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Chartered Accountants & Professional Business Advisers

Budget Summary

29 October 2018

Introduction

In his third Budget Philip Hammond claimed the Government had done what needed to be done after the recession and the era of austerity was coming to an end. Buoyed by some better than expected economic data and public borrowing £11.6bn below the March forecast, he could afford to be a little more generous than had been widely predicted.

The austerity handcuffs might finally be coming off, but “discipline will need to remain”.

The Chancellor said we are at a pivotal moment in the Brexit negotiations and was careful not to be too gloomy about the financial consequences. He wasn’t as generous as he might have been in some quarters, as money has been held back as a Brexit buffer – if required. Depending on the outcome, he admitted there may need to be a Spring Statement in 2019. Are we heading back to the days of two Budgets a year? Let’s hope not.

Hammond announced a number of measures some might say were clearly designed to stave off critics from nearly every quarter. There was a nod to most sectors – with small rabbits pulled out for everything from the NHS, Universal Credit, schools, the armed services, housing and even potholes. Some perceived tax avoidance loopholes were closed and a digital services tax is planned for tech giants.

There were also some positive announcements for business, but the headline grabber came at the end. From April 2019, he’s bringing forward by one year the increases in the personal income tax threshold to £12,500 and the higher rate band to £50,000. For those 40% taxpayers who get the personal allowance, this could mean almost £1,000 extra in their pocket each year.

Our Budget Highlights over the page are followed by more detailed analysis of the main announcements.

Simon Robinson
Managing Principal

Budget Highlights

Income tax – Personal allowance for 2019/20 will increase to £12,500. Basic rate limit will increase to £37,500.

Capital gains tax – Annual CGT exempt amount for 2019/20 will increase to £12,000 for individuals and £6,000 for personal representatives and most trusts.

Main residence exemption – From April 2020 the 'letting allowance' is to apply only if the owner shares occupation, and the last 18 months non-occupation period disregarded is to be cut to 9 months.

The CGT on gains on disposal of residential property after 5 April 2020 is to be payable within 30 days of completion – rather than on 31 January after the end of the tax year.

National Insurance Contributions (NIC) – Class 2 NIC will now not be abolished from April 2019, as was previously announced.

Entrepreneurs' relief (ER) will not be lost if the investor's shareholding falls below 5%, in that the investor may elect to notionally dispose of his shares, getting ER then, but defer the payment until the actual disposal. The definition of 'personal company' is tightened up and the company must be the investor's personal company for at least two years, for disposals after 28 October 2018.

Pensions – The lifetime pension allowance is increased to £1.055m for 2019/20.

Annual investment allowance to be increased from £200,000k to £1m for two years from 1 January 2019. The **special writing-down allowance** rate is cut from 8% to 6% from April 2019.

IR35 – PAYE obligation (currently only for public sector clients) is to be extended to private sector clients from April 2020 if the client is large or medium.

A new **digital services tax** is to be introduced from April 2020, subject to consultation, unless a global approach is agreed.

Insolvency – HMRC is always to be a preferential creditor.

Non-residents are to be subject to tax on gains on disposal of all UK 'immovable property' and also on assets deriving at least 75% of their value from UK land (except if it is used in the company's trade) with effect from April 2019. Currently non-residents are only taxed on gains on disposal of UK residential property.

Non-resident companies' UK property income, and gains on UK residential property, are to be subject to corporation tax from April 2020.

The CGT exit charge when a trust becomes non-resident after 5 April 2019 may be paid over six years, with interest, if becomes resident in another EU or EEA state, provided its assets continue to be used for an economically significant activity.

Royalties – A withholding tax is to apply to royalties paid from 6 April 2019 to non-residents who are not resident in a ‘full treaty territory’.

The **Stamp Duty Land Tax (SDLT)** relief for first-time buyers of residential property which applied from 22 November 2017 is to be extended, with retrospective effect, to shared ownership situations.

The SDLT filing date is to be cut from 30 days to 14 days for transactions from 1 March 2019.

