Bracing Britain For Brexit

This was Philip Hammond's first Budget and it may come to be remembered for the issue mentioned only once in his speech – Brexit – rather than the other matters he explored at length. This is because, with Theresa May imminently to trigger Article 50, the financial ramifications of Brexit may quickly overshadow everything that he announced on Wednesday.

In the short term, however, with a combination of improving growth and public finances, Britain unexpectedly finds itself in the economic equivalent of calm waters and clear skies, but with Brexit storm clouds looming on the horizon. To his credit, the Chancellor appears to be well aware of the potential for a Brexit fiscal storm by choosing to bank the extra cash generated by the improved public finances, and by raising net taxes. This he hopes will enable him to build a "strong and stable platform" to brace Britain for the financial impact of Brexit.

Nevertheless, despite the fiscal prudence, the two main tax raising measures announced by the Chancellor – an increase in the National Insurance rate for the self-employed, and a reduction in the tax-free dividend allowance – may prove unpopular with the electorate.

In particular, the National Insurance rise may in hindsight be seen as Britain's first Brexit tax. Indeed, not only does this tax rise breach David Cameron's 'Five Year Tax Lock' pledge in the 2015 Tory election manifesto, it also appears to strike at hard-working small business owners. It is therefore an unusual move because it impacts on the striving classes who would ordinarily be core Conservative voters. However, we can only conclude that the Chancellor was so concerned by the impact on the public finances of both Brexit and the rise of the so-called 'gig' economy, where businesses are designed at the outset to only have self-employed workers, that he felt forced into taking action.

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Perhaps he also considered that Brexit itself, which was obviously not a pledge included in the 2015 election manifesto, was such a fiscal game changer that he was entitled to break the Tories' Tax Lock pledge. If so, then a bad Brexit could lead to future rate rises in the other taxes included in that pledge – Income Tax and VAT - as well as a further rise in National Insurance.

The Chancellor's other main tax raising measure saw him seek to limit the tax advantages of working through a company by slashing the tax-free dividend allowance. Unfortunately, this tax rise will not just hit those who work through companies, but will also hit investors with modest share portfolios yielding as little as £2,000 of dividends annually.

Indeed the tax-free dividend allowance was only introduced a mere 11 months ago, and was meant to be a replacement for the abolished dividend tax credit. However, this quid pro quo appears to have been quickly forgotten judging by the Chancellor's announcement. As a result, from April 2018, these investors will now suffer taxes on dividend income that are 25% higher than they would have experienced only a year ago.

On the spending side, the Chancellor announced three major cash injections – a £2.4 billion bailout of the social care system run by local councils; nearly £1 billion of new funding for technical education for 16-19 year olds; and over £1 billion of funding over the next five years for a new generation of free schools including, for the first time in over 50 years, new state grammar schools, one of Theresa May's key priorities.

Overall, with the crucial Brexit negotiations about to commence, Britain now stands at a crossroads. If the negotiations are successful then the British economy may continue to sail through the calm waters of steady growth and increasing tax receipts. However, if the negotiations go badly, then by the time of the Chancellor's next Budget in November, a financial storm may have struck, forcing him to announce further Brexit tax rises. Only time will tell.

This Briefing now focuses in depth on the Budget measures of relevance to our clients and contacts, and also details previously announced tax measures that are due to take effect in only four weeks' time on 6 April.

A. Personal Taxation

The Income Tax Personal Allowance for 2017/18 will be £11,500, an increase of £500 on the 2016/17 figure. However, the Personal Allowance continues to be withdrawn from individuals with income in excess of £100,000, and those with income between £100,000 and £123,000 will still suffer an effective rate of tax of 60% on the excess within that band.

The Basic Rate Band which is currently set at £32,000 for 2016/17 as previously announced will be increased to £33,500 for 2017/18. In addition, the Chancellor repeated the Government's aim to increase the Personal Allowance to £12,500, and the higher rate threshold to £50,000, by the end of this Parliament. The 45% Additional Rate of Income tax continues to apply to income in excess of £150,000.

