Tolley®CPD

Budget 2020

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Personal tax

Tax rates and allowances

There was no change to personal allowance as expected so it stays at £12,500. The married couples' allowance where available increases to £9,075 (from £8,915). The income limit before tapering increases to £30,200 (from £29,600) and the minimum entitlement increases to £3,510 (from £3,450).

Blind person's allowance is indexed to £2,500 for 2020/21 (from £2,450 in 2019/20).

There are no changes to tax bandings, nor personal tax rates in England, Wales and Northern Ireland.

Junior ISAs and Child Tax Funds (CTFs)

The investment limit for JISAs and CTFs increased from £4,368 to £9,000 for 2020/21.

The main ISA subscription limit remains at £20,000 for 2020/21 and has not increased for 4 years.

Employees working from home

From April 2020 the maximum flat rate income tax deduction to cover additional household expenses increases from £4 to £6 per week where working at home under homeworking arrangements, i.e. where the employee is required to work at home by the employer.

Larger amounts can be claimed but only if evidenced by invoices or proof of costs incurred.

Car and van benefits

Car benefits are reduced by 2% in 2021/22 for cars registered from 6 April 2020. Electric cars secure the same 2% reduction even when registered before 6 April 2020.

Consequently, there are different benefits for hybrids, petrol or diesel cars depending on whether the car was registered before or after 5 April 2020.

Rates will rise by 1 percentage point in 2022/23 and by a further 1 percentage point in 2023/24 for electric cars and other cars registered from 6 April 2020. They will then be frozen until 2024/25.

The fuel benefit multiplier and van benefit increased by CPI of 1.7%

- The fuel multiplier £24,500 (2020/21: £24,100)
- Van benefit is £3,490 (2019/20: £3,430)
- Van fuel benefit £666 (2019/20: £655)

Zero-emission vans will have a benefit of £2,792 in 2020/21 (2019/20: £2,058). The benefit will be zero in 2021/22.

Top-slicing relief

HMRC lost a case about interaction of personal allowances and income (life-insurance policy gains) eligible for TSR, having claimed that the entire gain was added to income in the year the policy was encashed in determining if the personal allowance is abated.

FB 2020 will legislate for how allowances and reliefs get set against such gains and will apply to life insurance policy gains from 11 March 2020.

This confirms that when assessing if any personal allowance is tapered, we take other income plus the annual equivalent life-insurance policy gain (not the whole gain).

Allowances and reliefs must be offset against all other income before reducing the policy gain.

Pensions

Annual Allowance tapering from 2020/21

The annual allowance and money purchase annual allowance remain unchanged at £40,000 and £4,000 respectively

The threshold income limit (excludes employer's pension inputs) increases from £110,000 to £200,000 from 6 April 2020. The adjusted income limit also increases from £150,000 to £240,000. Tapering will however reduce the annual allowance down to a minimum of £4,000 (from £10,000). This will impact taxpayers with adjusted income of more than £300,000.

Lifetime allowance limit

The lifetime allowance increased by CPI from 6 April 2020 from £1,055,000 million to £1,073,100.

Pension contributions will continue to save tax at taxpayer's marginal rate.

Disguised remuneration and the loan charge review

The Government has confirmed its response to Sir Amyas Morse's Independent Loan Charge Review. The recommendations will be legislated for in Finance Bill 2020.

NIC thresholds

The NIC Class 1 primary threshold (but not the secondary threshold for employer NICs) is increased to £183 per week, equivalent to £9,500 per year.

The Class 4 lower profits limit is similarly increased to £9,500.

There is no change to the Class 1 upper limit or Class 4 upper profits limit.

Covid-19 sick pay

SSP will be payable from day 1 for employees with the virus and those advised to self-isolate (and their carers).

There will be support for those unable to claim SSP (i.e. those paid below the NIC lower earnings limit and the self-employed) through ESA and Universal Credit.

The 'new style' ESA will be payable for people directly affected by COVID-19 or self-isolating according to government advice from day 1 of sickness, rather than day 8.

Sufferers can claim universal credit and access advance payments where directly affected by COVID-19 (or self-isolating), without the current requirement to attend a jobcentre.