Business rates – For properties with a rateable value not over £51,000, business rates are to be cut by a third for two years, pending revaluation in 2021.

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Personal Taxation

Income Tax

Rates and Bands for 2019/20

(2018/19 figures in brackets)

	Dividends	**Savings income**	**Other***
First £2,000 *(£2,000)*	0% *(0%)*	0% *(0%)*	20% *(20%)*
£2,001 - £5,000 *(£2,001 - £5,000)*	7.5% *(7.5%)*	0% *(0%)*	20% *(20%)*
£5,001 - £37,500 *(£5,001 - £34,500)* (basic rate)	7.5% *(7.5%)*	20% *(20%)*	20% *(20%)*
£37,501 - £150,000 *(£34,501 - £150,000)* (higher rate)	32.5% *(32.5%)*	40% *(40%)*	40% *(40%)*
Over £150,000 (*additional rate*)	38.1% *(38.1%)*	45% *(45%)*	45% *(45%)*

Dividends are treated as the top slice of total income, interest and other savings income as the next**.**

Construction industry sub-contractors: tax deduction on account 20%, or 30% if the sub-contractor is unregistered.

* Scottish taxpayers pay the Scottish rate of income tax on income other than savings income and dividends.

Allowances

	2019/20 **£**	***2018/19*** ***£***
Relief at individual's top tax rate		
Personal allowance[1]	12,500	*11,850*
Blind person's allowance	2,450	*2,390*
Relief at 10%		
Married couple's allowance if born before 6 April 1935 and either is aged over 75[2]	8,915	*8,695*
Relief at 20%		
Transferable marriage allowance[3]	1,250	*1,190*
Savings allowance[4]	1,000	*1,000*
Savings allowance[5]	500	*500*

[1] The personal allowance is reduced by £1 for every £2 of income in excess of £100,000.

[2] Reduced to a minimum of £3,450 (*£3,360 in 2018/19*) by £1 for every £2 income exceeds £29,600 *(£28,900 in 2018/19*).

[3] For married couples and civil partners not entitled to the married couple's allowance if neither has income liable at a rate other than the basic rate, the dividend ordinary rate or the starting rate for savings.

[4] Limited to the excess over £5,000 savings income and if, ignoring that allowance, the individual has no 'higher rate' income.

[5] Limited to the excess over £5,000 savings income and if, ignoring that allowance, the individual has no 'additional rate' income.

Employment Allowance Reform

From 2020/21 the Government will limit the availability of the Employment Allowance of £3,000 to employers with annual employer National Insurance Contributions (NIC) below £100,000.

Royalties Payable Offshore for Intangible Property

New legislation will target multinational groups that generate significant income from intangible property which relates to the sale of goods and services in the UK, and which have arranged that the income is received by entities in low-tax offshore jurisdictions.

Income from such intangible property will be liable to income tax in the UK with effect from 6 April 2019. This will reduce the opportunity for large multinationals to gain an unfair competitive advantage relative to UK businesses.

This will not apply to:

- owners of intangible property who are resident in a territory with which the UK has a full tax treaty with a non-discrimination clause or are resident in a territory where the tax paid on the relevant income is at least 50% of the UK income tax which would arise

- businesses with UK sales of less than £10m

- income arising in entities that have not acquired the intangible property from related parties and where all or substantially all the business activity in relation to the intangible property has always taken place in the other territory.