From 6 April 2016, anticipating that the planned reductions in the Corporation Tax rate would result in a glut of business incorporations to avoid the much higher income tax rates, the Government decided to bring some balance by making it more expensive to extract profit by way of dividend. They achieved this by abolishing the dividend tax credit from April 2016, the mechanism whereby a deemed tax credit discharged the recipient's liability to basic rate income tax.

To compensate investors for this loss of tax credit, a special tax-free 'dividend allowance' of £5,000 was introduced from April 2016, exempting from Income Tax the first £5,000 of dividend income. However, less than a year after its introduction, the Chancellor has announced that the tax-free dividend allowance is being slashed from £5,000 to £2,000 from April 2018, in the interests of reducing the tax differential between those paying Income Tax as employees or self-employed individuals, and those who choose to operate through a company. This is clearly not good news for investors, and frustrating for those who plan their investment returns around post-tax income.

The ISA allowance will however increase from £15,240 to £20,000 (an increase of £4,760) from 6 April 2017. In addition, the Lifetime ISA, to be introduced from April 2017, will also allow younger adults to save up to £4,000 per annum with the Government contributing a 25% bonus for every £1 deposited, up to a maximum bonus of £1,000. Funds can then be withdrawn tax-free to put towards a first home or when individuals turn 60.

For disposals made on or after 6 April 2017, the higher rate of Capital Gains Tax ("CGT") will remain at 20% and the basic rate at 10%, but with some notable exceptions - specifically residential property where Principal Private Residence relief is unavailable, and carried interests, both of which will suffer CGT at 28% at the higher rate and 18% at the basic rate.

In addition, the CGT Annual Exempt Amount for 2017/18 will be £11,300, a £200 increase on the 2016/17 figure (£11,100).

Finally, clarification has been given on a welcome measure, previously announced, changing the rules for part surrenders and part assignments of life insurance policies to allow policyholders who have generated excessive tax charges arising on these policies to apply to HMRC to have the gain recalculated on a "just and reasonable basis". Following consultation, the legislation has been revised to clarify who can apply, and when and how the calculation is given effect.

B. The Taxation Of Foreign Domiciliaries

The tax changes that take effect on foreign domiciliaries on 6 April 2017 are the most significant since 2008, with the changes for offshore trusts being arguably the most significant since 1998. Therefore, if you are a foreign domiciliary or the trustee of an offshore trust who has not taken advice yet, then we would recommend that you do so as taking action prior to 6 April may be desirable.

Anyone born in the UK with a UK domicile of origin, defined as a Formerly Domiciled Resident ("FDR"), who is UK resident in a tax year will, whilst resident, be deemed domiciled in the UK for all tax purposes. This means no access to the Remittance Basis of taxation, no special treatment under the offshore anti-avoidance provisions, inheritance tax ("IHT") exposure on a worldwide basis on assets held directly, and any trust the individual has settled will be denied IHT excluded property status. There is a period of grace for IHT if the individual was not UK resident in either of the preceding two tax years.

An individual who has been UK resident in at least 15 of the immediately preceding 20 tax years, defined as a Long Term Resident ("LTR"), will be deemed domiciled for all tax purposes, meaning that there will be no access to the Remittance Basis of taxation and IHT exposure on worldwide assets.

However, the Government has mitigated the impact of the changes on LTRs - provided specified conditions are met there is rebasing relief, with foreign assets being deemed to have been acquired, for the purposes of calculating gains, on 5 April 2017, for LTRs who:

(i) Have paid the Remittance Basis Charge for a tax year prior to 2017/18;

(ii) Become deemed domiciled as at 6 April 2017 (this restricts the scope of the relief significantly); and

(iii) Do not meet the FDR criteria.

Provided the settlor is not a FDR, there are protections for trusts settled prior to the LTR becoming deemed domiciled. Broadly, provided there are no additions after 5 April 2017 to the trust (advice should be taken to avoid this), the settlor is only taxed if he, or in certain circumstances a close family member, receive a benefit. Furthermore, the trust will continue to benefit from IHT excluded property status. However, if there is an addition to the trust the entire income and capital gains tax protections will be lost.

