Budget 2020

March 2020

UNLOCKING TAX

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DRIVING LIFELONG PROSPERITY

Contents

Introduction - Rishi pickings

Rishi Sunak may have only been Chancellor for four weeks, but he has certainly started with a bang. Rarely do you see such a significant spending plan with very little in the form of tax measures to pay for it. It would appear clear that the Chancellor is going to be using the very low interest rates currently available and borrow to fund, because the annual net cost of the measures announced amount to £42 billion by 2024/25.

The backdrop of the coronavirus outbreak meant that the Chancellor immediately had to address what the government was going to do to assist businesses and the NHS. This came in the form of a £30 billion package of measures including:

- statutory sick pay for those who are advised to self-isolate, even if they are not displaying symptoms;
- business rates for shops, cinemas, restaurants and music venues with rateable values below £51,000 suspended for a year;
- a £500 million hardship fund to be given to local authorities to help vulnerable people in their areas;
- fiscal loosening of £18 billion to support the economy this year, including £5 billion to the NHS and other public services;
- a temporary coronavirus business interruption loan scheme, for banks to offer loans of up to £1.2 million to support small and medium-sized businesses; and
- meeting the costs for businesses with fewer than 250 employees of providing statutory sick pay to those off work due to coronavirus.

Whilst the growth forecasts have been downgraded, the Chancellor stated that, due to the additional investment being made in light of the coronavirus outbreak, the forecasts are 0.5% per annum better than would have been the case without it.

Further spending promises came for road, rail, housing and broadband projects that could, in total, come to in excess of £600 billion.

On the tax side, the giveaways kept coming, with the national insurance contributions tax threshold rising from £8,632 to £9,500, the abolition of VAT on women's sanitary products, to come in from 1 January 2021 and a freeze on beer, cider, wine, spirits and fuel duty, even though the Chancellor stated they could no longer afford to continue to freeze fuel duty!

He also confirmed some of the giveaways that had previously been announced, including an increase in the structures and building allowance from 2% to 3%, an increase in the R&D expenditure credit from 12% to 13% and an increase in the employment allowance from £3,000 to £4,000, but only for businesses with less than £100,000 employer's NIC in the prior year.

And then came the less positive news, with the entrepreneurs' relief allowance reducing from £10 million to £1 million, the same rate as on its introduction in 2008, with immediate effect. Buried in the detail are anti-avoidance rules that block schemes that sought to crystallise the tax point of disposals prior to Budget day.

Pensions continue to be tweaked, predominantly because of the impact the rules have on surgeons and consultants, who are reluctant to take on extra shifts, because of the punitive tax they end up paying. As a result, the thresholds at which the £40,000 pensions contribution is tapered have been increased by £90,000. However, the allowance will now taper down to £4,000 from 6 April 2020, rather than the £10,000 that currently exists.

A new surcharge of 2% for stamp duty land tax will apply for any non-UK resident acquiring UK properties, but the additional monies raised from this measure are to be ring-fenced to tackle rough sleeping.

It was always going to be a challenge for the Chancellor to put together a Budget amidst so much economic uncertainty and it is perhaps not a surprise that his tax measures are relatively light touch. However, the books will have to be balanced eventually, which may well result in additional tax raising measures in the future.

Personal tax and capital gains

ENTREPRENEURS' RELIEF SLASHED

As many expected, the Chancellor announced a reduction in the ER lifetime limit from £10 million to £1 million for sales on or after 11 March 2020.

The detail released after the Budget speech included some anti-forestalling provisions to cover situations where taxpayers had tried to engineer an earlier tax point to avoid any changes to ER that they feared may be included in the Budget. This included the use of unconditional exchange of contracts and share for share exchanges prior to the Budget date.

ISAS

The adult ISA limit will be maintained at £20,000 for 2020/21 rising in line with consumer price index thereafter. The adult ISA threshold was originally increased to £20,000 in 2017/18.

