HARTS

CHARTERED ACCOUNTANTS

March 2020 Budget

Introduction

Due to last year's political wrangling 2019 is thought to have been the first year without a budget speech since 1768.

With a change of government and such a long period of time between budgets, there was at one point an expectation that the new Chancellor, Rishi Sunak, could make some significant tax changes in the Budget. However as it turned out, his budget speech very much focussed on the government's spending plans.

Consistent with this, and unusually, there were no changes to the rates or thresholds for income tax. Further the government had already announced that it planned to maintain the corporation tax rate at 19%.
However there were some significant changes for some tax payers. Chief among these were the immediate reduction in the entrepreneurs' relief lifetime allowance from £10m to £1m, and very significant reductions in business rates for smaller businesses in the retail, hospitality and leisure sectors.

Our guide provides further detail on these and other Budget announcements which are likely to be of broadest application to our client base.

While this guide contains advice which is designed to assist you with effective tax planning, it is not intended to be a comprehensive summary of the Budget, nor does it seek to cover all potential scenarios. We therefore recommend that advice specific to your, or your business's, circumstances is sought before relying on our guide.

Contents

Main Budget Tax Proposals

Our summary concentrates on the tax measures which include:

- A reduction in the Entrepreneurs' Relief lifetime limit
- An increase and extension of business rates discounts
- An increase in the Employment Allowance
- An increase to the National Insurance thresholds
- Extended access to Statutory Sick Pay due to coronavirus
- An increase in pension allowance taper threshold
- An increase in the rate of Structures and Buildings Allowance

Personal Tax

Income tax and personal savings

The Chancellor announced no charges to income tax rates and allowances. Thse are set out in full in our rate card.

Pensions changes

The pensions annual allowance (currently £40,000) is the maximum amount of tax-relieved pension savings that can be accrued in a year. However, for those on higher incomes, the annual allowance is reduced by £1 for every £2 that an individual's 'adjusted income' exceeds £150,000, to a minimum annual allowance of £10,000. Adjusted income is broadly net income before tax with the addition of any pension accrual. The taper potentially applies to an individual with income before tax, without the addition of the pension accrual, above £110,000. This is known as the 'threshold income'.

Adjusted income and threshold income will each be raised by £90,000 for 2020/21. The threshold income will be £200,000, so individuals with income below this level will not be affected by the tapered annual allowance. The annual allowance will begin to taper down for individuals who also have an adjusted income above £240,000.

There is also a change to the minimum annual allowance. The minimum level to which the annual allowance can taper down will reduce from £10,000 to £4,000 from 6 April 2020. This reduction will only affect individuals with adjusted income over £300,000.

Junior ISA and CTF annual subscription limits

The annual subscription limit for Junior ISAs and CTFs will be increased from £4,368 to £9,000 for 2020/21.

Employment Taxes

National Insurance thresholds

The government has recently announced National Insurance thresholds for 2020/21. Most thresholds will rise with inflation. Two thresholds, however, will rise by 10% from £8,632 to £9,500:

- the primary threshold - which sets the level at which employees start to pay Class 1 National Insurance contributions (NICs)
- the lower profits limit - which sets the level at which the self-employed start to pay Class 4 NICs.
- however the secondary threshold, which sets the level at which employers pay the main rate of NICs, only rises in line with inflation.

The upper thresholds which apply to these two classes of NICs remain at £50,000.

Off-payroll working in the private sector

The changes to the off-payroll working rules (commonly known as IR35), which came into effect in April 2017 for the public sector, will be extended to the private sector from April 2020. Draft legislation has been issued. The new rules apply to payments made for services provided on or after 6 April 2020.

New rules apply from 6th April 2020

The off-payroll working rules apply where an individual (the worker) provides their services through an intermediary (typically a personal service company) to another person or entity (the client). The client will be required to make a determination of a worker's status and communicate that determination. In addition, the fee-payer (usually the organisation paying the worker's personal service company) will need to make deductions for income tax and NICs and pay any employer NICs.

Only medium and large businesses will be subject to the 2020 rules, so small businesses will not need to determine the status of the off-payroll workers they engage. A small company is one which meets two of these criteria: its annual turnover is not more than £10.2 million: it has not more than £5.1 million on its balance sheet: it has 50 or fewer employees. For unincorporated organisations it is only the annual turnover test that applies.

In January 2020, the government announced a review of the implementation of the April 2020 reform, to address concerns from affected businesses and individuals. The government has confirmed the changes will go ahead but:

- businesses will not have to pay penalties for errors relating to off-payroll working in the first year, except in cases of deliberate non-compliance
- there will be a legal obligation on clients to respond to a request for information about their size from the worker or the fee-payer.

Employer provided cars

The scale of charges for calculating the taxable benefit for an employee who has use of an employer provided car is computed by reference to bands of CO_2 emissions multiplied by the original list price of the vehicle. The maximum charge is capped at 37% of the list price of the car.