In a further mitigation measure, there will be a two year window (6 April 2017 to 5 April 2019) during which anyone who is not a FDR and has used the Remittance Basis in one or more of tax years 2008/09 to 2016/17 can, if all the conditions are met, separate out the different components of a "mixed fund" and so the account can be "cleansed".

Changes to both the Income Tax and Capital Gains Tax ("CGT") trust offshore anti-avoidance provisions will also come into effect from 6 April 2017, and these are highly complex. The Income Tax changes will affect all UK resident foreign domiciled settlors of offshore trusts, and the CGT changes will apply to both UK and foreign domiciliaries. These changes are, therefore, far wider in scope than just being targeted at deemed domiciliaries.

We have produced a detailed Briefing Note (Sea Change: reforms to the taxation of foreign domiciliaries) on all the changes (see www.rawlinson-hunter.com/technical-updates/), which sets down our understanding of these complex rule changes as at 31 December 2016. In addition, the 2017 Finance Bill will be published on 20 March, and shortly after we will update our Briefing Note accordingly.

C. Inheritance Tax

There were no new IHT announcements in the Budget, but two previously announced proposals will take effect from 6 April 2017; the new residence nil rate band, and rules relating to UK residential property held in offshore companies and partnerships.

The nil rate band threshold (the tax-free allowance) for IHT remains at £325,000. However, from 6 April 2017, an additional residence nil rate band will be available if an individual leaves a home to their children or other direct descendants when they die. This additional relief will start at £100,000 for the year to 5 April 2017, increasing incrementally to £175,000 by 2020/21.

Like the existing nil rate band, any unused residence nil rate band will be available to transfer to a surviving spouse or civil partner. From 6 April 2020, a married couple could therefore pass on a residential property with a total value of £1,000,000 to their descendants free of IHT.

A “downsizing addition” will be available to preserve the value of the relief where the deceased had moved to a less valuable home. In addition, a home owned by certain types of trust, giving the beneficiary a right to occupy, will also qualify for the residence nil rate band if the property is taxed as part of his or her estate.

The residence nil rate band will however be withdrawn, via tapering, for an estate with a net value of more than £2,000,000, and this restriction will limit the availability of this valuable IHT relief, especially for property in central London.

The second IHT measure will be introduced on 6 April 2017 as part of the changes to the taxation of foreign domiciliaries. At present, UK residential property can be outside the scope of IHT if owned by foreign domiciliaries, or their trusts, via an offshore company or an offshore partnership. However, the new IHT rules will, in most cases, treat these structures as subject to IHT - the exception being widely owned companies which are not “close” for tax purposes - so that IHT will be payable from 6 April 2017 upon the occurrence of a IHT relevant event (eg. death).

The rules also bring within the scope of IHT “relevant loans” used to acquire UK residential property, assets used as security, collateral or guarantee for a relevant loan, and the disposal proceeds of a qualifying property interest, or funds from the repayment of a relevant loan.

For good measure, a specific anti-avoidance rule is also being introduced to disregard any arrangements which have as a main purpose securing a tax advantage by virtue of not being caught by the new IHT provisions.

An Annual Tax on Enveloped Dwellings for companies owning residential property has been charged since April 2013, and is remaining in place despite the change to the IHT treatment of those companies. The IHT changes described above however mean that there is no longer any UK tax advantage in owning a UK residential property for private use through a corporate vehicle. Therefore, if UK property-owning structures have not yet been reviewed, this should be considered as a matter of urgency.

Finally, in a separate unwelcome change coming into effect from May 2017, probate fees charged in respect of the compulsory registration of a death are being dramatically increased, from a current flat rate fee of no more than £215, to £20,000 for estates with a value in excess of £2,000,000. This is in effect an additional tax on the estate of the deceased.

