Act (FA) 2007.

Whilst there is no current legislative regime dealing specifically with 'enablers' the Disclosure of Tax Avoidance Schemes (DOTAS) and Promoters of Tax Avoidance Schemes (POTAS) rules provide definitions of 'promoters' and 'intermediaries' which are similar to the definition of 'enablers' as included in the measure:

- DOTAS describes a 'promoter' as a person who is responsible for the design, marketing, implementation, organisation or management of avoidance arrangements, in the course of a business which includes the provision of services relating to taxation
- POTAS describes an 'intermediary' as the person who sits between the promoter and the client and typically provides the client with information in relation to the arrangement

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to provide for a penalty on those who enable tax avoidance which is later defeated. Key elements of the regime will

- define who is an 'enabler' to draw the distinction between those who design, market or otherwise facilitate avoidance arrangements implemented from those who solely advise, report or otherwise provide opinion on such arrangements and whose advice does not result in any amendment to the arrangements or any resulting arrangements
- ensure that those who are brought within the meaning of enabler through unwittingly becoming involved in the arrangements are excluded from that definition
- describe the types of arrangements which, if defeated, bring those who enabled those arrangements within scope for penalties
- describe how the amount of any penalty is calculated and assessed and provide a right of appeal against that assessment

Legislation will also be introduced in Finance Bill 2017 to clarify what constitutes the taking of reasonable care in relation to the application of the existing penalty regime in Schedule 24 to FA 2007, in relation to inaccuracies arising in a person's tax return from the defeat of tax avoidance arrangements they have entered into.

The new legislation will change the regime to presume that a person has been careless unless they can prove they have taken reasonable care and describe circumstances and events which are explicitly stated not to represent taking reasonable care in cases of defeated avoidance. Examples of such circumstances and events include (but are not limited to):

- advice addressed to a third party or without reference to the taxpayer's specific circumstances and use of the scheme
- advice commissioned or funded by a party with a direct financial interest in selling the scheme or not provided by a disinterested party
- material produced by parties without the relevant tax or legal expertise/experience to advise on complicated tax avoidance arrangements. Typically this would be the sort of material used to market the arrangements and would not amount to advice setting out the legal options necessary for a potential user to assess the efficacy of the scheme or the risks involved

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022

The final costing will be subject to scrutiny by the Office for Budget Responsibility, and will be set out at Budget 2017.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

Impact on individuals, households and families

There will only be an impact on those individuals who engage in, or enable others to engage in, tax avoidance. These individuals are likely to be on above average incomes. The government expects most of these to be seeking to reduce their liability at higher or additional rates. The measure will impact family formation, stability or breakdown for those groups who engage in or enable others to engage in tax avoidance.

Equalities impacts

This measure will impact those on above average incomes. It will therefore have greater effect on those protected equality groups who are represented in more affluent populations.

Impact on business including civil society organisations

This measure will have no impact on businesses that provide clients with advice on genuine commercial arrangements. It will only impact on businesses that are marketing or using tax avoidance arrangements, and who benefit financially from a taxpayer implementing those arrangements. There is no impact on civil society organisations.

Operational impact (£m) (HMRC or other)

Initial scoping work on the implementation costs of the operational impact of the measure has identified that some additional resources will be required to undertake the new operational process that will need to be completed when closing tax avoidance enquiries.

HMRC will need to make changes to IT systems to accommodate this measure at an estimated cost in the region of £425,000.

Other impacts

Justice Impact Test: we are currently working with the Ministry of Justice to establish the extent of the impact on the Ministry of Justice Tribunal Service.

Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be monitored through reviewing disclosures of and investigations into new avoidance schemes, HMRC's avoidance disclosure taskforce, and through communications with affected taxpayers and practitioners.

Further advice

If you have any questions about this change, please contact Julie Corah on Telephone: 03000 590818 or email julie.corah@hmrc.gsi.gov.uk and John Burey on Telephone: 03000 585336 or email john.burey@hmrc.gsi.gov.uk.

Data from Money Service Businesses

Who is likely to be affected

Money Service Businesses (MSBs) are businesses which provide money transfer, cheque cashing and currency exchange services. Businesses which provide these services and are subject to anti-money laundering regulations will be included in this legislation. Banks which provide these services will not be included, as operational experience has shown that the cash based, transactional business model of most MSBs makes them more vulnerable to exploitation than banks are.

General description of the measure

HM Revenue and Customs (HMRC) is extending its data-gathering powers to MSBs, in order to identify businesses and individuals in the hidden economy. This will be achieved by amending Part 2 of Schedule 23 to Finance Act 2011 to include an MSB as a 'relevant data holder' under this legislation.

Under anti-money laundering legislation, MSBs are required under certain circumstances to conduct due diligence checks on customers. The majority are supervised for compliance with these regulations by HMRC. HMRC can request limited information from MSBs under its supervision for anti-money laundering purposes in order to check their compliance with those rules. HMRC can use any information obtained for tax compliance purposes, but cannot request the information with the original intention of checking the tax position of their customers. Extending Schedule 23 to MSBs will allow HMRC to collect certain types of customer data, for tax compliance purposes.

