# KEY TAX POINTS FROM TODAY'S BUDGET

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TAXATION AWARDS WINNERS

***Today's Budget was brought forward a few weeks to avoid direct impact on the further Brexit discussions planned for later in November.***

***After all, today marks exactly 5 months before 'B-Day', 29 March 2019, and may even possibly be irrelevant if The Chancellor needs to redo the Budget, should the UK end up in a no-deal position.***

***For the first time in over two generations, the Budget has unusually taken place on a Monday. The suggested reason for this was to avoid any Halloween themed references that would otherwise arise on Wednesday.***

***The Elman Wall Tax Team has reviewed the various announcements and put together a summary of some of the main points that could impact you or your business. So is it a Budget of 'tricks' or 'treats'?***

## PERSONAL ALLOWANCES

**Headline: Election pledge on Tax Rate and Personal Allowance accelerated.**

**Detail:** The personal allowance, which for the current tax year stands at £11,850 will be increased a year ahead of schedule to £12,500, taking effect from April 2019. Additionally, the basic rate band is also extended from £46,350 to £50,000 taking effect at the same time. In the 2017 Election manifesto both measures were targeted to be achieved by 2020.

**EW Tax Team Say:** *This is of course good news for nearly all. As it will mean annually a tax payer will have an extra tax free £650, although high earners will not benefit if the personal allowance has already been abated. However what is given on one hand is potentially lost with the other. Given this is being achieved a year early, does mean the 2020/21 rates are then effectively frozen, so some potential clawback due to the effects of inflation. From 2021/22 the Personal Allowance and basic rate limit will then be indexed with the Consumer Price Index.*

**Income Tax**

- Personal Allowance £12,500 for 2019/20

  This rise comes a year earlier than planned, and will be maintained in 2020

- In 2019/20 a typical taxpayer will pay at least £1,205 less tax than in 2010/11

- Higher Rate Tax Band £50,000 for 2019/20

  This means that in 2019/20, there will be nearly 1 million fewer higher rate taxpayers than in 2015-16.

## CORPORATION TAX

**Headline: Cash Surrenders for R&D Tax Credits to be Limited**

**Detail:** In a response to stated abuse of the SME R&D tax relief, specifically related to where a loss making company surrenders the resultant enhanced loss for a cash refund, a change has been proposed that will introduce a restriction. From 1 April 2020 the amount of surrenderable 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

**EW Tax Team Say:** *This is perhaps a backwards step to the pre-2012 regime when there was the original PAYE/NIC cap, but the proposal will be a little more advantageous. There is no doubt there was abuse, but whether it merits such a step is not clear. In 2016 HMRC arrested three men in connection with fraudulently claiming £300m in tax credits but there has been little other publicised abuse.*

*The Budget announcement is, however, only a proposal and the stated intention is that there will now be a consultation. Prior to 2012 there were numerous start-ups that invested in technology but did not necessarily have significant wage bills, for example, as contractors were used. It is in particular such new start-ups, commencing now, that could still end up with a reduced benefit if the changes find their way onto the statute book.*

**Headline: Tax reform to Established Tech Giants**

**Detail:** It has been announced that from April 2020, a UK digital service tax specific to technology giants will be introduced. The new UK tax regime is expected to focus specifically on profitable companies generating £500 million a year in global revenue. However, globally agreed solutions are still being worked on by the OECD and the European Commission.

**EW Tax Team Say:** *The long awaited digital tax reform that has been discussed over the years at great length is now here!*

*Most would be pleased to see that the United Kingdom is finally standing up to the digital giants of the new generation. The ability to benefit from the UK through not having a permanent establishment in the UK and thus not being caught by UK corporation tax legislation is no longer.*

*Although the Chancellor has not announced any details of what the reform will be, it is expected to bring in an estimated revenue of £400 million.*

*It was clearly stipulated that the reform would not impact technological start-ups, if the recent changes in our tax system is anything to go by, all businesses with a digital footprint should take note and be aware of future charges to widen the net for more businesses to qualify.*

**Corporation Tax**

- No change to tax rate at 19% from April 2018
- R&D tax relief for SMEs will be capped at three times its total Pay As You Earn (PAYE) and National Insurance contributions (NICs) liability.
- Annual Investment Allowance will increase five-fold from £200,000 to £1 million from 1 January 2019 to 31 December 2020
- The minimum qualifying period for Entrepreneurs' Relief extended from 12 months to 2 years