D. Employment Taxes

As part of the Government's strategy to improve productivity and provide UK businesses with the talent and skills needed to succeed, the Chancellor reaffirmed his commitment to creating a highly-skilled UK workforce. In the landscape of Brexit, the Chancellor therefore wishes to demonstrate that the UK remains open for business. As a consequence, the policy measures to be introduced from 6 April 2017 are intended to benefit individuals, encouraging young people in particular to succeed in the workplace and to increase their earnings potential, with the inevitable quid pro quo being a significant cost to employers in tax rises.

The major new employment tax connected with this initiative, the Apprenticeship Levy, will therefore take effect on 6 April 2017. This is a new tax applying to all UK employers in all industry sectors, and will effectively apply where an employer's annual payroll bill exceeds £3 million. The Levy will apply at a rate of 0.5% and will be paid by employers through the PAYE system, and is forecast to raise £14 billion over the next five years, and will be used to fund 3,000,000 new apprenticeships.

Employers who do not trade through a company will clearly feel the impact of the Levy the most as, when combined with the increase in Class 4 National Insurance Contributions ("NIC") for self-employed individuals (see below), they will not benefit from the compensating reduction in the rate of Corporation Tax.

In a further tax raising measure, termination payments in excess of £30,000, which are already subject to Income Tax on the employee, will also be subject to Class 1 secondary NIC on the employer from April 2018. In addition, the Government intends to tighten the scope of tax of the £30,000 exemption by taxing termination payments where the employee's notice period is not worked. These measures are projected to raise an additional £1.65 billion over the next five years.

Cash remuneration is not however the Chancellor's sole focus. There will also be changes to the taxation of certain employee benefits in kind and expenses, including typical benefits such as mobile phones and gym memberships. The current tax and NIC incentives for both employees and employers of using a salary sacrifice arrangement for the employee to purchase such non-cash benefits will begin to be withdrawn from 6 April 2017, raising the cost for both the employee and the employer.

However, existing salary sacrifice schemes that are already in place prior to 6 April 2017 will be subject to transitional provisions so they can be revised before a later effective date of 6 April 2018, or 6 April 2021 for benefits which will be more complicated and potentially more costly to rearrange, including company cars, employer-provided accommodation, and school fees.

Finally, the Chancellor has announced that the Government will undertake a public consultation on different forms of remuneration provided by employers, and consider how the tax system could be made "fairer and more coherent" in relation to the valuations being put forward for calculation of the benefit of living accommodation and other benefits provided by employers. The suggestion that the Government will "support taxpayers during any transition" implies that more tax rises are to come, with perhaps nanny flats in London being a soft target for a future tax raid.

E. Self-Employment Taxes

The move towards a greater proportion of the UK workforce being self-employed (currently 15%) rather than employed, has led to a drop in NIC receipts, as the NIC rates for these workers are lower. The lower rates reflect not only the reduced benefits available to self-employed workers, but also the absence of many of the rights conferred on employees, such as paid sick leave and paid annual holidays.

Disregarding these important differences, the Chancellor announced that Class 4 NIC rates will be raised for the self-employed from April 2018, with an additional 1% added to the current rate of 9% for profits between £8,164 and £45,000, and a further increase to 11% from 6 April 2019. There was however no change announced to the current Class 4 NIC rate of 2% on profits exceeding the upper limit.

In addition, the previous Chancellor's announcement to simplify the NIC system for the self-employed by the abolition of the flat rate Class 2 NIC of £2.80 per week also comes into effect in April 2018, and this will offset the increase in Class 4 NICS for many of the lower paid.

This is purely a revenue raising measure and is also a breach of an explicit Conservative Party election manifesto commitment not to raise NIC rates. In addition, by April 2019, the gap between 11% Class 4 NIC for the self-employed and 12% Class 1 NIC for the employed will narrow to just 1%. It is perhaps only a matter of time before the Class 4 rate is harmonised with the Class 1 rate.

In a further tax raising measure, tax reforms to self-employed workers providing services to public sector organisations via intermediary companies (so called "off-payroll workers") will take effect for contracts entered into, or payments made, on or after 6 April 2017.