Policy objective

The hidden economy places an unfair burden on the vast majority of people and businesses who pay their fair share of tax. Hidden economic activity also disadvantages compliant businesses. Competition between businesses is distorted when a small minority seek to hide under the radar from their tax obligations.

HMRC is concerned that some MSBs are vulnerable to exploitation by those who misuse services offered by MSBs to hide sources of income from HMRC and operate in the hidden economy.

These measures will enable more effective identification of potential non-compliance, while ensuring a level-playing field for compliant businesses.

Background to the measure

Reflecting trends towards greater use of digital record-keeping by businesses, and the use of electronic transaction methods, the government has introduced a series of targeted extensions of HMRC’s data-gathering powers to include new types of data-holders.

In 2013, HMRC obtained new powers to collect data from merchant acquirers. Building on this, the government introduced legislation this year to require data from providers of electronic stored-value payment services and business intermediaries.

The proposal to extend HMRC's data gathering powers to MSBs was initially consulted on between 26 August and 21 October 2016.

Detailed proposal

Operative date

The measure will become operative in late 2017.

Current law

HMRC's data-gathering powers are set out in Schedule 23 to Finance Act 2011.

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to include MSBs as a new category of 'relevant data-holder' under Schedule 23 to Finance Act 2011. Regulations would be made specifying what 'relevant data' HMRC may require from MSBs about their customers and those customers' transactions through the MSB.

Where HMRC identify evidence of potential non-compliance, the data will allow cases to be generated for further investigation, and targeted compliance interventions if necessary.

The extension of HMRC's data-gathering powers will not alter or replace the existing anti-money laundering supervisory regime, although data collected under this power could be used by HMRC for the purposes of anti-money laundering supervision. The proposed power will not alter or replace any of the obligations of MSBs under anti-money laundering legislation, including the requirement to submit Suspicious Activity Reports where there is suspicion of money laundering or the financing of terrorism. The proposed power would also not require MSBs to check their customers' tax position, nor identify cases of tax non-compliance from their own customer data.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	nil	+5	+5	+10	+10

These figures are set out in Table 2.1 of Autumn Statement 2016 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2016. They solely account for the anticipated impact of an extension of HMRC's data-gathering powers to cover MSBs.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

The costing also includes a behavioural adjustment to account for individuals becoming more compliant in the future if their tax affairs are reviewed by HMRC.

Impact on individuals, households and families

The measure is not expected to impact on individuals and households, family formation, stability or breakdown.

Equalities impacts

The data requests resulting from the proposal will not be targeted at particular groups or communities which utilise MSB services. HMRC's data-gathering activities are targeted based on a national picture of risks that takes account of many factors, including operational intelligence, data from other government departments and agencies, and tax return information. These activities generate the intelligence that enables effectively and efficiently targeted national campaigns and specialist task forces, which incorporate intensive bursts of compliance activity aimed at high risk trade sectors and locations across the UK.

There is no reason to suppose that this measure will have a significant or disproportionate impact on groups with legally protected characteristics under the Equality Act 2010.

Impact on business including civil society organisations

This measure is expected to have a negligible direct impact on businesses, and will have a positive indirect impact by lowering competition from non-compliant businesses. Those MSBs which receive a data request notice will experience some one-off costs, including familiarisation with the process and potentially some system changes in order to provide HMRC with information in the required format. On-going costs will include the commitment of staff to compile and send the requested data to HMRC. Schedule 23 allows businesses to appeal against a notice requiring data where the burden is too high, and to prevent this HMRC will work with businesses to ensure they have capability to provide the required data before delivering a notice requiring the data. HMRC will also work with MSBs to agree standard data fields and formats, to minimise the cost of compliance. There is no impact on civil society organisations.

Operational impact (£m) (HMRC or other)

HMRC will need to make changes to its IT systems to implement this measure, at an estimated cost of £180,000.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be kept under review through communication with affected businesses.

Further advice

If you have any questions about this change, please contact Harry Richardson on Telephone: 03000 592685 or email: harry.richardson@hmrc.gsi.gov.uk.

Tax enquiries: closure rules

Who is likely to be affected

Some individuals, partnerships and businesses whose tax affairs are under enquiry where there is complexity, avoidance or large amounts of tax at risk.

General description of the measure

The measure allows HM Revenue and Customs (HMRC) and its customers to conclude discrete matters in an enquiry into a self-assessment (SA) or Corporation Tax self-assessment (CTSA) tax return (and, in due course, the equivalent digital obligation), where more than one issue is open. This will be done by issuing a new Partial Closure Notice (PCN) which can be issued ahead of the final closure of an enquiry. HMRC will issue PCNs in enquiries where a customer's tax affairs are complex or where there is avoidance or large amounts of tax at risk.

From the date the legislation comes into force, for both existing and new enquiries, HMRC will be able to issue PCNs. Customers will also be able to ask HMRC to issue a PCN or ask the Tax Tribunal to direct HMRC to issue a PCN.

The issue of PCNs by HMRC will be overseen by existing governance procedures, for example the Dispute Resolution Board.

Guidance on the use of PCNs will be issued in advance of the legislation coming into force.

