VSP Accountancy Services

The Budget 2020

COVID-19 update:
Since the announcement, the government has made further decisions in light of COVID-19, which have in places, affected the Budget announcements.

Get in touch for any advice. Email: vicky@vspaccountancy.co.uk | Call: 07745 703 730

Income Tax

Not much has changed but personal allowance has increased along with the NI threshold.

2019/20

Personal Allowance	£12,500
Basic Rate Band	£37,500
Higher Rate Band	£150,000
Dividend Allowance	£2,000
PSA (BR/HR)	£1,000/£500

2020/21

Personal Allowance	£12,500
Basic Rate Band	£37,500
Higher Rate Band	£150,000
Dividend Allowance	£2,000
PSA (BR/HR)	£1,000/£500

There have been incremental increases to Married Couples Allowance and Blind Persons Allowance for 2020/21. However, the £5,000 0% Starter Savings Rate remains unchanged.

National Insurance

Employees / Self Employed

The Primary Threshold the Lower Profits Limit sees an increase from £8,632 to £9,500.

Employees / Self Employed

- The Secondary Threshold will increase from £8,632 to £8,788.
- Employment Allowance (EA) will increase from £3,000 to £4,000 (for employers with total qualifying employers NICs below £100,000).
- From April 2021, employers of veterans will receive a 12-month holiday from employers NICs for the first year of civilian employment. This will encourage the hiring of former military employees.

Our Comments

- The change to The Primary Threshold, should save around £104 per year for employed individuals.
- The Primary and Secondary NIC rates will no longer be aligned from 2020/21.
- The £100,000 limit for the EA includes connected companies.

Personal Tax

Other updates from Budget 2020

- **Capital Gains Tax**
  Annual Exempt Amount to increase from £12,000 to £12,300 for 2020/21.
- **Top Slicing Relief**
  The government will amend legislation to confirm how allowances and reliefs will apply within the top slicing relief calculation (in particular, the availability of the personal allowance) to ensure the relief is applied fairly.
- **Home Office**
  The flat rate deduction for working from home will increase from £4 to £6 per week.

Our Comments

The home office allowance may be especially relevant to employers/employees in the current climate, when many employees may be working from home.

Entrepreneurs' Relief

Drop (Capital Gains at 10%)

Changes in the 2018 budget

- Increased the holding period for Entrepreneurs' Relief (ER) from 1 to 2 years.
- Required rights to income and capital (as well as voting rights) on share disposals.

Budget 2020

From 11 March 2020, the lifetime limit for Entrepreneurs' Relief will be reduced from £10m to £1m.

The new lifetime limit takes account of ER disposals made before 11 March 2020.

Our Comments

The change to ER lifetime allowance should only affect 20% of individuals using the relief, as the government estimate that 80% of individuals will have lifetime gains below the £1m allowance.

Regarding disposals before 11 March 2020, where a taxpayer has already utilised say £4m of the lifetime allowance to date, they will have no further lifetime allowance to carry forward.

Continued...

- Rules will apply to certain forestalling arrangements entered into 11 March 2020. The disposal will be subject to the £1m lifetime allowance unless:

    It can be demonstrated that the contract was not entered into to obtain a tax advantage by reason for the timing rule at TCGA 1992, s. 28.

    Where parties are connected, that any relevant disposals were undertaken for commercial purposes.

- Furthermore, certain share exchanges between 6 April 2019 - 11 March 2020, where both companies are substantially held by the same persons, it is possible to elect for ER to apply under TCGA 1992, s. 169Q. The new lifetime limit of £1m will apply to such cases. Capital Gains Tax – annual Exempt Amount to increase from £12,000 to £12,300 for 2020/21.

Off-payroll/IR35 from April 2021

- Introduced in April 2000 to prevent individuals/contractors from providing employment services to clients through an intermediary (e.g. limited company or partnership).
- Since 6 April 2017, public sector employers, agencies, and third parties have been responsible for determining whether their workers fall within the scope of IR35. Where a worker is within IR35, the end client has the responsibility of making the relevant deductions of income tax and national insurance in respect of the worker's pay, and paying this to HMRC (rather than the intermediary).
- The government initially announced in the Budget 2020, that from April 2020, the same IR35 rules will be extended to private sector contractors, thereby bringing them in line with the public sector (except for certain "small" organisations).
- The new rules have now been delayed to April 2021.

Our Comments

The government has included clauses in the legislation to ensure medium or large businesses do not set-up arm's length companies or subsidiaries to procure services from PSCs. The legislation will apply to the parent company based on the aggregate amount of turnover and the aggregate amount of the balance sheet total of the connected entities.

R&D Tax Credits

Credit where it's not due

- There is to be a consultation on whether expenditure on data and cloud computing, should continue to qualify for R&D tax credits.
- The PAYE cap announced in the October 2018 Budget on payable R&D tax credits for small and medium-sized enterprises claiming R&D taxes is to be delayed to April 2021 (originally April 2020).
- There is to be an increase in the Research and Development Expenditure Credit (RDEC) from 12% to 13% for large businesses investing in R&D.

Our Comments

The PAYE cap will restrict the repayable credit to 3 x the company's total PAYE and NICs liability.

Company Vehicles

Emission Impossible

- From April 2021, the benefit in kind (BIK) on zero emission (electric) company vans will be £nil.
- For vans with emissions, the flat rate BIK will be £666 from April 2020.
- Car fuel benefit multiplier will be £24,500 from April 2020.
- Capital allowances from April 2020/21:

Zero Emission	Full First Year Allowances
Emissions up to 50g/km	18% main rate WDA
Emissions 51g/km+	6% special rate WDA

Our Comments

Previous plans were to put the Van BIK charge up to 80% of the main rate van BIK charge (up from 60% in 2019/20), and so the reduction to a 0% benefit is a generous turnaround.