- All zero emission cars will attract a reduced percentage of 0% in 2020/21 and 1% in 2021/22, before returning to the planned 2% rate in 2022/23.
- For cars registered before 6 April 2020, the changes to percentages previously set for 2020/21 will apply. These rates will be frozen at the 2020/21 level for 2021/22 and 2022/23.
- For cars first registered from 6 April 2020 most rates will reduce by 2% in 2020/21 from those previously published before returning to planned rates over the following two years.

Employment allowance

The Employment Allowance provides businesses and charities with relief from their employer NICs bill. Regulations have been issued to restrict the Employment Allowance, from 6 April 2020, to those employers whose employer NICs bill was below £100,000 in the previous tax year.

The maximum Employment Allowance will be increased from £3,000 to £4,000 with effect from 6 April 2020.

Business Tax

Corporation tax rates

Corporation tax rates have already been enacted for periods up to 31 March 2021. The main rate of corporation tax is 19%. The rate for the Financial Year beginning on 1 April 2020 was due to fall to 17% but the Chancellor has announced the rate will remain at 19%.

Capital Allowances: Structures and Buildings Allowance

The annual rate of capital allowances available for qualifying investments to construct new, or renovate old, non-residential structures and buildings will increase from 2% to 3%. The change will take effect from 1 April 2020 for corporation tax and 6 April 2020 for income tax.

Capital allowances for business cars

The government has announced an extension to 100% first year allowances for zero-emission cars, zero-emission goods vehicles and equipment for gas refuelling stations by four years from April 2021. CO2 emission thresholds will also be amended from April 2021.

From April 2021 Ultra-low emission vehicles which currently qualify for first year allowances if 50g/km or less will no longer qualify. They will insted be eligible for WDAs at the main rate (18%). Cars with CO2 emissions exceeding 50g/km will be eligible for WDAs at the special rate (6%).

Research and Development (R&D) tax relief

The rate of tax credit for companies falling within the Research and Development Expenditure Credit (RDEC) scheme will rise by 1% to 13% from 1 April 2020. This relief is given as an above the line credit for companies undertaking qualifying R&D.

Budget 2018 announced that, from 1 April 2020, the amount of payable R&D tax credit that a qualifying loss-making company can receive in any tax year will be restricted to three times the company's total PAYE and NICs liability for that year. The government has now announced the implementation of the restriction will be delayed to 1 April 2021.

Intangible fixed assets

The government has announced an extension to corporation tax relief for intangible fixed assets. All pre-Finance Act 2002 intangible assets acquired from 1 July 2020 will come within the intangible fixed asset regime, subject to certain transitional provisions.

Freeports

The government is consulting on proposals to create up to ten freeports across the UK which would have different customs rules to those which apply in the rest of the UK.

The government is considering a UK freeport model which would include multiple customs zones located within or away from a port, as well as a type of special economic zone (SEZ) designated over or around the customs zones. The government intends to work with the devolved administrations to develop proposals to allow freeports to be created in Scotland, Wales and Northern Ireland, in addition to those in England.

The proposals include the following customs and tariff benefits for businesses bringing goods into a freeport site:

- duty suspension, with no tariffs, import VAT or excise to be paid on goods brought into a freeport from overseas until they leave the freeport and enter the UK's domestic market
- duty inversion, if the duty on a finished product is lower than that on the component parts, allowing businesses to import components duty free, manufacture the final product in the freeport, and then pay the duty at the rate of the finished product when it enters the UK's domestic market
- duty exemption for re-exports, allowing businesses to import

components duty free, manufacture the final product in the freeport and pay no tariffs when the final product is re-exported

simplified customs procedures for businesses accessing freeports.

Business rates

The government has already announced that, for one year from 1 April 2020, the business rates retail discount for properties with a rateable value below £51,000 in England will increase from one third to 50% and will be expanded to include cinemas and music venues.

The business rates retail discount will be increased to 100% and expanded to include hospitality and leisure businesses for properties with a rateable value below £51,000 for 2021.

The government previously committed to introducing a £1,000 business rates discount for pubs with a rateable value below £100,000 in England for one year from 1 April 2020. To further support pubs, the discount will be increased to £5,000.

The government is launching a fundamental review of business rates to report in the autumn. A call for evidence will be published in the spring

Time to Pay

The government will ensure that businesses and self-employed individuals in financial distress and with outstanding tax liabilities receive support with their tax affairs.

HMRC has set up a dedicated COVID-19 helpline to help those in need, and they may be able to agree a bespoke Time to Pay arrangement. Time to Pay gives businesses a time-limited deferral period on HMRC liabilities owed and a pre-agreed time period to pay these back.