This means that a couple will still be able to put £40,000 into ISAs throughout 2020/21.

The Junior ISA and Child Trust Fund annual subscription limit will be increased from £4,368 to £9,000 from 2020/21. By saving towards their future, families can give children a significant financial asset when they reach adulthood – helping them into further education, training, or work.

TOP SLICING RELIEF

Top slicing relief allows for a chargeable event gain to be 'top sliced' to reflect the number of years the associated life policy gain has been earned over. Previously, the effect of a chargeable event gain could be to reduce the personal allowance where the total chargeable event gain causes an individual's adjusted net income to exceed £100,000.

For all relevant gains occurring on or after 11 March 2020, the personal allowance will be calculated with reference to the taxpayers other income and only the proportion of the gain after the top slicing relief calculation, when the gain is divided by the number of years for which the policy has been held.

This is expected to impact around 2,000 individuals who return these gains annually.

Business tax

BUSINESS RATES AND CASH GRANTS TO SMALL BUSINESSES

The main announcement on business rates was one of the measures to help small businesses trying to cope with the effect of coronavirus. It was the abolition of the charge for one year for all shops, restaurants, cinemas and music venues with rateable values below £51,000. In addition, pubs with a rateable value of less than £100,000 will have a £5,000 discount on their business rates.

The Chancellor also announced a review into the long-term future of business rates, which are often blamed for the contribution they have made to the demise of the high street.

Employers with less than 250 employees are expected to be able to claim up to £2 billion to cover the cost of sick pay for absences due to coronavirus, and for up to 700,000 small businesses not paying business rates, cash grants of up to £3,000 will be made available.

CAPITAL ALLOWANCES

Structures and buildings allowance (SBA)

Tax relief is given for the costs of qualifying non-residential structures and buildings at a rate of 2% per annum under the current SBA. This rate is increasing to 3% per annum from 1 April 2020 for corporation tax purposes and 6 April 2020 for income tax purposes, shortening the time it takes to fully relieve qualifying expenditure from 50 years to 33 years and 4 months.

Zero and low emission cars

First year allowances on ultra-low emission vehicles has been extended from 1 April 2021 to 31 March 2025, with the emissions threshold reducing from 50g/km to 0g/km.

The level of CO_2 emissions for business cars to attract writing down allowances within the main pool at 18% pa has been reduced from 110g/km to 50g/km, effective from 1 April 2021. Business cars with emissions exceeding 50g/km will be eligible for writing down allowances at 6% per annum within the special rate pool.

The lease rental restriction will also be based on emissions of 50g/km with effect from 1 April 2021 (currently 110g/km).

Enhanced capital allowances in enterprise zones

100% first year capital allowances will continue to be available for companies investing in new plant and machinery (within designated assisted areas within enterprise zones) until at least 31 March 2021.

RED DIESEL

Good news for farmers! Despite the Chancellor announcing that many businesses will no longer be entitled to use red diesel, sectors including agriculture, fish farming, the railways and power to non-commercial heating systems will not be affected.

The red diesel duty fuel rate in 2019/20 was 11.14 pence per litre compared to the main fuel rate duty of 57.95 pence per litre.

The entitlement will not be removed until April 2022 for all other businesses, giving them time to improve the efficiency of their vehicles and machinery or look for greener alternatives.

Corporation tax

CORPORATION TAX

The corporation tax rate is to be held at 19%, rather than falling to 17% from April 2020 as originally planned. The 19% rate is set for the tax years 2020/21 and 2021/22 as well. This rate of corporation tax does not apply to ring fenced profits of oil and gas companies, which remain subject to different corporation tax rates.

Deferred tax assets and liabilities will need to be recalculated at 19% for companies with balance sheet dates on or after the date that the Finance Bill 2020 is substantively enacted.

RESEARCH AND DEVELOPMENT (R&D)

R&D expenditure credits for corporation tax

The R&D expenditure credit is increased from 12% to 13% with effect for expenditure incurred on or after 1 April 2020. This means that the effective cash value of the R&D expenditure credit post tax increases from 9.72% to 10.53%.

