

AUTUMN BUDGET 2018

BULLIMORES' NOTES AND COMMENTARY ON THE CHANCELLOR'S STATEMENT 29th OCTOBER 2018

'For the strivers, the grafters and the carers'... (but not for contractors)

This is how the Chancellor opened his speech on Monday. The major spending decisions were leaked to the press in advance to shore up party support for the Government, and whilst this was presented as a Budget of spending it will not feel generous to many.

Most people had assumed that the extra money pledged to the NHS in the summer would be paid for by higher taxation. However, this was not a balanced Budget so the extra money comes from relaxed borrowing requirements and assumptions of economic growth. If this Budget stands will depend whether the growth forecasts hold up after the complex EU negotiations to come in the next six months.

IR35 decisions in the private sector from April 2020 are to be put into the hands of the organisation that contracts with a personal service company where the definition of a 'worker' is met. HMRC have lost a number of IR35 cases in court and rather than lose again they want someone else to take responsibility. We know from our clients that contract with the public sector that the same change last year was chaotic and this will not work as intended in the private sector. The Government may have to change their mind-set that everyone is out to avoid tax and look at the commercial benefits that contractors bring, such as flexibility in the labour force. The calculation of corporation tax, dividends and profit will become complicated for little real benefit other than to massage bruised egos and could slow the very economy that the Chancellor has gambled on growing.

An extension to the annual investment allowance (AIA) to £1 million from 1 January 2019 and the return of an allowance for the construction of non-residential buildings contracted after today are both welcome, although beware the transitional rules if your accounting period straddles 1 January. However, why reduce the special rate capital allowance from 8% to 6%? The reduction seems totally at odds with the other measures that are to encourage spending.

The change to entrepreneurs' relief that requires the owner to satisfy the qualifying conditions for qualifying assets to be held for at least 2 years will not be a disincentive to most entrepreneurs and is really just for political effect. The abolishment of the lettings allowance where the seller once owned the property and the lowering of the final period of exemption from 18 months to 9 months is not unexpected but may upset second homeowners and change buy to let decisions.

The Chancellor gave HMRC a partial win in their battle to be a preferential creditor when a company becomes insolvent. The money that a business has collected on their behalf such as PAYE and VAT will now be ranked higher than other unsecured creditors on liquidation. Small businesses and individuals that have no opportunity to secure their debts will be the lowest ranked on insolvency. This is a return to the 2002 rules and increases the risk taken by small enterprises supplying other companies and to the potential investors needed to encourage innovation.

Increasing the personal allowance and the higher rate tax thresholds a year earlier than intended will put more into the pay packet of middle England, though company car tax rates and rising fuel prices will quickly take this away. Wine drinkers are bound to be asking what they have done wrong.

The Budget will never be liked by everyone and we shall certainly be waiting for the real Santa Claus!

"We all know how 'modern democracies take loaves from the wealthy.' It's the slipups in the 'pass them out to the poor' department that inspire a study of Economics."

— P.J. O'Rourke

"The art of taxation consists in so plucking the goose as to obtain the largest amount of feathers with the least amount of hissing."

— Jean-Baptiste Colbert



Income Tax and National Insurance Contributions

- Personal allowance £12,500 from 6 April 2019 – 1 year earlier than planned
- Higher rate threshold £50,000 from 6 April 2019 – 1 year earlier than planned
- No abolition of Class 2 NIC
- Confirmation of exemption from income tax of certain new social security benefits - 2018/2019

Pensions and savings

- Lifetime pension allowance to £1,055,000 increase in line with CPI for 2019/2020
- Starting rate of 0% for savings kept at £5,000
- ISA – Adult annual subscription limit unchanged at £20,000, Junior ISA limit £4,368 - 2019/2020
- Child trust funds – annual subscription limit £4,368 - 2019/2020

Inheritance tax

- Technical changes to the definitions of residence nil rate band (RNRB) when downsizing and the definition of inherited for RNRB – deaths after 29 October 2018

Capital Gains Tax

- Entrepreneurs relief – minimum period for qualification extended to 2 years - 6 April 2019
- Entrepreneurs relief – from 29 October 2018 shareholders must be entitled to at least 5% of distributable profits and net assets of a company throughout the specified period to be able to claim the relief
- Entrepreneurs relief to be allowed to individuals to the point of dilution when below 5% where a new share issue dilutes after 6 April 2019
- Final period exemption on disposal of previous main residence reduced to 9 months from April 2020
- Lettings relief on private residences limited to shared occupancy - April 2020
- Annual exempt amount 2019/2020 - £12,000 individuals, £6,000 trustees of settlements
- 6 April 2020 - UK residents to make a payment on account for CGT on disposal of residential property (6 April 2019 non-UK residents)