Policy Objective

The measure will give HMRC and its customers greater certainty about tax owed on individual discrete matters without having to wait for all matters in a tax enquiry to be resolved. It will make it harder for individuals to delay proceedings and will level the playing field so that all customers are treated equally and fairly. For example, a customer who uses multiple avoidance schemes will be treated in the same way as a customer with less complex affairs. In addition the measure will help customers to more effectively plan their cash flow through earlier certainty and result in earlier payment to the Exchequer of tax due.

Background to the measure

The measure was announced at Autumn Statement 2014 and consulted on 18 December 2014.The consultation proposed a power for HMRC to close discrete aspects of a tax enquiry. As summarised in a responses document published on 28 September 2015, customers requested a reciprocal power on the basis of fairness. The government will provide customers with the right to ask for a PCN.

Detailed proposal

Operative date

The measure will have effect from Royal Assent to Finance Bill 2017.

Current law

Current law relating to enquiry closures is contained in sections 28A and 28B Taxes Management Act 1970 for individual and partnership tax returns, and in section 32, Sch18 Finance Act 1998 for company tax returns.

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to enable HMRC to issue a PCN in relation to discrete matters in an open tax enquiry. HMRC will be able to issue a PCN either in agreement with the customer, at its own discretion, or when directed to do so by the First Tier Tax Tribunal (FTT) on application by a customer.

A PCN will almost always be followed by HMRC making an amendment to the tax return that may mean more tax is payable. Customers will have a right of appeal to the FTT to both the PCN conclusions and the amendment to a tax return. Customers will also be able to apply for postponement of any of the additional tax payable where they think it is excessive. Tax repayments arising from a PCN need not automatically be repaid, e.g. where tax is due in respect of other issues not covered by the PCN.

Where HMRC is directed to issue a PCN by the FTT on application of a customer, the PCN and amendment will also be appealable to the Tribunal. Postponement of additional tax may also be sought. When the enquiry is completed, HMRC will issue a Final Closure Notice and make a final amendment to the return (or, in due course, the equivalent digital obligation) amendment, taking into account any PCNs and amendments to returns already issued.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-115	-20	+ 50	+ 170	+ 215	+ 180

These figures are set out in Table 2.1 of Autumn Statement 2016 as 'HMRC: Administrative and operational measures'. These figures incorporate the Exchequer impact of 'Tax enquiries: Closure rules' and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2016.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

Impact on individuals, households and families

The measure is not expected to impact on family formation, stability or breakdown.

It is not expected that there will be any impact on individuals or households.

Equalities impacts

It is not anticipated that any particular group with protected characteristics will be adversely affected by this measure.

Impact on business including civil society organisations

HMRC intends to use the partial closure power sparingly into tax return enquiries of individuals, partnerships and companies only where there is complexity, avoidance or large amounts of tax at risk. This measure is expected to have a negligible impact on other businesses subject to tax enquiries and is not expected to increase administrative burden for normally compliant businesses.

There is no impact on civil society organisations.

Operational impact (£m) (HMRC or other)

This measure is not expected to lead to any additional resource requirements and will enable HMRC to progress more efficiently enquiries where there is complexity, avoidance or large amounts of tax at risk.

Other Impacts

Justice Impact Test: a small increase in the number of appeals received by the FTT is expected, depending on customer behaviour. A Justice Impact Test has been sent to the Ministry of Justice.

Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be kept under review through communication with affected parties.

Further advice

If you have any questions about this change, please contact Jim Fedigan on Telephone: 03000 547075 or email: jim.fedigan@hmrc.gsi.gov.uk.

Tackling offshore tax evasion: Requirement to Correct

Who is likely to be affected

Individuals with offshore interests who have previously not declared the right amount of UK tax or who need to review their tax affairs to check they are compliant.

General description of the measure

The Requirement to Correct (RTC) will introduce legislation that will require taxpayers who have previously undeclared UK tax liabilities in respect of offshore interests to correct that position by disclosing the relevant information to HM Revenue and Customs (HMRC).

The consequence of not carrying out the necessary correction by 30 September 2018 will be the application of new tougher sanctions for 'Failure to Correct' (FTC).

Policy objective

The objective is to get taxpayers with undeclared UK tax relating to offshore interests into a compliant position. At the end of the RTC period (September 2018) there will be simplified and tougher sanctions for offshore tax evasion.

The introduction of a new RTC and tougher penalties for the FTC sends a strong message that there is a step change in the government's toughening approach to offshore tax compliance. The measure will introduce an obligation for taxpayers to put past affairs in order and strongly penalise those who do not meet this requirement. In doing so, the measure will drive taxpayers with offshore interests who are unsure whether they have declared the right UK tax to review their affairs to either:

- satisfy themselves they are compliant
- correct the non-compliance by disclosing the relevant information to HMRC

Background to the measure

The RTC past offshore tax non-compliance was first announced at Autumn Statement 2015 and confirmed at Budget 2016.

Following consultation (22 August to 19 October 2016), a response document and draft legislation was published on 5 December 2016.