For the duration of the outbreak, the minimum income floor in the universal credit rules will be temporarily relaxed for those directly affected by COVID-19 or self-isolating (to ensure the self-employed are compensated for loss of income).

Scottish social security benefits

Legislation will be introduced to exempt from income tax three social security benefits, (Scottish Child Payment, Job Start, and Disability Assistance for Children and Young People) introduced by the Scottish government.

Capital Taxes

Capital Gains Tax rates and allowances

The annual exemption will be £12,300 for 2020/21 (2019/20: £12,000).

The rates of CGT are unchanged remaining at

- 10%/20% on most assets (basic rate/higher rate)
- 18%/28% on residential property gains

Entrepreneurs' Relief

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

Rules will also be introduced that apply to forestalling arrangements entered into before Budget day.

In such cases the disposal will be subject to the £1,000,000 lifetime cap unless:

The parties to the contract demonstrate that they did not enter into the contract with a purpose of obtaining a tax advantage by reason of the timing rule in s.28 TCGA 1992, and

Where the parties to the contract are connected, that the contract was entered into for wholly commercial reasons.

In addition, where shares have been exchanged for those in another company on or after 6 April 2019 but before 11 March 2020, and

- both companies are owned or controlled by substantially the same persons, or
- persons who held shares in company A hold a greater percentage of shares in company B than they did in company A and, on 11 March 2020, the personal company test, the trading company and the employee/officer test are met in respect of company B,

Then if an election is made under section 169Q TCGA 1992 on or after 11 March 2020 to treat the exchange as a disposal for CGT purposes, the share disposal is to be treated as taking place at the time of the election for ER purposes, meaning that the new lifetime limit of £1,000,000 will apply.

Inheritance tax rates and thresholds

Inheritance tax thresholds and rates are unchanged, except that (as already planned) the residence nil rate band increases from £150,000 to £175,000 for 2020/21.

Business Taxation

Employers and Covid-19

The Government will be providing support for businesses with less than 250 employees as at 28 February 2020, in the form of a refund of Covid-19 related SSP costs.

The refund will cover a maximum of 2 weeks per employee.

The employer must maintain record of staff absences but a GP fit note will not be required (evidence of NHS 111 advice will be sufficient).

The support will start when regulations for SSP for self-isolators come into force.

There is no system that can repay employers for SSP at the moment but the Government is working on a solution to this.

There will be a 100% business rates discount for 2020-21 for small businesses (including leisure/hospitality sectors) to cater for the loss of business caused by the virus.

If a business is eligible for small business rate relief, they would not be paying rates anyway. For these businesses, £3,000 per business can be claimed from local Government to eligible businesses to meet ongoing costs.

A special Covid-19 helpline is being set up to make time-to-pay arrangements for tax liabilities.

There will be no late payment penalties or interest if a business faces administrative difficulties contacting HMRC or paying tax because of the virus.

Structures and Building Allowance

The rate of Structures and Buildings Allowance is increased to 3% p.a. from 1 April 2020 for companies and 6 April 2020 for unincorporated businesses.

Businesses with accounting periods straddling these dates will need to time apportion the allowance accordingly.

Changes to allowances for cars from April 2021

A 100% FYA will only apply to the purchase of a new zero-emission car from April 2021.

A car with emissions of up between 1 and 50g/km will qualify for 18% general pool writing down allowances and all other cars will only qualify for the 6% special-rate pool writing down allowances.

Other capital allowance changes

The 100% FYA for zero-emission goods vehicles and natural gas and hydrogen refuelling equipment is extended until April 2025.

The 100% FYA on plant and machinery expenditure in Enterprise Zones is extended to 31 March 2021 (it was due to expire on 31 March 2020).

Car leases

There is a 15% disallowance of certain car lease expenses in the profit and loss account.

This will apply to cars with CO2 emissions of more than 50g/km for leases entered into from 1 April 2021. The disallowance currently applies to cars with emissions of more than 110g/km.

Annual investment allowance

The Budget press releases confirm that the AIA will fall back from £1 million to £200,000 for expenditure incurred from 1 January 2021.