Business Taxes

- IR35 – the decision as to IR35 status to be made to the third party engaging the worker April 2020. Extended to the private sector as well as the public sector. Large companies will be required to deduct and pay PAYE and National Insurance where engaging a company with a worker that meets the definition
- Annual investment allowance increased to £1m for 2 years - 1 January 2019
- New non-residential structures and buildings where contracts entered into after 29 October 2019 may be eligible for 2% capital allowance (remember the old industrial buildings allowance?)
- Reduction of special rate capital allowances from 8% to 6% - April 2019
- 1 January 2019 - restrictions to tax effect of introducing IFRS16 leasing
- Enhanced capital allowances and first year tax credits for technologies on the Energy Technology List and Water Technology List to end - April 2020
- Enhanced capital allowances for electric car charge points extended to 31 March 2023
- Employment allowance for employers NIC's only available if paying less than £100,000 NIC per year
- Digital services tax of 2% for providers of search engines, social media platforms and online marketplaces - large companies only - April 2020. Dependent on discussions in G20 and OECD.
- Restrict large company losses brought forward to 50% of capital gains - 1 April 2020
- Confirmation of tax measure in Budget 2017 to tax income from intangible property for large multinationals held in low tax jurisdictions that relate to UK sales - April 2019
- Partial relief to be introduced for goodwill in the acquisition of businesses with qualifying intellectual property – April 2019
- Payable R&D tax credits for qualifying loss-making SME's to be limited to 3 times total PAYE and NICs liability for the tax year - 1 April 2020
- 1 January 2019 - changes to the definition of permanent establishment for corporation tax
- 6 April 2020 – non-UK resident companies carrying on a UK property business to be liable to corporation tax rather than income tax

Charities

- Extend upper limits for trading income without incurring a tax liability - April 2019 (£8,000 for charities with a total income below £32,000)
- Allow shops to send letters to donors every 3 years where using Retail Gift Aid Scheme when their goods raise less than £20 per year - April 2019
- Increase individual donation limit to £30 from £20 under the Gift Aid Small Donation Scheme - 6 April 2019

The ISA allowance is unchanged

Anti-avoidance

- Targeted legislation in Finance Bill 2018/2019 to prevent UK businesses by arranging for UK taxable business profits to accrue in lower tax countries
- New legislation to allow disclosure rules about offshore structures that could avoid or be misused to evade tax
- 29 October 2018 - market value rule for listed shares being transferred to connected companies
- Stricter rules to be introduced for how adjustments should be made when there is an amendment to price, ensuring a credit note is issued to customers
- On assent of the Finance Bill 2019/2020 directors and other persons involved in tax avoidance will be jointly and severally liable for company tax liabilities where there is a risk the company may deliberately enter insolvency
- 29 March 2019 - VAT avoidance legislation to prevent suppliers to insurance companies 'looping' their arrangements outside the EU
- Assessment time limit for offshore tax non-compliance to be increased to 12 years in Finance Bill 2018/2019

VAT and Insurance Premium Tax

- VAT threshold to remain at £85,000 until April 2022 (deregistration £83,000)
- Vouchers to attract the same rate of VAT as other methods of payment for vouchers issued on or after 1 January 2019 – existing rules apply to vouchers issued prior to this
- 1 March 2019 - VAT becomes payable on prepayments where customers have been charged VAT but have failed to collect what was paid for and have not received a refund
- 1 October 2019 - VAT domestic reverse charge to be introduced to prevent VAT fraud in labour provision to the construction sector
- 1 April 2019 - extending the eligibility of joining a VAT group to some non-corporate entities

Duties and cars

- Fuel duty frozen
- Vehicle excise duty to rise by RPI - 1 April 2019
- Company car fuel benefit charge to rise by RPI - 6 April 2019
- Van benefit charge to rise by CPI - 6 April 2019
- Short haul air passenger duty unchanged, long haul rates to increase by RPI
- Beer, cider and spirit duty frozen – wine and high strength sparkling cider duty to rise by RPI
- Tobacco duty to rise by inflation plus 2%, hand rolled tobacco 3%

Stamp Duties and SDLT

- First time buyer relief on shared ownership properties up to £500,000 - 29 October 2018. Backdated claims to 22 November 2017 can be made
- £2 maximum stake on B2 gaming machines and 21% rate of remote gaming duty - October 2019
- 29 October 2018 - time limit on a reclaim of higher rate stamp duty extended to 12 months from the sale of the existing home or a year from the filing date of the SDLT return for the new home
- ATED increase by 2.4% from 7 April 2018/2019

Business Rates

- April 2019 - cut to business rates for retail only by a third if rateable value under £51,000
- 100% business rates relief for public lavatories (*insert own joke here!*)
- Local authorities to be fully compensated for these measures

**No change to the Making Tax Digital Reforms of VAT
– start preparing now**

Environment

- April 2022 - tax on the production and import of plastic packaging where it does not contain at least 30% recycled plastic, alongside increased producer responsibility for costs of packaging waste

Further issues/announcements

- No change to qualifying tests for Rent a Room relief in 2018/2019
- National living wage increase to £8.21 per hour - April 2019
- £1.7 billion to increase work allowances in universal credit
- Railcard for 26-30 year olds by the end of 2018
- Changes to apprenticeship levy for large business – small business to have their contribution for apprenticeship training cut from 10% to 5%

New consultations/reviews and discussions

- Consultation on the taxation of trusts to be published shortly
- Business rates treatment of self-catering and holiday let accommodation to be reviewed
- SDLT surcharge of 1% on non-residents buying residential property being considered
- Consultation on aligning consideration rules for stamp duty and stamp duty reserve tax
- Electronic point of sale (till systems) – evidence to be gathered for a report into misuse

Tax administration

- 6 April 2020 - HMRC to become a preferred creditor at insolvency for taxes held on trust by the business such as PAYE and VAT – does not apply to taxes owed by the business itself such as corporation tax
- Voluntary tax returns to have the same statutory status as if the return was required by statutory notice with retrospective effect