Detailed proposal

Operative date

The RTC measure will have effect after Royal Assent to Finance Bill 2017. The RTC 'window' will be from Royal Assent to Finance Bill 2017 to 30 September 2018. After this period, from 1 October 2018 the FTC penalty for those who have failed to correct from 6 April 2017 to 30 September 2018 will apply.

Current law

The offences we want to be within scope of the RTC are ‘failing to notify chargeability’, ‘failing to make a return’ and ‘delivery of certain inaccurate documents to HMRC’.

Relevant legislation is drawn from the Taxes Management Act 1970 (TMA 1970), section 254 of Finance Act (FA) 2004 and Schedule 24 to FA 2007.

The penalties chargeable for the RTC offences were originally set out in the legislation at TMA 1970 and new provisions covering:

- Schedule 24 of FA 2007
- Schedule 41 of FA 2008
- Schedule 55 of FA 2009
- Schedule 20 of FA 2015 and Schedule 21 to FA 2015
- Schedule 24 of FA 2016

Proposed revisions

Taxpayers within scope of the RTC will be those who have not declared the right amount of UK tax in respect of offshore interests on or before 5 April 2017. These will be taxpayers who have done one of the following in respect of offshore tax:

- failed to notify chargeability
- failed to make and deliver a return
- delivered an inaccurate document (for example, a return) to HMRC

In addition the failure must relate to income tax, inheritance tax or capital gains tax and not have been corrected on or before 5 April 2017.

Taxpayers within scope of the RTC are required to correct that position on or before 30 September 2018 by providing the appropriate information to HMRC. For example, a taxpayer who delivered an inaccurate return to HMRC by omitting a source of offshore income will be required to provide sufficient information to HMRC to allow that inaccuracy to be corrected by HMRC assessing the under-declared tax.

Where a taxpayer fails to correct the offshore tax non-compliance on or before 30 September 2018 the legislation will introduce a new sanctions for that failure. The new sanctions are:

- a tax geared penalty of between 100% and 200% of the tax not corrected - penalties will be reduced within this range to reflect the taxpayer's cooperation with HMRC, including whether they came forward unprompted to tell HMRC of their failure
- an asset based penalty of up to 10% of the value of the relevant asset would apply in the most serious cases, and involved over £25,000 in any tax year
- the ability for HMRC to name those who have failed to correct in the most serious cases, and where over £25,000 tax per investigation is involved
- the model will also adopt the enhanced penalty for asset moves of 50% of the amount of the standard penalty, which would apply if HMRC could show that assets or funds had been moved to attempt to avoid the requirement to correct

- there is no penalty where the taxpayer has a reasonable excuse for failing to correct the position. HMRC will also have the option of, exceptionally, charging the existing penalties instead if that is appropriate

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	+10	+25	+15	+60	+70

These figures are set out in Table 2.1 of Autumn Statement 2016 as 'Offshore Tax: close loopholes and improve reporting'. These figures represent the combined Exchequer impact of 'Offshore funds: Calculation of reportable income', 'Foreign pension schemes' and 'Tackling offshore tax evasion: A requirement to correct', and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2016.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

The Exchequer impact consists of additional tax resulting from a behavioural response whereby individuals come forward to disclose their offshore tax affairs as a result of the new sanctions.

Impact on individuals, households and families

This measure will have an impact on individuals with offshore interests reviewing their tax affairs to satisfy they are compliant.

The measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

Any affected equality groups are likely to be those represented amongst those of above average wealth.

There is no data to identify the size of this group. Apart from those customers within this group, it is not anticipated that there will be adverse impacts on any other customers sharing protected characteristics.

Impact on business including civil society organisations

This measure will have no impact on businesses and civil society organisations who have correctly accounted for their UK tax liabilities in respect of offshore interests. It will only impact on businesses with income or gains offshore who evade their UK tax responsibilities.

Operational impact (£m) (HMRC or other)

HMRC already has teams in place to handle disclosures from customers and the impact on HMRC people staffing resource is expected to be nominal.

HMRC will need to make changes to IT systems to process the new FTC penalties and the cost of these changes are estimated at £484,000.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be kept under review through communication with affected taxpayers and practitioners.

Further advice

If you have any questions about this change, please contact Steve Manning on Telephone: 03000 535682 or email steve.manning@hmrc.gsi.gov.uk.

VAT: penalty for participating in VAT fraud

Who is likely to be affected

Businesses participating in VAT fraud.

General description of the measure

The measure will introduce a new and more effective penalty for participating in VAT fraud. It will be applied to businesses and company officers when they knew or should have known that their transactions were connected with VAT fraud. This is also known as the 'knowledge principle'.

Policy objective

The measure will improve the application of penalties to those facilitating orchestrated VAT fraud. The penalty will be issued at the same time as the tax decision improving its effectiveness. This should also reduce the prospect of the tax decision and the penalty being litigated separately. This measure should prevent businesses, HM Revenue and Customs (HMRC) and the tribunal service incurring additional related costs. It supports the government's objective of being tough on fraud.

Background to the measure

The measure was announced at Budget 2016 and was consulted on from 28 September 2016 to 11 November 2016. The consultation covered the case for a new penalty as well as exploring potential design features.