R&D PAYE cap

The amount of payable R&D tax credit that can be claimed by a company under the SME scheme was due to be limited to 300% of the company's total PAYE and employee's Class 1 NIC payment for the period, with effect from 1 April 2020. The Budget has delayed this measure until 1 April 2021. Furthermore, a £20,000 threshold will be introduced below which a R&D claim will not be subject to the cap.

LARGE BUSINESSES

Notification of uncertain tax positions

From April 2021, businesses with turnover above £200 million per annum or a balance sheet total of more than £2 billion will be required to notify HMRC where they take a tax treatment that is reliant on an uncertain legal interpretation that HMRC is likely to challenge.

Corporate capital loss restriction

The 2018 Budget announced that from 1 April 2020, chargeable gains that can be relieved by brought-forward capital losses may be restricted to 50%. This measure applies where the utilisation of brought forward capital and income losses exceeds £5 million per annum, with this threshold being shared between members of a corporate group.

The 2020 Budget introduces an exemption from these rules for companies under insolvent liquidation, with effect from April 2020.

INTANGIBLE FIXED ASSETS

The Budget has introduced a measure to simplify the overly complex intangible fixed assets (IFA) tax regime. IFAs that were created before April 2002 fall under the chargeable gains rules for corporation tax purposes. For related party acquisitions from 1 July 2020, such assets will fall out of the chargeable gains regime and instead be taxed under the corporate IFA regime. This measure covers IFAs including intellectual property such as trademarks, patents etc.

Employment allowance increase

EMPLOYMENT ALLOWANCE INCREASE

The Chancellor announced an increase to the employment allowance in the 2020 Budget. This allowance will increase by one third from £3,000 to £4,000 from April 2020. This measure is expected to reduce national insurance contribution (NIC) bills to nil for up to 65,000 businesses, allowing them to take on staff without incurring additional NIC liabilities.

Employers eligible for the employment allowance are required to have an employer's NIC liability of under £100,000 in the previous tax year and not breach the de minimis state aid rules.

CARS, VANS AND FUEL

Changes to car and van benefits were announced as follows:

- The flat rate van benefit charge will increase from £3,430 to £3,490.
- The multiple for car fuel benefit charge will increase from £24,100 to £24,500.
- The flat rate van fuel benefit charge will increase from £655 to £666.

All above increases are in line with the consumer price index and will take effect from 6 April 2020. From April 2021, zero-emissions vans will not be subject to the van benefit charge.

In addition, the Budget announced the relevant percentage used to calculate the taxable benefit, following a provision of a company car or private fuel benefit, would be temporarily reduced if a new car registered from 6 April 2020 was provided. The relevant percentage rate will be reduced by 2% in 2020/21 before returning to planned rates over the following two years. This will be by an increase of 1% in 2021/22 and 1% in 2022/23.

Rates for low emission cars will also be significantly reduced from April 2020. Pure electric cars will not be subject to a benefit in kind for 2020/21 and hybrids could also see significantly reduced rates depending on their electric mileage range.

National insurance

The Chancellor announced an increase in the primary threshold and lower profit limit for national insurance (NI) to £9,500 in April 2020.

This measure will increase the primary threshold for employees and the lower profits limit for the self-employed. This increase is expected to save a typical employee around £104 per year and a self-employed person around £78 per year in 2020/21. In addition, around 1.1 million people will be taken out of paying Class 1 and Class 4 NI entirely. This is the first step in the government's aim to increase this threshold to £12,500. The secondary threshold has a smaller increase to £8,788.

It was also announced that employers of veterans will be able to claim a 'holiday' rate of 0% Class 1 secondary NI when employing veterans who have left regular service. This holiday rate lasts for one year from the date of commencement of the eligible veterans first civilian employment. This comes into effect from April 2021.

