A mostly modest affair

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Bill Dodwell examines the proposals in the Spring Budget of 2017

As we move towards the nirvana of a single annual fiscal event, the Spring Budget seemed like it should be a modest affair before the first Budget of the new approach. And so it turned out. The Red Book is just 64 pages – the shortest anyone can remember. And yet…

At the Autumn Statement, the Chancellor and Office of Budget Responsibility both signalled medium-term challenges as more of the workforce took up self-employment. The Prime Minister had commissioned Matthew Taylor, chief executive of the RSA (Royal Society for the encouragement of Arts, Manufactures and Commerce), to carry out a review into employment status. The Chancellor announced a review of the tax and national insurance implications, which would follow the Taylor review. It thus came as a surprise that two measures were announced to increase taxation/NI paid by the self-employed, through an increase in

Class 4 national insurance contributions and a cut in the dividend allowance from £5,000 to £2,000. As we now know, the national insurance change was considered a breach of the Conservative Party's 2015 manifesto commitment not to increase national insurance rates (which was legislated as a commitment not to increase the 12% and 2% employee rates). The increase was widely supported by economists, academics and others – but not by the public – and so was withdrawn. The reduction in the dividend allowance affects both investors and those taking dividends from their personal service companies. However, the government says that 80% of investors will still pay no tax on dividends. It is of course accompanied by a big increase in the annual ISA allowance, which will be £20,000 from April 2017. The result of this change – and the previously announced abolition of Class 2 NI from 2018–is that the benefit of providing services through a company compared to a sole trader has shrunk noticeably (albeit that a company still allows the use of a spouse's personal allowance and basic rate band, if otherwise unused).

There are very few avoidance or 'imbalances' measures. The government has finally abolished the long-standing election on appropriations to trading stock, so it is no longer possible to convert capital losses into trading losses. The so-called 'enablers' legislation will take effect from Royal Assent (and has been modified considerably since the original draft was released).

The Making Tax Digital announcement – of a one-year deferral for digital record keeping and quarterly reporting by businesses and landlords with sales/rents below the £85,000 threshold is welcome. There's also a new £300,000 threshold for cash accounting. This leaves open the question of how realistic is it to expect larger businesses to comply with the new reporting. HMRC suggests that there are several hundred providers of business accounting software but the HMRC software programme covers fewer than 100. Perhaps spreadsheets may become a necessary solution for larger businesses. There's an interesting announcement about large business 'HMRC will…consult over the summer on its process for risk profiling large businesses and promoting stronger compliance.' Could this be a different approach to Making Tax Digital for those companies and partnerships where there is absolutely no benefit to anyone in submitting quarterly data?

There's a 'call for evidence' on the VAT: 'Split Payment' model. The objective here is to establish a new VAT collection mechanism for online sales. This would require the online marketplace to deduct VAT from online transactions at the point of purchase. This is the next step in tackling the non-payment of VAT by some overseas traders selling goods online to UK consumers. Interestingly, the European Commission believes that customs duty is also being evaded by overseas sellers. No doubt the platforms will not welcome the additional administration but it seems inevitable that they will join the ranks of unpaid tax collectors.

There’s another announcement focussing on the digital age. ‘The government will consult on proposals to redesign rent-a-room relief, to ensure it is better targeted to support longer-term lettings. This will align the relief more closely with its intended purpose, to increase supply of affordable long-term lodgings.’ This rather sounds as though the growing popularity of sites offering short-terms lets has prompted a future tax increase on flat and home owners renting out rooms to business and leisure travellers. These may compete with budget hotels and similar businesses – and allowing a tax break to some arguably distorts competition.

There’s also a weird little change to VAT on mobile phone charges. The government will remove the VAT use and enjoyment provisions for business to consumer mobile phone services to individuals. This will remove the inconsistency where UK VAT is applied to mobile phone use by UK residents when in the EU, but not when outside the EU. The government says this will bring UK VAT rules into line with the internationally agreed approach – but it will just look like a tax increase on long-haul holidaymakers.

It’s just as well that there were few Budget announcements: the latest Finance Bill is the biggest ever, at 764 pages.