Detailed proposal

Operative date

The measure will have effect following Royal Assent to Finance Bill 2017.

Current law

Current law is included in Schedule 24 of Finance Act 2007.

Proposed revisions

Legislation will be introduced in Finance Bill 2017. The new legislation will align the penalty with the 'knowledge principle' to create a more effective penalty regime which can be applied to Missing Trader Intra Community fraud and other VAT fraud cases.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	negligible	negligible	negligible	negligible	negligible

This measure is expected to have a negligible impact on the Exchequer.

Economic impact

This measure is not expected to have any significant economic impacts.

Impact on individuals, households and families

The measure is not expected to have any impact on individuals and households.

The measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

HMRC has considered this matter and have not identified any equalities impact.

Impact on business including civil society organisations

This measure will have no impact on businesses that are compliant. It will only impact on businesses that participate in VAT fraud.

Operational impact (£m) (HMRC or other)

This change is likely to result in a small net resource saving to HMRC as it enables more effective use of its anti-fraud resource. There are also likely to be some reductions in litigation and tribunal costs.

Other impacts

Justice Impact Test: a Justice Impact Test is not necessary because we expect that this measure will lead to some reductions in litigation as there will no longer be a mismatch between the 'knowledge principle' and the penalty, which should enable the two appeals to be heard at the same time. Therefore the costs of those litigating these cases will also be reduced.

Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Kristian Jarvis on Telephone: 03000 585747 or email: kristian.jarvis1@hmrc.gsi.gov.uk.

Strengthening the indirect tax avoidance disclosure scheme

Who is likely to be affected

Promoters and users of indirect tax avoidance schemes.

General description of the measure

This measure replaces the VAT regime for disclosure of avoidance, which currently only covers VAT. It moves the responsibility for disclosing VAT avoidance schemes to HM Revenue and Customs (HMRC) from scheme users to scheme promoters.

It also widens the scope of the disclosure regime to include all indirect taxes.

The measure will require promoters of indirect tax avoidance schemes to provide details of schemes at the earliest of: the date the promoter first makes a firm approach to another person about the proposed scheme; the date the proposals are first made available for implementation by another; or the date the promoter first becomes aware of any transaction which forms part of the scheme. In some circumstances where arrangements or proposed arrangements are substantially the same as arrangements already notified to HMRC, the promoter will not be required to make a further disclosure.

If a person uses a tax avoidance scheme the promoter of which does not belong in the UK, or there is no promoter of the scheme, the user of the scheme will be required to disclose it to HMRC.

When a promoter notifies HMRC of details of a scheme, HMRC will issue a reference number and the promoter must notify their clients of this number. The promoter must provide HMRC with certain details about these clients; those details will be contained in Regulations. The client will be required to notify HMRC of their use of a scheme, and the scheme number.

Policy objective

This measure reforms the way indirect tax avoidance is notified to HMRC so that it more closely resembles the regime for disclosure of avoidance of direct taxes (Disclosure of Tax Avoidance Schemes, or DOTAS). This forms an important part of the government's fight against tax avoidance by giving HMRC earlier and more comprehensive detail about VAT avoidance schemes as they emerge and provide a coherent approach to the requirements to disclose tax avoidance schemes.

Expanding the scope of the disclosure regime to encompass all indirect taxes will allow HMRC early insight into emerging avoidance in these areas.

Background to the measure

At Budget 2016, the government announced a joint consultation on these proposals and regulations concerning disclosure of Inheritance Tax avoidance, entitled 'Strengthening the Tax Avoidance Disclosure Regimes for Indirect Taxes and Inheritance Tax'. The consultation ran from 20 April 2016 to 13 July 2016.

A consultation response document will be published with the draft legislation.

Detailed proposal

Operative date

The measure will have effect from 1 September 2017 and will affect those who promote schemes after this date.

Current law

Current law is set out at section 58A and Schedule 11A to the Value Added Tax Act 1994 and accompanying Regulations.

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to set out the requirements of promoters of indirect tax avoidance arrangements to disclose their schemes to HMRC. The legislation will provide that once a scheme is disclosed to HMRC, they must issue a scheme reference number to the promoter, who in turn must pass this number on to all users of the avoidance scheme. Scheme users must inform HMRC when they use a disclosed scheme.

If there is any dispute concerning whether or not a scheme should be disclosed, HMRC may apply to the tax Tribunal for an order to say the arrangements are disclosable or must be treated as if they were.

HMRC may apply to the Tribunal for penalties of up to £600 per day for a failure to disclose arrangements or provide certain information. Where a promoter fails to disclose arrangements or proposals when they should have been disclosed, the Tribunal may impose a penalty of up to £1 million if the penalty would otherwise appear inappropriately low.

The types of tax arrangement which will have to be disclosed to HMRC, the time limits for making disclosures and the form in which they should be made will be set out in Regulations.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	nil	nil	nil	nil	nil

This measure is not expected to have an Exchequer impact.

Economic impact

This measure is not expected to have any significant economic impacts.

Impact on individuals, households and families

There will only be an impact on those individuals who promote or engage in tax avoidance.

This measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

It is not anticipated that this measure will have adverse impacts on any group with protected characteristics.

Impact on business including civil society organisations

This measure is expected to have a negligible administrative impact on promoters of indirect tax avoidance schemes who will now have to provide HMRC with information. One-off costs include familiarisation with the new rules and may also include setting up a new process and/or system to provide HMRC with the required information. On-going costs include providing information to HMRC about clients and listed and hallmarked schemes as required, and notifying clients of the scheme reference number allocated by HMRC. In most cases, promoters will already have these systems in place to comply with their DOTAS requirements. There is no impact on civil society organisations.

Operational impact (£m) (HMRC or other)

HMRC will have to make changes to IT systems to implement this measure, at an estimated cost of £62,000.

Other impacts

Justice impact test: there will be a minimal impact on the Ministry of Justice Tribunal Service.

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored through monitoring of disclosures of indirect tax avoidance schemes, and through communication with taxpayers and practitioners affected by the measure.

Further advice

If you have any questions about this change, please contact Pete Woodham on Telephone: 03000 586533 or email: peter.woodham@hmrc.gsi.gov.uk.

Power to search vehicles or vessels under section 163 of CEMA: power to use force

Who is likely to be affected

Those whose vehicle is involved in, or suspected of being involved in, the carrying of any goods upon which customs or excise duties have not been paid, or those carrying prohibited or restricted items.

General description of the measure

At present section 163 of the Customs and Excise Management Act (CEMA) 1979 provides for a vehicle to be stopped and searched, but does not explicitly state that an officer has the power of force to gain entry to that vehicle. This measure will clarify existing provisions by putting beyond all doubt the powers an officer actually has.

Policy objective

Tackling excise fraud is an HM Revenue and Customs (HMRC) priority. The ability to gain entry to a locked vehicle, where there are goods inside which have not had duty paid on them, is a valuable tool in the fight against duty evasion.

By making this amendment, officers will have clarity on the use and limitations of the power under section 163 of CEMA. The ability to allow officers to force open vehicles containing goods liable to forfeiture at any place is necessary to keep pace with today's challenges in combating fraud and protecting businesses.

Background to the measure

Many of the customs powers and requirements in CEMA were originally designed to deal with smuggling and routine compliance checks at approved places such as ports and airports. However, officers are now frequently dealing with sophisticated diversion frauds involving excise goods, the majority of which are at inland premises, post-clearance, and not within the confines of these places.

HMRC is increasingly finding abandoned vehicles, at places other than an approved place, with excise goods visible inside. On those occasions customs officers need to force entry to the vehicle and secure the goods, removing them from the supply chain and protecting legitimate businesses. This amendment will put beyond all doubt that the power in section 163 of CEMA provides the power to use force, where necessary. Officers are trained in how to exercise this power and stringent rules, safeguards and guidance are in place, including on the limitations of the power, to ensure that officers' use of the power is proportionate and necessary. This ensures the power is used in line with the Powers of Entry Code of Practice and this will be updated to ensure that the new power is properly reflected.

The measure was announced at Budget 2016.

Detailed proposal

Operative date

The measure will have effect on and after the date of Royal Assent to Finance Bill 2017.

Current law

Current law is contained in Part XII, Section 163 of the Customs and Excise Management Act 1979.

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to amend section 163 of CEMA 1979.

The legislation will provide officers, when stopping and searching a vehicle, with an explicit power to gain entry to that vehicle, where necessary. This amendment will clarify existing provisions.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	nil	nil	nil	nil	nil

This measure is not expected to have an Exchequer impact.

Economic impact

This measure is not expected to have any significant economic impacts.

Impact on individuals, households and families

This measure is not expected to impact on individuals, households or family formation, stability or breakdown.

Equalities impacts

No equality impacts in relation to any protected characteristic have been identified in relation to this measure.

Impact on business including civil society organisations

This measure is expected to have no impact on compliant businesses or civil society organisations. It will only impact on those businesses whose vehicle is involved in, or suspected of being involved in, the carrying of any goods upon which customs or excise duties have not been paid, or those carrying prohibited or restricted items.

Operational impact (£m) (HMRC or other)

HMRC will not incur any additional costs implementing this policy.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

There will be robust guidance on the use of this power which will include the limitations of the power, ensuring its use is proportionate and necessary.

Further advice

If you have any questions about this change, please contact Marilyn Seago on Telephone: 03000 593391 or email: marilyn.seago@hmrc.gsi.gov.uk

Customs examination powers

Who is likely to be affected

Those carrying on a trade or business where there is reasonable cause to believe their premises contain customs goods.

General description of the measure

This measure extends the powers HM Revenue and Customs (HMRC) currently has under section 24 of the Finance Act 1994 so they can examine goods thoroughly away from ports, airports and other approved places under customs control. It will enable HMRC to require the premises operator to open or unpack any container. The use of this power is expected, in the main, to be exercised where goods have been mis-declared, without payment of the correct amount of duty, at the time of import.