Pensions: A gift with a sting

The Chancellor announced an increase to the two thresholds over which the annual allowance begins to be tapered from 6 April 2020. Those individuals with a ‘threshold income’ of up to £200,000 and ‘adjusted income’ of up to £240,000 will no longer be subject to a restriction of the annual pension allowance.

As a reminder, the threshold income is broadly net income reduced for personal pension contributions and the adjusted income is net income including pension contributions (both personal and employer). The annual allowance is reduced where both the threshold and adjusted income of an individual exceed the relevant limits.

The reduction will be calculated as £1 for every £2 that an individual’s adjusted income exceeds £240,000. Previously, the annual allowance could only be reduced to a minimum of £10,000, however the sting in the tail of the pensions’ announcement was that this minimum is to be reduced to £4,000. An individual with adjusted income of over £312,000 will therefore only be able to pay £4,000 gross into their pension from 6 April 2020.

VAT

REGISTRATION AND DEREGISTRATION THRESHOLDS/RATES OF VAT

The VAT registration and deregistration thresholds remain at £85,000 and £83,000 of taxable turnover respectively.

The standard and reduced-rates of VAT remain at 20% and 5%.

VAT ON E-PUBLICATIONS

With effect from 1 December 2020, a zero rate of VAT will apply to e-publications, so that e-books, e-newspapers, e-magazines, academic e-journals and similar digitised publications will share the same VAT treatment as their physical counterparts.

VAT ON ESSENTIAL SANITARY PRODUCTS FOR WOMEN

With effect from 1 January 2021, the so-called 'tampon tax' will be abolished through the application of a zero rate of VAT on women's sanitary products.

CROSS-BORDER TRANSACTIONS:

1. Postponed VAT accounting on imports of goods, including from the EU

With effect from 1 January 2021, postponed accounting for VAT will apply to all imports of goods, including from the EU. Postponed accounting means that the importer does not pay import VAT when the goods arrive at the UK port or airport. Instead, the importer includes the VAT in Box 2 of their relevant VAT return, and assuming they can claim input tax in full on the goods, the same amount is claimed as input tax in Box 4 on the same return.

This system means that there are no adverse cash flow issues of having to pay VAT and then waiting up to three months to reclaim the input tax, as currently applies to imports from outside the EU.

2. VAT 'quick fixes' directive

Legislation will be introduced to simplify rules for the VAT treatment of intra-EU movements of call-off stock, such that no transaction is recognised for VAT until the goods are called-off. There is an element of retrospection in the legislation, as it applies to goods which are removed from the UK on or after 1 January 2020.

VAT ON FINANCIAL SERVICES

The government is legislating to clarify when fund management services are exempt from VAT.

More generally, the government will set up an industry working group to review how financial services are treated for VAT and other tax purposes, looking at changes that could help to make the UK a more attractive location for companies used by funds to hold assets.

Stamp taxes

STAMP DUTY LAND TAX

A new 2% surcharge is to be introduced from 1 April 2021 for all purchases of residential property by non-UK residents. This is in addition to the current surcharge that applies to additional dwellings or those purchased by a non-individual.

Refunds of the surcharge will be available for those who become resident after their purchase.

STAMP DUTY

A change has been made to the calculation of 'chargeable consideration' where there is a share for share exchange. This is designed to stop arrangements known as swamping. Previously, you valued the consideration based on the market value of the shares that were issued in the acquiring company. If the number of shares issued was low compared to the number already in issue, the result was a low stamp duty charge.

With effect from 1 April 2020, the chargeable consideration will be the higher of the market value of the shares issued or the value of the transferred asset.

Other taxes

PLASTIC PACKAGING TAX

A tax of £200/tonne is proposed to be introduced from 1 April 2022 for domestically produced or imported plastic packaging with less than a 30% recycled content. Exemptions will apply for producers and importers of small amounts of plastic packaging. A consultation on the design and implementation of the plastic packaging tax has now been published, with a closing date for comments set for 20 May 2020.

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