**National Insurance**

- Class 4 NICs maintained at 9%
- Class 2 NIC (voluntary) increased to £3 per week
- Employment Allowance (EA) of £3,000 restricted to employers with NIC bill below £100,000 in their previous tax year

**Headline: Increase in Annual Investment Allowance (AIA) and starting from April 2019, Special rate capital allowances reduce from 8% to 6%**

**Detail:** AIA will be increased from £200,000 to £1m from 1 January 2019 to 31 December 2020.

Special rate assets are assets integral to a trading premises such as electrical wiring or water heating systems (amongst other assets). This 2% reduction is so special rate capital allowances can be more closely in-line with average accounting depreciation.

**EW Tax Team Say:** *This is quite generous given the maximum AIA in the past was £500,000. Companies can take 100% deduction on fixed asset purchases against trading profits, subject to the assets initially qualifying for capital allowances. Companies looking to acquire large sums of fixed assets would benefit from this uplift, thus decreasing taxable profits or increasing losses for surrendering to a group company.*

*Given the increase of the AIA to £1m, this reduction is not too bad. With AIA increasing it is not such a heavy blow as companies will first claim AIA on special rate additions. It becomes an issue for companies who have a large special rate pool because the deduction they will receive will be less by 2% and thus less deduction against taxable profits.*

**Headline: Restricting annual corporate capital gains by 50%**

**Detail:** From 1 April 2020, after using £5m of bought forward capital losses, corporate capital gains will be restricted by 50% of bought forward capital losses. The government will consult on the detailed design of this change.

**EW Tax Team Say:** *This will be similar to the income loss relief the government introduced last year. Subject to the consultation, it will be no real surprise if eventually bought forward corporate losses can be utilised for group relief purposes, which is currently not the case. The government is expecting this to affect only 1% of UK companies.*

## EMPLOYMENT TAXES

**Headline: IR35 rules to be extended**

**Detail:** Private sector organisations are to receive the same treatment as public sector organisations in terms of disguised employment. These changes are, however, to be delayed until April 2020 and will only affect large and medium-sized businesses, not small businesses.

**EW Tax Team Say:** *The Chancellor described the decision as a means of attacking perceived high levels of non-compliance with so called "off-payroll" rules among the self-employed. However, as it only applies to large and medium companies, it will not be of great interest to the majority of the traditional 'one-person' consultancy company. With the rules still allowing for grey areas and high profile cases in organisations such as the BBC, which was well-documented, this has the hallmarks of a "crowd pleaser" when compared with some of the other announcements.*

**SDLT**

- No SDLT for first-time buyers on the first £300,000 from 22 November 2017 will continue
- Normal SDLT rates apply if property purchased for more than £500,000
- Relief extended to first time buyers purchasing through approved shared ownership schemes and will apply from 22 November 2017

**Headline: NIC employer's allowance reforms**

**Detail:** The employer's NIC employment allowance of £3,000 will, from April 2020, only be available to employers who pay more than £100,000 in employer's NIC in the previous tax year.

**EW Tax Team Say:** *The employment allowance is currently available to any employer with two or more employees. This means that the relief was available for a great number of businesses that it wasn't really intended for, and bigger businesses were not benefitting from the allowance as they should be. Although it may seem harsh, it is understandable why the Chancellor has made this change, although it could perhaps have been expected that the allowance would increase slightly if some businesses are having it taken away from them. Strong cognisance should be paid to the fact that the £100,000 limit is for employer's NIC only and not all NIC – so if you have a total NIC bill of greater than £100,000, you may still lose this relief.*

**Headline: Changes to the apprenticeship levy**

**Detail:** From April 2019, small businesses will pay half what they used to for the apprenticeship levy, which has been cut from 10% to 5%. Large businesses will also be able to invest up to 25% of their apprenticeship levy to support apprentices in their own supply chain.