Under current legislative powers, customs officers working inland and post-clearance, away from ports, airports and other approved places under customs control, do not have the ability to examine and take account of goods, which includes opening, marking, weighing, loading, unloading etc. Customs officers, at present, can only pick up and look at goods that are visible to them when visiting businesses premises and where there is reasonable cause to believe a customs offence has been committed. This amendment will ensure that HMRC can require any container to be opened or unpacked.

Policy objective

It is essential that customs officers are empowered to enter and inspect premises, examine goods, and take account of them, as well as open or unpack any container, or require it to be opened or unpacked in order to search it or anything in it. The availability of this power will reduce the revenue risk by bringing to account any unpaid customs duties or, by removing those goods from the market which would have had a detrimental impact on compliant businesses

Background to the measure

There are some areas where customs and excise powers, originally designed to deal with smuggling and routine checks at airports and ports, need to be strengthened to deal with modern control and business practices and new methods of evading duty. Today, HMRC often investigates sophisticated frauds involving customs goods, the majority of which are at inland premises, post-clearance, and not within the confines of approved premises, including ports and airports. It is essential that customs officers are empowered to enter and inspect premises, examine goods, and take account of them, as well as open or unpack any container, or require it to be opened or unpacked in order to search it or anything in it. An amendment, therefore, is required to strengthen the power under section 24 of the Finance Act 1994 to deal with modern control and business practices.

Detailed proposal

Operative date

The measure will have effect on and after the date of Royal Assent to Finance Bill 2017.

Current law

Current law is contained in Part 1, Chapter 3, section 24 of Finance Act 1994.

Proposed revisions

Legislation will be introduced in Finance Bill 2017 to amend section 24 of the Finance Act 1994.

The legislation will provide officers with the additional power to examine and take account of goods when exercising their power of entry under section 24. This amendment will mean that an officer will not have to rely on just inspecting any goods found on the premises, but will have the power to examine and take account of those goods which will include opening and unpacking any container and searching that container or anything in it.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	nil	nil	nil	nil	nil

This measure is not expected to have an Exchequer impact.

Economic impact

This measure is not expected to have any significant economic impacts.

Impact on individuals, households and families

This measure will not impact on individuals or households. The measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

No equalities impacts in relation to any protected characteristic have been identified in relation to this measure.

Impact on business including civil society organisations

This measure is expected to have no impact on businesses or civil society organisations. It is intended to ensure that the statutory authority is available for goods to be fully examined away from ports, airports and approved warehouses.

Operational impact (£m) (HMRC or other)

This measure will support existing compliance work and there will be no additional costs.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

There is guidance on the use of this power and officers are trained in how to conduct visits. It includes the limitations of the power, ensuring its use is proportionate and necessary to control goods and protect the revenue.

Further advice

If you have any questions about this change, please contact Karen Rourke on Telephone: 03000 593525 or email: karen.rourke@hmrc.gsi.gov.uk

Tobacco duty: illicit trade protocol: licensing of tobacco manufacturing machinery

Who is likely to be affected

Businesses in possession of, importing, exporting or manufacturing tobacco manufacturing machinery.

General description of the measure

This measure will give HM Revenue and Customs (HMRC) additional powers to tackle the evasion of excise duty on tobacco products through the control of tobacco product manufacturing machinery. The measure will also allow for appropriate sanctions against a person or business possessing unlicensed tobacco manufacturing machinery.

It will enable ratification of the Framework Convention on Tobacco Control (FCTC) Illicit Trade Protocol. Measures in the Protocol such as registration of tobacco manufacturers have already been adopted in the UK.

Policy objective

The measure is aimed at reducing the risk of evasion of excise duty on tobacco products by controlling the use and ownership of tobacco manufacturing machinery to help prevent the illicit manufacture of tobacco products.

Background to the measure

The government announced at Autumn Statement 2015 that HMRC would launch a formal consultation on the implementation of Article 6 of the Protocol. HMRC published a formal consultation concerning Article 6 on 25 February, which closed on 20 May 2016.

Detailed proposal

Operative date

This measure will have effect on and after the date of Royal Assent to Finance Bill 2017. All new, existing owners and users of manufacturing machinery used primarily to manufacture tobacco smoking products will have to secure a licence for each machine by 1 April 2018. Applications will be accepted from January 2018. HMRC will assess the 'fit and proper' status of applicants and their proposed use of the machine prior to issue of a licence. From 1 April 2018 the penalty powers and forfeiture power will come into effect. Businesses in the UK who use, hold in storage or manufacture machinery that is primarily to be used to manufacture tobacco products after the 1 April 2018 must hold a valid licence prior to taking possession of a tobacco manufacturing machine.

Current law

The measure introduces a new scheme for the licensing of machinery used for the manufacture of tobacco products. Legislation will be introduced in the Tobacco Products Duty Act 1979.

Proposed revisions

Legislation in Finance Bill 2017 will amend the Tobacco Products Duty Act 1979 (TPDA) and create a power for secondary legislation.

Secondary legislation will come into force by 1 January 2018.

The legislation will include penalty powers and a power of forfeiture.

Under the powers HMRC will be able to impose:

- a regulatory penalty
- a power of forfeiture for a breach of prohibition

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	negligible	negligible	negligible	negligible	negligible

This measure is expected to have a negligible impact on the Exchequer.