The reforms will, in broad terms, force these self-employed workers onto the public sector payroll by transferring responsibility for determining whether the off-payroll rules apply from the worker's intermediary company to the public sector body, i.e. to the "employer", or to the agency paying them. In addition, the public sector body will also be responsible for deducting and paying the tax and NIC to HMRC as it would under a normal employment relationship.

HMRC have however confirmed that the existing self-employment rules will continue to apply for workers providing services via an intermediary company to end clients outside the public sector.

The new rules provide that the 5% allowance, available to a worker's intermediary company to reflect the costs of administering the rules, will be removed for those providing services to the public sector. It will also be optional for the public sector body to determine whether or not they take account of the worker's expenses when calculating the tax due on the earnings paid to the worker.

There however remains significant doubt over whether these workers will be able to access the benefits of employment, despite suffering deduction of tax under PAYE. Further legal developments on workers' rights such as the recent Uber case may help standardise the quasi-employment rights that the self-employed can expect, which is good news for them but perhaps not for their customers and clients?

F. Business Taxes

It is fair to say that much of what the previous Government promised in 2010 in its 'Business Tax Road Map', to make the UK's business tax regime one of the most competitive in the G7 by 2020, had already been laid down in legislation. There was therefore little left for the Chancellor to surprise us with in this Budget except to confirm, yet again, a cut in the Corporation Tax rate from April this year to 19%, and from April 2020 to 17%.

Britain therefore enjoys a relatively benign tax environment for companies compared with other major countries – particularly for foreign investors who are not liable for UK tax on dividends.

The Government also continues to incentivise certain key sectors of the economy, and from April it will extend further its suite of "creative sector" reliefs (film, TV, animation and theatre) to include certain museums and galleries putting on exhibitions. The mother of all tax reliefs, however, is the Research & Development Tax Credit regime, and the Government is further consulting on how to expand the take up of what is an extremely valuable relief and tax credit regime for innovative companies.

There were some minor announcements in the Budget, including an anti-avoidance provision to remove the ability for a business, which chooses to appropriate a capital asset (such as an investment property) to trading stock, to elect to convert what would otherwise produce a capital loss into a trading loss. The new rule, effective immediately, will only allow the election where the appropriation results in a capital gain.

The more important rule changes that take effect from April 2017 have however already been fully announced, and draft legislation has been published in the Finance Bill 2017. These include:

- Reforming the Substantial Shareholdings Exemption to remove the investing company requirement, and providing a more comprehensive exemption for companies owned by certain institutional investors;
- Reforming the carry forward loss relief rules for corporates which on the one hand provide more flexibility for relieving different types of losses (e.g. trading, property and other non-trading losses) against future profits, but on the other hand restrict the use of carried forward losses so they cannot reduce profits, above £5 million, by more than 50%. The rules apply only to losses and profits arising on or after 1 April 2017; and
- Repealing the existing 'debt cap' legislation and introducing, from 1 April 2017, new rules which, in their broadest terms, will restrict Corporation Tax relief on interest to 30% of a group's EBITDA. The new legislation comes in the wake of the OECDs 'Base Erosion and Profit Shifting' (BEPS) action plan, but is intended to apply only to the UK's larger multinational groups. The first £2 million of a group's net interest expense will therefore always be deductible, thereby taking most SME's outside of the regime.

Looking beyond April 2017, the Government has also confirmed that it will, as promised, introduce changes to partnership taxation, and will consult on bringing non-resident companies, with UK source income and gains, into the scope of Corporation Tax.

Overall, the Government's moves towards lower Corporation Tax rates, easier access and tax simplification are to be applauded, and should help the UK to continue to be a leading destination jurisdiction for multinationals and innovative businesses in a post-Brexit Britain.

G. Making Tax Digital

The Government's roadmap for the digitalisation of tax by 2020 was released in late 2015, followed by a consultation phase during which six key areas for the "Making Tax Digital" ("MTD") initiative were scrutinised by record numbers of public responses. The original intention was for the smallest businesses (self-employed individuals, partnerships, LLPs and landlords) to commence reporting their income and profit data to HMRC on a quarterly (or more frequent) basis from April 2018; companies would then follow into the regime in April 2020.