**EW Tax Team Say:** *Although potentially not relevant for all, (employers with wages bills below £3M are not affected), this is definitely a welcome announcement and is aligned to the theme of the UK being "open for business". Indeed for smaller businesses, the government increasing its contribution from 90% to 95% will allow for the levy to been seen as less of a headache and inconvenience by employers, putting greater emphasis on what the levy was intended for: ensuring that young talent is put to its best use, whilst contributing to a growing economy. In other words, setting up an individual to eventually earn a handsome salary which will be taxed under PAYE!*

**CAPITAL TAXES**

**Headline: Entrepreneurs Relief Remain but Rules Tightens**

**Detail:** With many on each side of the bench calling for the removal of Entrepreneurs' Relief, The Chancellor has with immediate effect decided not to scrap the relief, but has made qualifying conditions stricter. With the government extending the minimum qualifying period from 12 months to two years to disincentivise shareholders from making a quick sale.

In addition, two new tests have been introduced, requiring potential claimants of Entrepreneurs' Relief to be entitled to 5% interest in the distributable profits and 5% of the net assets of the company itself.

**EW Tax Team Say:** *Though a sigh of relief for many entrepreneurs, the tightening of rules means that there is a now significant restriction to many entrepreneurs investing in a short-term capacity. The change tightens the requirements for eligible shareholders instead of relying on the existing criteria of 5% of ordinary share capital and voting rights.*

*The Chancellor's goal here especially with Brexit looming, was to showcase the pledge that Britain is open to businesses and further encourages small businesses. Entrepreneurs relief continues to allow those who meet the new criteria listed above who dispose of their stakes and businesses to pay half the normal rate of capital gains tax, up to a lifetime limit of £10m.*

**Headline: Private Residence Relief Restricted Further**

**Detail:** In the efforts to keep Capital Gains Tax out of the sale of the family home, the government has today announced plans to restrict and limit aspects of lettings relief. Therefore, from April 2020 the government intends to limit the lettings relief on properties, with it only applying in circumstances where the owner of the property is in a shared occupancy with the tenant. This relief is worth up to £40k per owner and so the restriction could make some difference.

The government will also reduce the exemption period from 18 months, down to 9 months. There are no changes to the 36 months final period exemption available to those who are disabled or those within an assisted living environment such as care homes.

**EW Tax Team Say:** *With the changes coming into play in April 2020 homeowners will face an increase in tax liabilities on the disposal of their main residence unless they meet the new conditions. For future disposals of such properties careful tax planning may be required.*

## VAT

**Headline: VAT registration threshold to remain the same**

**Detail:** In the 2017 Budget, it was announced that the Government were seeking consultation on reducing the VAT threshold to £43k, brining many small businesses into VAT on a compulsory basis. As the initial stages of the consultation were not conclusive, the VAT threshold will be maintained at the current level of £85,000 for a further 2 years until April 2022.

**EW Tax Team Say:** *As this was one of the "getaway rabbits", announced earlier this year, it is not really a surprise at this stage. Many businesses currently unregistered will nonetheless be relieved, especially those selling B2C where VAT would become a real cost.*

**Headline: VAT treatment of vouchers to comply with EU legislation from 1 January 2019**

**Detail:** This measure changes the VAT treatment of vouchers in a number of ways. The scope of "single purpose vouchers" will widen to include **any** vouchers issued so long as the VAT liability and place of supply is known at the time of voucher purchase.

At present, "single purpose vouchers" only include vouchers which can be used for one type of good/service only. For multi-purpose vouchers VAT due will only be payable when the voucher is redeemed for goods or services. The relevant sales price of that good or service will be amount last paid for the voucher or its face value.

**Capital Tax**

- Final period exemption on private residence relief (PPR) reduced from 18 months to 9 months
- Annual exemption is £12,000 for 2019/20

**EW Tax Team Say:** *We have known about this planned implementation for some time, but it is interesting that the UK is "committed" to complying with EU legislation so close to Brexit, and further supports the predictions that we may be looking to align our VAT system with the EU post-Brexit as far as possible. The VAT treatment of vouchers are complex, and this measure gives some clarity, albeit will affect the cash flow position of businesses selling both types of voucher and indeed may affect the VATable amount for some sellers.*

**Headline: Reducing online VAT fraud– "split payment model" considered for online marketplaces for VAT payable by traders selling UK goods on these sites**

**Detail:** There have been concerns for some time over the non-collection of VAT paid for sales on online marketplaces (for e.g. businesses operating similar platforms to Amazon, eBay, Gumtree etc.), because many businesses trading above the VAT threshold are selling products on these marketplaces without registering for VAT, in particular foreign traders for which the threshold is nil. Under the "Split Payment" model, the VAT would be collected by HMRC in some way directly from the customer at the point of sale, and the supplier would only receive the net amount.