Economic impact

This measure is not expected to have any significant economic impacts.

Impact on individuals, households and families

There is no impact on individuals and households because this is a change that affects businesses only.

This measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

This measure is not expected to have an equalities impact.

Impact on business including civil society organisations

This measure is expected to have a negligible impact on businesses.

It is expected that approximately 10 to 15 businesses will need to secure a licence for each machine and will be subject to negligible one-off costs of familiarisation with the new scheme and securing a licence.

The ongoing costs for licences for each machine are expected to be negligible. For businesses who already operate registered tobacco factories, the new requirements will be integrated with their existing registrations as far as possible.

This measure is not expected to have any impact on civil society organisations.

Operational impact (£m) (HMRC or other)

There will be a negligible impact on HMRC to administer a simple machinery licensing scheme. The scheme will be based on existing tobacco excise registration schemes and is expected to have very few users.

Other impacts

Justice Impact Test: HMRC has made contact with the Ministry of Justice. There will be a limited number of regulatory breach penalties due to the small number of licence applications expected.

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be monitored through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Mark Palmer on Telephone: 03000 587928 or email:mark.t.palmer@hmrc.gsi.gov.uk

Gift Aid and intermediaries

Who is likely to be affected

These changes will be of interest to the charity sector, intermediaries who collect donations on behalf of charities and individuals who donate to charities.

General description of the measure

Currently a donor has to complete a Gift Aid declaration (GAD) each time they give to a new charity when giving through an intermediary. This is one of the contributing factors that has restricted the take up of Gift Aid when donating through digital channels, especially in SMS text donations.

The new process allows a donor to give permission to an intermediary to create GADs on their behalf for all subsequent donations made in that tax year.

Policy objective

The government wants to maximise the take up of Gift Aid on eligible donations.

This measure will make it easier for donors to certify that Gift Aid can be claimed on donations to multiple charities made through intermediaries via digital channels, leading to Gift Aid being claimed on a greater proportion of eligible donations and more tax relief going to charities.

Background to the measure

This measure was originally announced in Budget 2013. A consultation entitled Gift Aid and digital giving ran from July to September 2013. At Budget 2014 the government announced that it would legislate to facilitate digital giving through intermediaries. Legislation in Finance Acts 2015 and 2016 allows a greater role for intermediaries. Detailed Regulations providing for that greater role will be made and laid shortly.

Detailed proposal

Operative date

The Regulations will be made and laid shortly and will come into force on 6 April 2017.

Current law

The primary legislation governing Gift Aid is in Chapter 2, Part 8 of Income Tax Act 2007 (ITA 2007).

Section 428 of ITA 2007 specifies the meaning of a GAD for Gift Aid and provides for Regulations to be made specifying what the declaration must contain, the manner in which it should be given and the way it should be recorded.

Regulations made in 2000 (SI 2000/2076) made that a GAD can only be given by an individual who is the donor. The individual must give the GAD to the charity.

Proposed revisions

The government has consulted on new Regulations to be made and laid later this year which sets out how the new permission process works. These Regulations will replace the 2000 Regulations. They broadly replicate the current regime for GADs given by donors, but will also permit GADs to be given by an intermediary on a donor's behalf.

The Regulations require intermediaries:

- to keep a record of the donor's authorisation allowing them to complete declarations on the donor's behalf
- to keep a record of the date on which the Gift Aid regime was explained to the donor
- to keep a record of any cancellations of the donor's authorisation
- to issue an annual statement to donors who use the new process
- to keep a record of an annual statement sent to donors who use the new process

The Regulations also impose penalties on intermediaries for any breaches of these obligations.

Summary of impacts

Exchequer impact (£m)

2016 to 2017	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022
-	negligible	-10	-15	-15	-20

These figures are set out in Table 2.1 of Autumn Statement 2016 as 'Gift Aid: reforms'. These figures incorporate the Exchequer impact of 'Gift Aid and intermediaries', and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2016.

Economic impact

The measure is not expected to have any significant economic impacts.

The cost of this measure is calculated by accounting for the increased use of Gift Aid by donors.

Equalities impacts

No impacts are anticipated in respect of groups sharing protected characteristics.

Impact on individuals, households and families

This process will make it easier for individuals to give to multiple charities through digital channels.

The measure is not expected to impact on family formation, stability or breakdown.

Impact on business including civil society organisations

This measure is expected to have a negligible impact on business and civil society organisations. It is anticipated that a small number of intermediaries will incur one-off costs to familiarise themselves with this policy and to put systems in place to implement the change.

The measure should ease the ongoing administrative burden on a small number of intermediaries by relieving them of the need to receive a Gift Aid declaration for each individual charity. There are up to 149,000 charities that are registered for Gift Aid (of which around 70,800 claimed Gift Aid in 2015 to 2016).

Operational impact (£m) (HMRC or other)

There is no expected impact in relation to cost for HMRC.

Other impacts

Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change please contact Christopher Maudsley on Telephone: 03000 518538 or email: christopher.maudsley@hmrc.gsi.gov.uk.

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