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United Kingdom tax alert

Impact of Spring Budget 2017 on foreign-owned groups

The UK Chancellor of the Exchequer delivered the last-ever Spring Budget on 8 March 2017, before the UK changes to an annual Autumn Budget later in 2017. The budget announcement took place against the background of a significant upgrade to the UK's growth forecasts for this year and the second fastest growth rate in the G7. Following the significant changes to the UK's tax system in recent years, this was a budget to reassure business, without the introduction of significant new measures, and the Chancellor reaffirmed that the UK remains "open for business."

This alert sets out the key measures for foreign-owned groups. For detailed coverage and comment on the UK Budget 2017, visit Deloitte's dedicated website at **www.ukbudget.com.**

Business tax

The Chancellor's focus for business tax was on maintaining stability and encouraging investment in the UK economy. He reaffirmed the government's commitment to the "Business Tax Road Map," which was announced in Budget 2016, and many of the key measures of the road map are discussed below (for prior coverage, see the **alert dated 16 March 2016**).

Corporate tax rates: The Chancellor confirmed the decrease in the corporation tax rate from the current 20% to 19% as from 1 April 2017, and to 17% from 1 April 2020. These reductions have been contained in previous finance acts and, therefore, already have been enacted.

Changes to interest deductibility: The Chancellor confirmed that the government will introduce legislation in Finance Bill 2017 to further limit the deductibility of financing costs with effect from 1 April 2017.

Draft legislation was issued on 26 January 2017 and has been the subject of a consultation process. Several changes were announced to the draft legislation in response to the consultation, including measures to reduce the potential compliance burden of these new rules to deal with issues associated with specific industries, and to remove certain restrictions that could prevent deductions for carried forward interest expense.

Hybrid mismatch arrangements: The Chancellor did not announce any significant changes to the UK's hybrid mismatch rules, enacted in Finance Act 2016 and that came into effect on 1 January 2017. However, the Chancellor did reaffirm a number of technical modifications that originally were announced on 5 December 2016.

The first measure removes the need for formal claims to be made in certain circumstances with respect to hybrid financial instruments and hybrid transfer arrangements. This will reduce the administrative burden on businesses, given that the formal requirement was anticipated to give rise to a high number of claims.

The second measure simplifies the application of the rules and provides for amortization deductions to be disregarded when considering whether there is a hybrid deduction non-inclusion mismatch. This measure will apply only to Chapters 5 to 8 of the legislation, although specific changes also will be made in the context of imported mismatches.

These changes will apply retroactively from 1 January 2017.

Changes to loss relief rules: The Chancellor confirmed that the government will include legislation in Finance Bill 2017 to reform the UK's loss relief rules. No significant changes were proposed to the operation of the proposed rules. However, the Chancellor announced that the draft legislation issued on 26 January 2017 will be revised to include provisions that will apply to oil and gas companies and oil contractors (for prior coverage, see **tax@hand article dated 31 January 2017**).

R&D tax review: The UK's R&D tax credit system has been amended in recent years to enhance its attractiveness, notably in the change from a super deduction regime to an above-the-line tax credit regime. Following a review of the current system, the government has concluded that it remains both effective and internationally competitive. However, to encourage further investment, the process for claiming the R&D expenditure credit will be simplified to make the administrative burden as straightforward as possible and to provide additional certainty. The regime will be kept under review in the future.

Withholding tax: Two changes have been announced in respect of withholding tax on interest payments made by UK companies:

- The UK's existing double tax treaty passport (DTTP) scheme enables foreign companies lending to UK borrowers to obtain a DTTP, confirming that it meets the requirements of the relevant treaty with the UK. The effect of a DTTP is that the treaty rate should be available to all loans made by that company to UK companies without the need to apply for advance clearances on each loan. The Chancellor now has announced that the mechanics of the system will be

simplified, with the aim of making it easier for UK companies to raise finance; and
- An exemption will be introduced in respect of debt traded on a multilateral trading facility. The government will open a consultation on the implementation of this exemption, which may be similar to the existing exemption from withholding tax for interest paid in respect of quoted Eurobonds.

Substantial shareholding exemption (SSE): The Chancellor confirmed that amendments will be made to the proposed simplification of the SSE in advance of the new rules coming into effect from 1 April 2017. The reforms will make it easier to claim the exemption, removing restrictions on ownership while still requiring that the company being sold is an active trading company.

Industry-specific measures

The Chancellor made a number of announcements relevant for specific industries, including the following (for prior coverage of the Autumn Statement, see the **alert dated 23 November 2016**):

- **Insurance**: As announced in the Autumn Statement 2016, the rate of Insurance Premium Tax will be increased from 10% to 12% from June 2017. Existing anti-forestalling legislation will be repealed and replaced with new anti-forestalling legislation with effect from 8 March 2017.
- **Oil and gas companies**: In the Autumn Statement 2016, the government announced measures to streamline the process for companies to opt out of the Petroleum Revenue Tax regime, in cases where they have never paid the tax or to simplify the reporting process in other cases. Revised legislation will be published on 20 March 2017 and will have retroactive effect from 23 November 2016.
- **Offshore property developers**: The government will legislate in Finance Bill 2017 to bring all profits from dealing in or developing UK land recognized on or after 8 March 2017 into the charge of UK corporation tax or income tax, irrespective of whether the contract for disposal was entered into before 5 July 2016.

Compliance

Large business tax review: The UK tax authorities (HMRC) will launch a consultation into its process for profiling the risk of large businesses, with the aim of promoting stronger compliance and further reducing the tax gap. The consultation is expected to be released before summer 2017 and will run for 12 weeks.

Making tax digital: The “Making Tax Digital” process was announced in 2015 and will radically alter the way in which the self-employed, landlords and small companies keep accounting records, including a requirement to submit a quarterly summary to HMRC. Legislation will be contained in Finance Bill 2017 to bring this into effect from April 2018, with a deferral to April 2019 for those with sales/rents below GBP 83,000. The new regime will apply to small companies subject to corporation tax from April 2020.

Anti-avoidance: The Chancellor announced limited anti-avoidance measures, including legislation to prevent the conversion of capital losses into trading losses by way of the appropriation of certain capital assets to trading stock. The new rules will have immediate effect.

Payroll taxes

National Insurance Contributions (NIC): One key measure announced in the budget was the increase in NICs for self-employed individuals to align these more closely with NICs for employees. Given that the main effect of this change will be felt by individuals, we would not expect foreign-owned multinationals to be impacted significantly.

Salary sacrifice: The 2016 Autumn Statement included an announcement to amend the taxation of benefits in kind received by employees via salary sacrifice arrangements, with effect from 1 April 2017, subject to limited grandfathering. The changes will remove the tax advantages of providing benefits in this way.

Indirect Taxes

Business rates: A business rates revaluation will take effect in England from 1 April 2017 that will impact the level of business rates that are charged. This budget announced additional relief for lower value properties disproportionately affected by increases. The government has announced that revaluations will take place more frequently in the future to avoid the large swings that can result in infrequent revaluations. The preferred approach for achieving this will not be announced until the Autumn Budget 2017, but the government has confirmed it will launch a consultation ahead of the next revaluation due in 2022.

Value added tax (VAT): The Chancellor announced that the government will remove the VAT use and enjoyment provision for mobile phone services provided to UK consumers. This will bring services used outside the EU into the scope of UK VAT. Additional legislation and detail of the impact is due to be released later in 2017.

Contacts

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