

The last Spring Budget was not, perhaps thankfully, one to write home about. There were no hats, let alone rabbits, in sight.

National Insurance Contributions (NICs)

As was widely expected, the Chancellor paid some attention to levelling the playing field across different employment mediums, with a particular focus on the difference in NICs treatment between self-employed and employed earners.

Under current rules, employees pay Class 1 NICs at 12% on earnings between £827 and £3,583 per month and 2% on earnings above that level. Employers then pay an additional 13.8% on salaries and the majority of benefits (with no cap on the level of remuneration).

By contrast, self-employed individuals pay Class 4 NICs at 9% on profits between £8,060 and £43,000 with 2% being paid on profits above that level. Class 2 NICs are also due (at £2.80 per week), but the government had already announced that Class 2 NICs will be abolished from April 2018.

Taking account of the 3% differential in Class 1 and Class 4 rates, and the abolition of Class 2 NICs, the government consider that the differential between NICs paid by employees and those paid by the self-employed is too great.

To reduce this differential, the Chancellor has announced that the main rate of Class 4 NICs will increase from 9% to 10% in April 2018 and then to 11% in April 2019 (a relief for those who thought that the rate would see an immediate 3% hike).

When taken together with the abolition of Class 2 NICs, it is expected that only self-employed individuals with profits above £16,250 will have to pay more in the way of NICs.

Pre-announced Changes

In the main, therefore, most of the announcements in the Budget contained reiterations of measures previously announced. Of particular interest are:

- **Making good on benefits-in-kind (BIK)**

6 July, following the tax year in which a BIK is proved, has been set as the date by which employees will be required to "make good" on BIKs which are not accounted for through PAYE (which will have the effect of reducing the taxable value of the BIK, often to zero, where the making good takes place by that date).

The change will affect making good on a tax liability arising from the 2017/18 tax year onwards.

- **Salary sacrifice**

Income tax and employer's NICs advantages arising in respect of certain salary sacrifice arrangements have been removed. Transitional rules will protect employees who have entered contractual arrangements before 6 April 2017 (until the earlier of either a variation or renewal of the contract or 6 April 2018).

The most common salary sacrifice benefits (employer-provided pensions, childcare vouchers, employer-provided childcare/workplace nurseries, cycle to work schemes and ultra-low emissions cars) will, however, be excluded from this measure.

- **Termination payments**

Changes will be made to the tax treatment of termination payments from 6 April 2018. These changes include making all contractual and non-contractual payments in lieu of notice taxable as earnings and requiring employers to tax the equivalent of an employee's basic pay if notice is not worked.

Legislation will also be introduced 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 NICs.

- **Off-payroll working reform**

The reform of off-payroll working (e.g. individuals operating via service companies) in the public sector will go ahead. Responsibility for operating the off-payroll working rules and deducting any tax and national insurance due will move to the public sector body, agency or other third party paying an individual's personal service company with effect from 6 April 2017.

Interestingly, there was no extension of these changes to the private sector as had been anticipated by some commentators in the run up to the Budget.

Finally, in line with the drive to align the various ways in which individuals are remunerated, the government has also announced that it will consider how the tax system could be made fairer and more coherent in respect of employee benefits and expenses. Consultation on the taxation of BIKs, accommodation benefits and employee expenses are expected to be published soon, suggesting that further changes can be expected in the Autumn Budget later this year.

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