National Insurance Contributions

	2019/20	***2018/19***
Class 1		
Employees' contributions (monthly)		
On earnings up to £719 *(2018/19 £702)*	Nil	*Nil*
On earnings between £719 and £4,169 *(2018/19 £702 and £3,865)*	12%	*12%*
On earnings over £4,169 *(2018/19 £3,865)*	2%	*2%*
Employees' contracted-out rebate (monthly)		
On earnings between £511 and £4,169 *(2018/19 £503 and £3,865)*	Nil	*Nil*
Married women's reduced rate (monthly)		
On earnings between £719 and £4,169 *(2018/19 £702 and £3,865)*	5.85%	*5.85%*
On earnings over £4,169 *(2018/19 £3,865)*	2%	*2%*
Employers' contributions (monthly)		
On earnings up to £719 *(2018/19 £702)*	Nil	*Nil*
Employees under 21 on earnings under £4,169 *(2018/19 £3,865)*	Nil	*Nil*
Apprentices over 21 but under 25 on earnings over £719 and under £4,169	Nil	*Nil*
Other earnings over £719 (*2018/19 £702)*	13.8%	*13.8%*
Class 1A		
Employers' contributions on taxable benefits-in-kind	13.8%	*13.8%*
Class 2		
Self-employed contributions (monthly)	£13.00	*£12.78*
Small earnings exception (annual)	£6,365	*£6,205*
Class 3		
Voluntary contributions (monthly)	£65.00	*£63.48*
Class 4 Self-employed (annual profit-related)		
On profits between £8,632 and £50,000 *(2018/19 £8,424 and £46,350)*	9%	*9%*
On profits over £50,000 *(2018/19 £46,350)*	2%	*2%*
Employment Allowance (annual)*	£3,000	*£3,000*

* From April 2020 this will be restricted to employers with an employer's NIC bill below £100,000 in the previous tax year.

Capital Gains Tax

	2019/20	***2018/19***
Annual exemption		
Individuals, personal representatives (for year of death and following two years) and trusts for disabled, etc	£12,000	*£11,700*
Other trusts		
Divided by the number of trusts with same settlor – up to five	£6,000	*£5,850*
Entrepreneurs' relief		
Lifetime limit	£10,000,000	*£10,000,000*
Investors' relief lifetime limit	£10,000,000	*£10,000,000*

Rates of Tax

Gains of individuals, trustees, personal representatives and, in 2018/19, ATED-related gains of companies, other than those eligible for entrepreneurs' and investors' reliefs (and excepting residential property and carried interests), are taxed at 20%. In the case of individuals, gains equal to any unused basic rate band are taxed at 10%. Gains on residential property and carried interests remain at 18% or 28%.

Private Residence Relief

For a gain to be exempt from capital gains tax (CGT), the last 18 months of ownership are currently disregarded in determining how long a property has been the main residence. This period is to be cut to nine months for disposals from 6 April 2020. The reduction will not affect the special rules for those moving into care homes or those with a disability.

Lettings relief can currently enhance the CGT exemption on disposal of a property that has at some point been a main residence. From 6 April 2020 this will only apply to those who share occupancy with a tenant.

Entrepreneurs' Relief

Two new tests will be added to the definition of a 'personal company' for disposals of shares in a company from 29 October 2018. The individual must be beneficially entitled to at least:

- 5% of the company's distributable profits, and
- 5% of its assets available for distribution to equity holders if the company is wound up.

References to the company include any other company which is a member of the same group.

The two new conditions also apply to relief on associated disposals.

From 6 April 2019 the claimant must have carried on the business for two years to claim entrepreneurs' relief. Where a company's trade ceased before 29 October 2018 the one-year period will continue to apply.

Inheritance Tax

Rates at Death	From 6 April 2019	*From 6 April 2018*
Nil	Up to £325,000	*Up to £325,000*
Nil – residence nil rate band	Further £150,000[1]	*Further £125,000[1]*
Excess above nil rate band	40%[2]	*40%[2]*

[1] For bequests of a main residence to direct descendants. The relief is reduced by £1 for every £2 the estate exceeds £2m.

[2] A reduced 36% rate of IHT is available where 10% or more of the estate net of reliefs, exemptions and the nil rate band is left to charity.

