
PwC JHR News

HR professionals dealing with Japanese expatriates in the UK

Budget 2017

Summary of key announcements for employers and employees

March 2017

The Chancellor delivered the 2017 Budget on 8 March 2017. A summary of the key announcements for employers and employees is set out below.

Reward

Taxation of employees, workers and the self-employed

The Chancellor highlighted that there are many good reasons for choosing to be self-employed or working through a company but in the Government's view those choices should not be primarily driven by differences in their tax treatment. He said that the 15% of workers who are not employees are forecast to cost our public finances over £5 billion this year alone, and Matthew Taylor, who is conducting a review (*Employment Practices in the Modern Economy*), believes that tax is a 'key driver' of the trend to self-employment.

So one might have expected a grand announcement as to how the playing field was to be levelled, but instead we will have to wait to see if the Government will take any action. In the meantime, the Chancellor reduced the tax free dividend allowance from £5,000 per annum to £2,000 per annum from April 2018 and increased the rate of Class 4 NIC from the same date.

Our expectation is that the Chancellor will wait to see how the changes to public sector contracting (which come into force from April 2017) bed down and the outcome of the Taylor review, and then launch a consultation on how to create a system that means that "people doing similar work for similar wages and enjoying similar state benefits pay similar levels of tax". This may then lead to changes in April 2018 or the following year.

So employers need to be prepared. If a self-employed contractor becomes an employee, the cost to the employer increases substantially when employer NIC, apprenticeship levy, auto-enrolment,

national minimum wage and holiday pay are taken into account. There could also be VAT implications. Workforce strategy may need to be reassessed and rethought and the risks managed.

April 2019 loan charge

It was confirmed that employers will have an obligation to operate PAYE and NIC on loans made by third-parties (such as employee benefit trusts) to employees that are still outstanding on 5 April 2019. This follows on from the announcements made last year.

Employment taxes

National Insurance Contributions

Whilst the Government confirmed the previously announced abolition of Class 2 NIC from April 2018, it is to raise the main rate of Class 4 NIC (paid by the self-employed) from 9% to 10% in April 2018 and to 11% in April 2019.

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

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

To accompany Matthew Taylor's review into modern employment practices, the Government is to consult on the differences in entitlement to parental state benefits for the employed and self-employed.

Consultation into different forms of employer provided remuneration

As previously announced, the Government is to consult on the tax treatment of different forms of employer provided remuneration where the same benefit can be taxed differently or inconsistently depending on

how it is provided. There will be calls for evidence on the valuation of benefits in kind, the availability of income tax relief for employee expenses, and a consultation on the tax treatment of employer-provided accommodation. Further details will be provided on 20 March 2017.

Other changes which were announced previously but that will take effect from or after April 2017 include:

Salary sacrifice and flexible benefits

As announced in the Autumn Statement 2016, the Government is to limit the range of benefits in kind (BiK) which will continue to provide a tax and NIC advantage under arrangements referred to as “optional remuneration arrangements”, which includes salary sacrifice.

We await the revised draft of Finance Act 2017 (on 20 March 2017) which will hopefully clarify the impact of the changes on these optional remuneration arrangements and confirm the treatment of benefits including life assurance.

The tax and/or NIC savings through the use of salary sacrifice to provide employer contributions to registered pension schemes, employer provided pension advice, employer supported childcare, the cycle to work scheme and ultra-low emission vehicles (that produce less than 75g/km CO₂) will not be impacted by these changes.

Salary sacrifice arrangements implemented prior to April 2017 will generally be protected until April 2018. Salary sacrifice contractual arrangements entered into before April 2017 for company cars, accommodation and school fees will be protected until April 2021.

For other benefits provided under salary sacrifice arrangements (including benefits such as mobile phones, health screening, car parking and gym membership), the employee will pay tax on the higher of the salary sacrificed and the cash equivalent of the benefit provided. Employers will face an increased Class 1A NIC liability, as well as increased administration where they continue to offer flexible benefit arrangements.

Employers should be considering the impact of these changes on their current benefit provision. They may also need to consider any changes necessary in order to continue

to realise the advantages of salary sacrifice for new or existing benefits, as well as quantifying any associated cost implications.

Change in NIC threshold

As announced in the Autumn Statement 2016, the primary (employee) and secondary (employer) NIC thresholds will be aligned from 6 April 2017. Employees and employers will start paying NIC on weekly earnings which exceed £157 per week.

IR35 restrictions on public sector engagements

In the Autumn Statement 2016, the Government announced the requirement for public bodies covered by the Freedom of Information Act 2000 to operate PAYE and NIC from April 2017 where the intermediary rules, known as IR35, apply.