Statutory Sick Pay

The government will support small and medium-sized businesses and employers to cope with the extra costs of paying COVID-19 related SSP by refunding eligible SSP costs. The eligibility criteria for the scheme include:

- the refund will be limited to two weeks per employee
- employers with fewer than 250 employees will be eligible. The size of an employer will be determined by the number of people they employed as of 28 February 2020
- employers will be able to reclaim expenditure for any employee who has claimed SSP (according to the new eligibility criteria) as a result of COVID-19
- employers should maintain records of staff absences, but should not require employees to provide a GP fit note
- the eligible period for the scheme will commence from the day on which the regulations extending SSP to self-isolators come into force.

Support during the coronavirus

The Prime Minister previously announced that the forthcoming COVID-19 Bill will temporarily allow Statutory Sick Pay (SSP) to be paid from the first day of sickness absence, rather than the fourth day, for people who have COVID-19 or have to self-isolate in accordance with government guidelines. The Budget sets out a further package to widen the scope of SSP and make it more accessible. The government will temporarily extend SSP to cover:

- individuals who are unable to work because they have been advised to self-isolate
- people caring for those within the same household who display COVID-19 symptoms and have been told to self-isolate.

Support for those ineligible for SSP

The government recognises that self-employed people and employees earning below the National Insurance Lower Earnings Limit are not entitled to SSP and will offer financial support to these individuals through a 'new style' Employment and Support Allowance and Universal Credit.

Capital taxes

Capital gains tax (CGT) rates

The current rates of CGT are 10%, to the extent that any income tax basic rate band is available, and 20% thereafter. Higher rates of 18% and 28% apply for certain gains; mainly chargeable gains on residential properties with the exception of any element that qualifies for Private Residence Relief.

There are two specific types of disposal which potentially qualify for a 10% rate up to a lifetime limit for each individual:

- Entrepreneurs' Relief (ER). This is targeted at directors and employees of companies who own at least 5% of the ordinary share capital in the company, provided other minimum criteria are also met, and the owners of unincorporated businesses.
- Investors' Relief. The main beneficiaries of this relief are external investors in unquoted trading companies who have newly-subscribed shares.

Investors' Relief has a lifetime limit of £10 million, however the lifetime limit position for ER has been changed in the Budget and is considered further below.

CGT annual exemption

The CGT annual exemption is £12,000 for 2019/20 and £12,300 for 2020/21.

Entrepreneurs' Relief (ER)

The lifetime limit is reduced from £10 million to £1 million for ER qualifying disposals made on or after 11 March 2020.

Private Residence Relief (PRR)

Draft legislation has been issued to make changes to the PRR regime from 6 April 2020. For properties that have not been occupied throughout the period of ownership, available deductions for capital gains tax purposes will be amended as follows:

- the final period exemption will be reduced from 18 months to nine months (there are no changes to the 36 months that are available to disabled persons or those in a care home)
- lettings relief will be reformed so that it only applies in those circumstances where the owner of the property is in shared occupancy with a tenant.

Payments on account and 30 day returns

Legislation has been enacted to change reporting obligations for residential property gains chargeable on UK resident individuals, trustees and personal representatives. Also introduced is a requirement to make a payment on account of the associated CGT liability. For disposals made on or after 6 April 2020:

- a tax return is required if there is a disposal of UK land on which a residential property gain accrues lettings relief will be reformed so that it only applies in those circumstances where the owner of the property is in shared occupancy with a tenant.
- CGT is required to be computed on the reported gain in the tax return.

The return needs to be filed and the CGT paid within 30 days of the completion date of the property disposal.

The new requirements do not apply if a chargeable gain does not arise, for example where the gains are covered by PRR.

Inheritance tax (IHT) nil rate bands

There are no changes to the previously anounced inheritance tax nil rate band of £325,000 or the 'residence nil rate band' of £175,000 from April 2020.

For further information please contact us on:

Tel: 01625 669669 or

Email: info@harts-ltd.com

Other matters

VAT - Postponed accounting

From 1 January 2021 postponed accounting for VAT will apply to all imports of goods, including those from the EU. This means that businesses will not have to pay import VAT upfront (or provide a guarantee) when importing goods and then claim it back through the VAT return. Instead payments will work in a very similar manner to the regime currently applying to imports of goods from EU countries.

Minimum wage

Increases in the National Minimum Wage and National Living Wage rates now occur in April each year.

Age	NLW	21-24	18-20	16 and 17	Apprenticies
From 1 April 2019	£8.21	£7.70	£6.15	£4.35	£3.90
From 1 April 2020	£8.72	£8.20	£6.45	£4.55	£4.15

Apprentice rates apply to those under 19, or 19 or over and in the first year of their apprenticeship. National Living Wage applies to those aged 25 and over. Further significant increases in rates are expected in the future as the government has stated it would like to see a minimum wage rate for those over 21 of £10.50 per hour by 2024.

Stamp Duty Land Tax (SDLT) surcharge

A SDLT surcharge on non-UK residents purchasing residential property in England and Northern Ireland is to go ahead. The 2% surcharge is to take effect from 1 April 2021.

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