Although it appears odd to ask the smallest, and the least technologically prepared, taxpayers to roll first into MTD, the initiative itself has laudable aims and, given the pace of technological change, it is not a surprising move. However, what underlines HMRC's keenness for this initiative is their hope that, by automatically capturing information much earlier than at present, they can harness the estimated £8 billion of tax shortfall annually arising out of errors or omissions in tax returns.

The inference must be that HMRC considers that most of this tax is lost through those small taxpayers who are targeted first. Longer term, whilst not a stated policy aim, it should also be expected that this initiative will harvest sufficient information on a taxpayer's affairs on a quarterly basis to move forward the date of payment of their tax liabilities.

In HMRC's response to the consultation phase that was issued at the end of January 2017, alongside other concessions, they have proposed a pilot phase to commence for "invited" taxpayers from April 2017, and also announced that they are considering exempting certain unincorporated businesses, including LLPs, and landlords for a period of one year from the first wave of quarterly reporting under MTD.

The Government therefore confirmed in the Budget that whilst MTD will apply for all unincorporated businesses, including LLPs, and landlords with income levels in excess of £10,000, those whose turnover levels are less than the current VAT threshold (£85,000 from April 2017) would have their entry into MTD deferred until April 2019, rather than joining in April 2018. However, those unincorporated businesses and landlords above the VAT threshold will commence MTD reporting from April 2018 as planned.

This is a welcome move. It will allow smaller businesses time to adjust to the new reporting requirements, and will give those businesses which do not use bookkeeping software the opportunity to move to accounting packages which are appropriate for their size, are easy to use, and help them meet their MTD commitments. It will also give HMRC valuable time to refine their own IT processes to ensure that they can properly process the influx of data.

H. Property Taxes

Recent Budgets have generally been bad news for property investors, both individuals and corporate, with one of the most significant changes being the introduction of the 3% stamp duty land tax ("SDLT") surcharge which broadly applies to second properties acquired on or after 1 April 2016. This time, despite a great deal of lobbying from the property industry, the Chancellor was silent on the high rates of SDLT and the 3% surcharge, and did not announce any further alterations to the already complex SDLT regime.

In fact, the Chancellor showed a hint of being in listening mode on SDLT matters - responding to industry concerns about the proposed reduction in the SDLT filing and payment deadline from 30 days to 14 days from April 2017, he announced that this measure would be deferred until after April 2018.

A further measure aimed squarely at individual property investors, including partnerships, which was previously announced by George Osborne but applies from 6 April 2017, is the restriction of higher rate tax relief on mortgage interest payments on buy to let property. An individual is currently entitled to deduct 100% of the mortgage interest paid on a rental property against their rental income - for a higher rate taxpayer this means tax relief at up to 45%. However, over the next four tax years, starting from 6 April 2017, the tax relief on mortgage interest payments will be reduced to the 20% basic rate only. This will be achieved by allowing a deduction from rental income of only 75% of the interest paid in 2017/18, with further reductions taking effect every year until 2020/21.

As a result of these changes, individuals who have a heavily geared property portfolio could make an economic loss, but still face a significant tax liability due to the disallowance of their mortgage interest costs.

The higher level of taxable income could also result in an individual losing some or all of their personal tax allowance, or being liable to Income Tax at 45% rather than 40% as they may have been anticipating. Furthermore, individuals who have previously been basic rate taxpayers could unwittingly become higher rate taxpayers. This could affect other tax relief and allowances, as well as potentially affecting benefits such as tax credits or Child Benefit. It is therefore important to obtain tax advice to ensure that the impact of these changes is minimised as far as possible.