Pension Inputs

Annual limit on pension ‘inputs’ (contributions and accrual of benefits)		
	2019/20	***2018/19***
If income does not exceed £150,000	£40,000	*£40,000*
If income exceeds £150,000 but not £210,000	£40,000 less £1 for every £2 income exceeds £150,000	*£40,000 less £1 for every £2 income exceeds £150,000*
If income exceeds £210,000	£10,000	*£10,000*
Money purchase annual allowance	£4,000	*£4,000*

Lifetime allowance limit	£1,055,000	*£1,030,000*

Motor Car Benefits

From 6 April 2019

CO_2 emissions g/km	Petrol engine %	Diesel engine %
50 or less	16	20
51 - 75	19	23
76 - 94	22	26
per additional 5g/km, until 145g/km	+1	+1
145 - 149	33	37
150 – 154	34	37
155 - 159	35	37
160 - 164	36	37
165 and above	37	37

Motor Van Benefits

The annual benefit taxable for an employee's private use of a van (not over 3,500kg) is £3,430 (*2018/19 £3,350*). This amount is reduced if the van is not used for the whole tax year or if someone else also uses the van for private travel or if something is paid for using the van privately.

Fuel Benefits (Cars and Vans)

Where the employer also provides fuel for private motoring in a car provided to an employee, a further benefit is taxable. For 2019/20, it is the 'car benefit percentage' of £24,100 (*2018/19 £23,400*). This figure is also subject to NIC for employers. Where fuel for private use of a van (not over 3,500kg) is provided, a benefit charge of £655 applies (*2018/19 £633*).

A 2% discount on the company car fuel multiplier for benefits-in-kind applies if the car is capable of being run on E85 fuel (unleaded petrol mixed with 85% bioethanol).

Advisory fuel rates for company cars (per mile) from 1 September 2018

	LPG	Petrol	Diesel	
1400cc or less	7p	12p	1600cc or less	10p
1401 - 2000cc	9p	15p	1601 - 2000cc	12p
over 2000cc	13p	22p	over 2000cc	13p

Business Taxation

Corporation Tax

Rates and Bands	**Year to 31 March 2020**	***Year to 31 March 2019***
Main rate*	19%	*19%*

* To reduce to 17% from April 2020

Charities' Small Trading Exemption

From April 2019 a charity will not be taxable on up to £8,000 (previously £5,000) of non-primary trading income if its total income was less than £32,000 (previously £20,000), on up to 25% of total income if its total income was £32,000 to £320,000 (previously £20,000 to £200,000), and on up to £80,000 (previously £50,000) if the charity's total income was over £320,000 (previously £200,000).

Voluntary Tax Returns

In the Finance Bill 2018/19 legislation (with retrospective and prospective effect) will be introduced to treat individuals, partnerships, trusts and companies who have not received a notice to file a tax return, but have voluntarily submitted one to HMRC, as if a statutory notice had been issued. These returns will be treated as legally valid returns on equal footing with all other returns. The retrospective aspect is exceptional, and may be challenged.

Off-Payroll Working Rules

With effect from April 2020, large and medium-sized businesses will need to decide whether the off-payroll working rules apply to individuals who work for them through their own company. If the off-payroll working rules apply, the business/agency will have to deduct income tax and employees' National Insurance Contributions (NIC) and employers' NIC.

R&D Tax Relief Restriction for SMEs

R&D tax credits receivable by a loss-making company will be capped at three times its total PAYE and National Insurance Contribution (NIC) liability in any one year.

This change will be effective from April 2020. However, in the interim, HMRC will consult on how the cap will be applied to genuine UK businesses, recognising that some may have low PAYE and NIC costs relative to their R&D spend.

Non-Residents' Gains on UK Immovables

For disposals after 5 April 2019, non-UK residents disposing of UK land or of interests in entities holding UK land, will be chargeable to tax on gains made over market value at 5 April 2019 (if held then) or subsequent acquisition cost.

This extends the scope of taxing non-residents on gains on disposal of all forms of UK land, including those held by diversely-held companies, widely-held funds and life assurance companies.

As well as direct holdings in land, the disposal by a non-resident owning at least a 25% interest in an entity that derives at least 75% of its gross asset value from UK land will also be subject to tax on the gain arising. Land

and buildings used in the company's trade are excluded from gross assets.