Businesses/Companies

- **Corporation Tax**
  Will remain at 19% from April 2020.
- **EMI Schemes**
  Consultation to be done to ensure the scheme provides support to recruit/obtain the best talent, and examine whether more companies should be able to access the scheme.
- Structures and Buildings Allowance (SBA) rate to increase from 2% to 3% (per year) from April 2020, allowing full tax write off within 33 years rather than 50 years.

Our Comments

The SBA was brought in in the October 2018 Budget.

It provides relief via capital allowances to businesses investing in new, or renovating old, non-residential property which is used for qualifying purposes.

Note the 3% provides relief against construction costs, not the value of the land.

Pensions

Ups and Downs from April 2020

There will be an increase in the two tapered annual allowance thresholds:

- £110,000 to £200,000 (threshold income)
- £150,000 to £240,000 (adjusted income)

However, the minimum tapered annual allowance is to reduce from £10,000 to £4,000.

The lifetime allowance is set to increase from £1,055,000 to £1,073,100.

There is to be a call for evidence on whether low earners (income under the personal allowance) should get basic rate top up on their pension contributions from the government (as they may not have paid any tax).

Our Comments

The effect of the new taxpayer annual allowances is it should allow individuals to earn a further £90,000 before the £40,000 pension annual allowance (AA) begins to reduce.

However, the reduction in the minimum tapered annual allowance will negatively affect those who earn over £300,000 (whose AA would previously have had a tapered minimum of £10,000).

Stamp Duty, SDRT & SDLT

- A targeted market value rule was introduced for Stamp Duty and Stamp Duty Reserve Tax in Finance Act 2018-19 on share acquisitions, when listed shares are transferred to a connected company. This rule is to be extended to unlisted shares, in a bid to prevent tax avoidance.
- From 1 April 2020/21, there will be a 2% SDLT surcharge on non-UK residents purchasing residential property in England and Northern Ireland.

Our Comments

The legislation regarding the new targeted market value rule for Stamp Duty and SDRT, will be amended to prevent any double tax charge as a result of the change.

VAT

Domestic Reverse Charge

- The Domestic Reverse Charge was originally announced in the October 2018 Budget, the charge was set to apply from 1 October 2019.
- The charge applies to certain building and construction services. Where the charge applies, the customer will be liable to account to HMRC for the VAT on purchases, rather than the supplier.
- The new rules were delayed from 1 October 2019 to 1 October 2020, due to lack of awareness of the charge, and with it coinciding with the (original) Brexit deadline.
- The Chancellor has confirmed that the charge will come in to effect this October 2020 as planned.

Our Comments

The charge seeks to improve tax compliance in the construction sector, by placing the responsibility for paying VAT to HMRC with the business employing the contractors, rather than the contractor themselves.

Other Important Changes

From April 2020, the following changes will apply

- The Main Residence Nil-Rate Band will increase to £175,000 per person, meaning that a married couple could pass on assets worth up to £1m without incurring a charge to Inheritance Tax.
- Capital gains on the sale of residential property must be reported and paid within 30 days of completion unless an exemption applies.
- The Automatic Exemption for Private Residence Relief on the sale of a property that you have lived in as your main residence will be reduced from the final 18 months of ownership to the 9 months of ownership.
- Lettings Relief will cease to apply for periods where the property is let out on a tenancy and will instead be restricted to situations whereby the owner is in shared occupancy with the tenant (e.g. a lodger).
- Tax relief for mortgage interest in the calculation of rental profits will be reduced to nil. Instead, relief may be obtained via the basic rate tax credit, which may reduce the tax payable for the individual.
- Currently, non-resident companies with UK property income are subject to UK income tax on their rental profits. From April 2020, these companies will need to pay Corporation Tax instead of Income Tax on profits from UK property.

Our Comments

The new 30-day deadline for CGT on residential property represents a significant acceleration of the tax payment and reporting requirements that currently apply. However, exemptions will apply where: the capital gain is covered by Private Residence Relief, the transfer is at no gain/no loss (e.g. between spouses), or the gains are covered by the annual exemption or brought-forward capital losses.

Automatic private residence relief for the final period of ownership was originally 36 months. This was reduced to 18 months from April 2014, and now to the final 9 months of ownership from April 2020. However, where the property owner is a disabled person or a resident in a care home, the final 36 months may still qualify for automatic relief (subject to conditions at TCGA 1992, s.225E).

Increase in HMRC Enquiries

To ensure tax compliance, HMRC will contact taxpayers where there is risk of a compliance failure and/or where it is believed they have additional tax to pay. Targeted checks such as these arise from analysis of a wide range of data and intelligence available to HMRC.

In recent times, we have seen an increase in HMRC checks concerning:

- Offshore income/assets that may be taxable in the UK
- UK property rental income.

Most recently, HMRC has announced that it will be contacting taxpayers who claimed tax relief by subscribing for Venture Capital Trust shares, and claimed relief in 2015/16, as there are circumstances where the relief should be withdrawn. Letters are expected to go out in March 2020.

It is generally better for a taxpayer to voluntarily disclose when there has been a failure in tax compliance, as HMRC are likely to look more favorably on taxpayers who are open and forthcoming, and seek to correct their tax affairs.

If you/your client requires assistance in making a disclosure to HMRC, please contact a member of our team.