In a further crackdown on perceived tax avoidance in UK property, the Chancellor announced that the new rules relating to profits from trading in or developing land in the UK, which were introduced in July 2016, will now be extended to include all profits recognised in accounts on or after 8 March 2017. Previously the new rules only applied to disposals made on or after 5 July 2016 where the contract for the disposal was entered into on or after 5 July 2016. Broadly, all such profits will now be subject to Corporation Tax regardless of the date the contract was entered into, putting all property developers on the same tax footing.

Finally, a reminder that for properties held in companies, which are therefore within the scope of the Annual Tax on Enveloped Dwellings ("ATED") regime, next year's ATED returns (ie those for the ATED year commencing 1 April 2018, due to be filed by 30 April 2018) must be based on the property value as at 1 April 2017. Although this does not affect ATED filings to be made this April, affected companies may wish to consider obtaining contemporaneous valuations now in anticipation of this change.

I. Pension Taxes

The Government has reaffirmed its commitment to the reduction in the money purchase annual allowance (MPAA) from £10,000 to £4,000 from 6 April 2017. The MPAA restricts the amount of money people can re-invest into a defined contribution pension once they have started to take benefits from their accumulated savings under the pension freedoms.

The pensions industry had put the Government under significant pressure to drop this measure, either calling for it be delayed or scrapped altogether, but to no avail. This reduction will therefore further limit the extent to which pension savings can be recycled to take advantage of tax relief, which the Government believes is not within the spirit of the pension tax system.

The Chancellor has also announced that transfers to qualifying recognised overseas pension schemes (QROPS) will suffer a 25% tax charge unless certain strict conditions are met. Therefore, for pension transfers requested on or after 9 March 2017, transfers to QROPS will be subject to a tax charge, which will be applied to the pension plan before the transfer is made, unless either:

- The individual and the QROPS are resident in the same country following the transfer; or
- Both the individual and the QROPS are resident in any country within the EEA; or
- The QROPS is an occupational pension plan sponsored by the individual's employer.

The transfer to a QROPS will become subject to the 25% tax if, within five complete UK tax years, the relevant individual becomes resident in another country such that the exemptions would not have applied to the original transfer. Conversely, the UK tax charge will be refunded where the individual made a taxable transfer and within five complete UK tax years one of the exemptions applies.

As a further change, regardless of whether the transfer is subject to the 25% tax charge, payments out of the funds transferred to a QROPS will remain subject to the UK tax rules regardless of where the individual is resident. These changes altogether will therefore substantially reduce the flexibility currently offered by the QROPS regime.

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J. Value Added Tax

With effect from 1 April, the VAT registration threshold will increase to £85,000, and the VAT deregistration threshold will increase to £83,000.

In addition, the "use and enjoyment" rule will be removed for UK businesses supplying mobile phone services to UK non-business customers. Under current rules, mobile phone use by a UK resident in the EU is subject to UK VAT, but not if the use is outside the EU. Under the new rules, both supplies are subject to UK VAT to prevent mobile phone companies using the inconsistency to avoid UK VAT. This change will also bring the UK VAT rules into line with the internationally agreed approach, and will be implemented from 1 August 2017, which means those taking 2017 summer holidays outside the EU after this date will find using their mobile phone more expensive.

Measures will also be introduced to combat VAT evasion on the provision of labour in the construction industry. This measure targets suppliers of labour invoicing the contractor with VAT, with the contractor paying the VAT over to the supplier, recovering the VAT in the normal way, but the supplier not accounting to HMRC for the VAT charged. This is known as "missing trader" fraud.

The Government will therefore consult on options to combat this type of fraud with the likely result that the recipient of the supply of labour will have to account for VAT on behalf of the supplier, commonly known as the "reverse charge". Those operating in the construction industry should therefore urgently review the consultation document when it is published.

According to the Government, many overseas traders evade paying UK VAT when their UK customers purchase goods via online marketplaces. The Government will therefore be considering a new VAT collection mechanism for online sales by adopting technology to allow VAT to be directly extracted by HMRC at the point of on-line sale. These measures will be incorporated as part of the Fulfilment House Due Diligence Scheme (FHDDS), and will require all UK fulfilment houses to register with HMRC from 1 April 2018.

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