All non-resident companies, and funds not structured as partnerships, will be chargeable to corporation tax on their gains.

Investors may choose to calculate their gain over the original cost instead of the market value of the asset on 5 April 2019 if held then. Any resultant loss, however, will not be an allowable loss.

Otherwise, losses arising to non-resident companies will be available for use as for UK resident companies, and capital gains tax losses (CGT) will follow the existing non-resident CGT rules.

Annual Tax on Enveloped Dwellings (ATED)-related gains will no longer arise after 5 April 2019.

Permanent Establishment

A non-UK resident company is only subject to UK corporation tax on profits of a permanent establishment in the UK. The definition of permanent establishment is a fixed place of business, excluding places of business at which only activities of an auxiliary or preparatory character are carried out.

This definition will be amended to prevent a non-UK resident group of companies from fragmenting its UK activities between different companies in such a way that some or all of the companies involved can claim the exclusion. Following the amendment, the activities carried on by all related entities in the UK will be considered to be a single place of business.

The measure will have effect for accounting periods starting on or after 1 January 2019 and the appropriate part of any accounting period which straddles that date.

Hybrid Capital Instruments

Certain types of debt that have some equity-like features, known as hybrid capital, will be given certainty of tax treatment. If the instrument meets certain conditions, any interest payable will be deductible for the issuer and taxable for the holder and no Stamp Duty or Stamp Duty Reserve Tax will be payable on transfer of the instrument.

The measure will have effect for accounting periods beginning on or after 1 January 2019, and the appropriate part of any accounting period which straddles that date.

Digital Services Tax

From April 2020 a new 2% tax will apply to the revenues of certain digital businesses to reflect the value they derive from search engines, social media platforms and online marketplaces. It will apply to the extent that their revenue is linked to the participation of UK users. The tax will not apply to the first £25m a year, and it will only apply to groups that generate global revenues from such business activities in excess of £500m a year. There will be a provision to exempt loss-makers and reduce the effective rate of tax for businesses with very low profit margins.

Corporate Capital Loss Restriction

The tax treatment of companies' capital losses is to be changed to match that for income losses from 1 April 2020. Capital losses brought forward may only be set off against the first £5m of a company's capital gains and 50% of the remainder. HMRC suggests that this change will not affect 99% of companies.

Capital Allowances

	2019/20	***2018/19***
Plant and machinery generally Annual investment allowance (on up to £1,000,000)[1]	100%	*100%*
Annual writing-down allowance	18%	*18%*
Integral features and cars with CO_2 emissions over 110g/km	6%	*8%*
Cars with CO_2 emissions under 50g/km	100%	*100%*
Electric charge-point equipment[2]	100%	*100%*

[1] The £1m annual investment allowance applies to qualifying expenditure from 1 January 2019 to 31 December 2020. The allowance before and after these dates is £200,000.

[2] For expenditure incurred from 23 November 2016 to 31 March 2023 (5 April 2023 for income tax).

Energy and Water Efficiency Allowances

For most businesses, investment in plant or equipment is written off for tax in the first year by using the annual investment allowance (currently £200,000, increasing to £1m for 2019 and 2020). For those businesses that exceed this level, additional first year allowances are available for energy or water efficient plant.

When these first year allowances create a loss, the loss can be used to create a tax credit rather than carrying forward a loss.

The lists of qualifying equipment are to be altered by statutory instrument, but the whole scheme is to end with effect from 1 April 2020 for companies and 6 April 2020 for all other businesses. This will only affect larger companies making large-scale investments and those creating losses by the investment – for most businesses it will have little effect.

Other Taxation

Value Added Tax

	2019/20	2018/19
Standard Rate	20%	*20%*
Registration level	£85,000*	*£85,000*
De-registration level	£83,000*	*£83,000*

* Frozen until 1 April 2022.