**EW Tax Team Say:** *As this has been in the pipeline for some time, and announced at last year's Budget, these measures aren't a great surprise given the long-running concern over the "VAT gap". HMRC appear committed to ensuring better compliance for VAT – we know this from their determination (or perhaps stubbornness!?) with Making Tax Digital. Similar to MTD, the crucial element will be how HMRC intend to make this work in practice, and enforce compliance.*

**Headline: VAT treatment of prepayments – possible effect on no show and cancellation income?**

**Detail:** From 1 March 2019 all prepayments for goods and services where customers have been charged VAT but have failed to collect what they have paid for and have not received a refund will be brought within the scope of VAT.

**EW Tax Team Say:** *There is very little detail on this at present, however it sounds along the lines of the long held "cancellation vs no-show" debate. Where something has been "supplied" albeit perhaps not used by a customer (e.g. a night in a hotel where you don't cancel but equally don't turn up) this is still within the scope of VAT. This is in contrast to a cancellation where someone actively cancels a supply). Here, the hotel has not supplied anything to that person, and the cancelation fee/prepayment is outside the scope of VAT. It may be that this comment in the red book is badly worded, and indeed it would be difficult to see how cancelation income could be brought within the scope of VAT, given that one of the principles of VAT law is that a "supply" of something must be made. However, we will watch out for the detail on this one.*

**VAT**

No changes to VAT thresholds for further 2 years until April 2022

- Registration threshold maintained at £85,000
- Deregistration threshold at £83,000

## OTHER

**Headline: HMRC to be reinstated as a preferential creditor**

**Detail:** HMRC will receive distributable funds from insolvencies before other non-preferential creditors.

**EW Tax Team Say:** *Historically and until 2002, HMRC was a preferential creditor, meaning that they were essentially higher up the pecking order when it came to insolvencies. After having this status rescinded for the last 16 years, this will now be reinstated. This is seen as a cog in the wheel of the larger push at clamping down on tax avoidance. It is an interesting move as it ensures "that tax which has been collected on behalf of HMRC is actually paid to HMRC", which makes logical sense. However, the brunt of this will, therefore, be felt by suppliers who thus face a higher risk, rather than those who have embarked on failed business ventures. So the UK is "open for business" even if it is bad business…?*

**Headline: Further Stamp Duty Land Tax (SDLT) help for first-time buyers**

**Detail:** The government will extend first-time buyers' relief in England and Northern Ireland so that all qualifying shared ownership property purchasers can benefit. This change will apply to relevant transactions with an effective date on, or after, 29 October 2018, and will also be backdated to 22 November 2017 so that those eligible who have not previously claimed first-time buyers' relief will be able to amend their return to claim a refund.

**EW Tax Team Say:** *The first-time buyer stamp duty exemption introduced last year has now been extended out to those looking to purchase under shared ownership schemes up to £500,000. The good news is that those who have purchased under these schemes in the last year since the last budget can claim back the tax that they have paid on their purchases. At a time where there is a squeeze on finding a deposit and lenders are imposing an ever so strict criteria, driving shared ownership, this will be a sigh of relief as it would be one less cost that would need to be considered.*

**Headline: Changes to Residence Nil-Rate Band**

**Detail:** Further clarification has been provided on the residence nil-rate band, this measure introduced technical amendments relating to the downsizing provision announced at Summer Budget 2015 and commenced on 6 April 2017. As originally intended the nil-rate band has increased from £125,000, to £150,000 in 2019 to 2020, and £175,000 in 2020 to 2021.

**EW Tax Team Say:** *The nil-rate band increase is great news. It means families are able to retain their main residence without downsizing and making it easier to transfer this asset with a reduced inheritance tax charge.*

### Savings

- ISA annual subscription limit for 2019/20 will remain unchanged at £20,000
- Junior ISAs and Child Trust Funds subscription limit increased to £4,368

### National Living Wage

- Increased to £8.21 per hour from April 2019 or workers aged 25 and over

### Other

- The Royal Mint will create a new commemorative Brexit coin to mark the UK's exit from the European Union which will be available to buy from Spring 2019