Where there is a public sector engagement, the individual providing services via their intermediary company will no longer be responsible for determining whether the IR35 rules apply and responsibility will transfer to the relevant public sector body, agency or third party.

The contracting entity closest to the IR35 company (which need not be a public sector body) will usually be required to account for PAYE and NIC including operating Real Time Information reporting. The 5% tax-free allowance for expenses will be removed in order to provide more consistency between employees and those caught by these rules. HMRC has recently announced that the agency or public sector body can choose to take account of a worker's expenses when calculating the tax due in order to ensure further consistency.

Increase in Personal Allowance (PA) and higher rate income tax threshold

From April 2017, the PA will rise from £11,000 per annum to £11,500 per annum. The Government reaffirmed its commitment to increasing the PA to £12,500 per annum by the end of this Parliament.

The higher rate income tax threshold will rise from £43,000 per annum to £45,000 per annum (except Scotland) from April 2017 and to £50,000 per annum by the end of this Parliament.

Increase in National Living Wage

The National Living Wage rate for those aged 25 and over will increase from £7.20 per hour to £7.50 per hour from April 2017.

Making good benefits in kind

From April 2017, employees who wish to 'make good' the cost of a non-payrolled benefit in kind will have to do so by 6 July following the end of the relevant tax year.

Pensions

Transfers to qualifying recognised overseas pension schemes

The Government will introduce from 9 March 2017 a 25% charge on certain transfers to qualifying recognised overseas pension schemes (QROPS). The charge will apply unless both the individual and the QROPS are located in the EEA, or they are both in the same country, or the receiving scheme is an occupational pension scheme provided by the individual's employer or an overseas public sector pension scheme.

If tax is due then the UK scheme administrator and the member will be jointly and severally liable for deducting the tax. It covers any transfer where the request is made on or after 9 March 2017.

All existing QROPS will have to submit a revised undertaking to HMRC agreeing to their new obligations if the overseas pension scheme wants to continue to be a QROPS. This means that UK scheme administrators will need to check carefully before transferring funds abroad to ensure that the receiving scheme has signed up to the new undertakings.

For scheme members, if they change their country of residence within five full tax years of the transfer then this might give rise to the 25% tax charge, deducted by the QROPS manager.

Lump sums from overseas retirement benefits schemes

In the Autumn Statement 2016, the Government announced that lump sums from overseas retirement benefits schemes paid after 5 April 2017 would no longer be eligible for foreign service relief (i.e. no UK tax in respect of periods of non-UK service) where the individual was tax resident in the UK when the benefit was paid. In the Budget 2017, it was confirmed that all lump sums

paid out of funds built up before 6 April 2017 will be subject to existing tax treatment, but benefits in respect of service after that date would be subject to the new tax rules.

Section 615 schemes

For employers with defined benefits section 615 schemes (for employees working wholly outside the UK) the Government has revised draft legislation to reflect the intention that such schemes may not allow further benefits to accrue after 5 April 2017. Further details are awaited.

Globally mobile employees

Tax costs for inbound and outbound employees

Most UK inbound employees claiming the remittance basis will not be impacted by the increase in the Personal Allowance to £11,500 since they typically lose entitlement to the Personal Allowance. However many outbound employees who are UK non-residents may benefit from reduced UK tax on their UK sourced investment income.

UK outbound employees letting their UK homes may also benefit from the Government's announcement that an extra year, until April 2019, will be provided before "Making Tax Digital" is mandated for those landlords with an annual turnover of less than the VAT threshold (currently £83,000). This will provide many landlords with more time to prepare for digital record keeping and quarterly updates.

As noted above, the Government confirmed the previously announced abolition of Class 2 NIC from April 2018. Any employers who are yet to communicate this change to their UK outbound employees who may be maintaining their NIC contribution record by making Class 2 contributions, may wish to do so.

Changes to the taxation of non-UK domiciled individuals

As expected, there were no major new announcements on domicile, with the previously proposed changes applicable from April 2017. There were no changes to the criteria to become deemed domicile and the ability for certain individuals to rebase their assets. It was confirmed that the two year window to "cleanse" offshore mixed funds will be extended to apply to income, gains and capital held in mixed funds from

years before 2007/08, which were not previously considered under the draft legislation.

Impact of consultations

Several of the consultations expected on 20 March 2017 may affect internationally mobile employees, including the use of income tax relief for employee expenses and the tax treatment of employer-provided

accommodation. This could have a significant impact on employers providing accommodation to inbound employees but further details are awaited.

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