Voucher Treatment from 1 January 2019

Amendments will be made to the VAT treatment of vouchers to bring UK legislation in line with an EU Directive.

They will apply from 1 January 2019 and affect vouchers such as gift tokens, book tokens, gift vouchers and electronic vouchers, but will not apply to discount vouchers or money-off tokens.

The changes will affect the date when VAT becomes due rather than the amount of VAT.

Vouchers will fall into two categories:

1. Single purpose vouchers that can be used where both the VAT rate on the goods or services and the place of supply are known at time of issue. VAT becomes due on this type of voucher at point of issue and at the point of transfer if the vouchers are sold. VAT is not payable when the voucher is redeemed.

2. The multi-purpose vouchers category applies to anything that is not a single purpose voucher and VAT becomes due when the voucher is redeemed for goods or services.

Construction Sector Reverse Charge

From the date the Finance Bill 2018/19 receives Royal Assent, VAT due on construction services will be accounted for by the main contractor receiving the service rather than by the sub-contractor.

The measure will not affect the VAT treatment of construction services supplied to consumers as these will continue to have VAT applied by the supplier at the appropriate rate.

Diverted Profits Tax

The Diverted Profits Tax (DPT) was introduced by the Finance Act 2015 and applies at the rate of 25% (higher than the main UK corporation tax rate). It is charged on the amount by which large groups – typically multinational groups – reduce profits which would otherwise be liable to UK corporation tax by using artificial transactions or arrangements, usually involving related entities in low tax jurisdictions.

Companies will be prevented from amending their corporation tax return after the time limit for a DPT review has ended. It will also:

- extend the review period from 12 to 15 months
- extend a company's right to amend its corporation tax return during the first 12 months of the 15-month review period, but only for the purpose of including the diverted profits for corporation tax purposes
- make it clear that such profits will be taxed under either the DPT or corporation tax rules, but not both.

The measures take effect from 29 October 2018.

Stamp Taxes

Stamp Duty Land Tax - Rates and Bands

Transfers for consideration (except in Scotland and Wales)[1]		
Non-residential:		
Lease rents net present value		
£150,000 - £5m	1%	
Balance above £5m	2%	
Other consideration:		
£0 - £150,000	Nil	
Next £100,000	2%	
Over £250,000	5%	
Residential:		
On a single dwelling bought by a 'non-natural person' if over £500,000	15% (subject to a number of exemptions)	
First-time buyers from 22 November 2017, if under £500,000:		
£0 - £300,000	0%	
£300,001 - £500,000	5%	
Other buyers:	**First property**	**Other property**[2]
Lease rents net present value if value exceeds £125,000	1%	1%
Other consideration:		
£0 - £40,000	Nil	Nil
Next £85,000	Nil	3%
Next £125,000	2%	5%
Next £675,000	5%	8%
Next £575,000	10%	13%
Balance of consideration	12%	15%

[1] SDLT applies to the market value on certain transfers to a connected company and in connection with certain interests in partnerships if this is more than any actual consideration.

[2] If the property replaces the buyer's main residence which is disposed of within 36 months the extra 3% SDLT may be reclaimed.

Stamp Duty Land Tax

SDLT and first-time buyer relief has been extended to shared ownership property purchasers. This is back-dated for property completions effective after 21 November 2017.

The Prime Minister's announcement to increase SDLT for non-residents will now be part of a Government consultation exercise in January 2019 on a possible SDLT surcharge of 1% for non-residents buying residential property in England and Northern Ireland.

Annual Tax on Enveloped Dwellings (ATED)

Value at 1 April 2017 or subsequent acquisition (or substantial part disposal)	2019/20	*2018/19*
More than £500,000 but not over £1 million	£3,650	*£3,600*
More than £1 million but not over £2 million	£7,400	*£7,250*
More than £2 million but not over £5 million	£24,800	*£24,250*
More than £5 million but not over £10 million	£57,900	*£56,550*
More than £10 million but not over £20 million	£116,100	*£113,400*
More than £20 million	£232,350	*£226,950*