There are transitional rules that are particularly harsh when the AIA limit decreases.

Businesses therefore need to plan their capital expenditure carefully around end of the calendar year, or they could delay the availability of allowances significantly.

Off-payroll working in private sector

The new rules for non-small customers utilising the personal services of workers operating through personal service companies will commence on 6 April 2020 as planned.

It will only apply for services received from that date not payments made.

There will be no penalties in the first year, except in cases of fraud/deliberate behaviour.

Construction Industry Scheme (CIS) abuse

Legislation will be introduced in a later Finance Bill to prevent non-compliant businesses from using the CIS to claim tax refunds to which they are not entitled. The measure will allow HMRC to reduce or deny the CIS credit claimed on employer returns where the sub-contractor cannot evidence the deductions and does not correct their return when asked.

Rate of corporation tax

As expected, corporation tax will remain at 19% from April 2020.

R&D expenditure credit

This relief mainly impacts on large companies but can also apply to certain costs incurred by small companies that are not eligible for SME enhancement.

The tax credit is increased from 12% to 13% for expenditure incurred from 1 April 2020.

There will be a consultation on widening the scope of the tax credit to include data and cloud computing.

R&D for small companies

The planned introduction of the cap on the payable tax credit in the SME R&D schemes will be delayed until 1 April 2021. Repayable tax credits were going to be capped at 3 x the PAYE liability for the accounting period.

The Government wants more time to think about circumstances where the cap would not apply.

Corporate capital losses

From 1 April 2020, there is a restriction on the proportion of annual chargeable gains that can be relieved by brought-forward capital losses.

The £5 million loss allowance (group-wide) that has been claimable since 2017 can be used by capital or income losses each year at company's behest.

Certain companies in liquidation will be excluded from the new restriction.

Non-resident companies with UK property businesses

Finance Act 2019 brings non-resident companies within scope of UK corporation tax from 6 April 2020 if they derive income from UK property.

FB2020 makes some amendments to the law.

Financing costs related to UK property incurred before a non-resident company starts carrying on a UK property business will be brought into account in the first period (if incurred within last 7 years).

The exception from notifying chargeability to corporation tax where all income suffers tax at source becomes conditional on that tax covering the company's liability.

Corporate Intangible Fixed Assets

Intangible assets created before 1 April 2002 have traditionally been treated as capital assets for corporation tax purposes unless purchased from an unrelated party since then.

FB 2020 will amend the law to allow companies that acquire pre-April 2002 intangibles from related parties from 1 July 2020 to claim tax relief under the Intangible Fixed Asset regime, amortisation/ impairment becoming an allowable expense (or alternatively claimed as a 4% straight-line allowance).

There is an anti-avoidance rule for purchases from a non-corporate related party. Any excess of the purchase price over market value will be treated as a capital asset. Only the market value will qualify for deduction as an intangible asset.

Other changes

Employment allowance

The allowance will increase to £4,000 p.a. from April 2020. This is now only available if secondary class 1 contributions in the previous year were less than £100,000. The £100,000 limit will apply across connected employers so none of the connected employers will be able to claim the allowance where total secondary contributions are £100,000 or more. If the secondary contributions are less than £100,000 then the connected employers can choose which one of them will claim the allowance.

Employing armed forces veterans

From April 2021, no employers' national insurance will be charged on earnings up to the upper earnings limit (currently £50,000) for employers of armed services veterans in first year of civilian employment.

Extended neonatal leave

The Government is planning a new entitlement to neonatal leave and pay for employees whose babies spend an extended period in neonatal care. No details are available yet.

Digital services tax

The Government will impose a 2% tax on the revenues of certain (very large) digital businesses from 1 April 2020. This will apply if the business has global revenue exceeding £500 million and UK revenue exceeding £25 million, and will not be payable on the first £25 million of UK revenue. Businesses will pay the DST on an annual basis, consistent with draft legislation published in July 2019.

The Government will repeal DST once an appropriate global solution is in place for taxing digital services in country of consumption not supply.

Red diesel

A broad removal of the entitlement to use red diesel and rebated biofuels was announced. The removal will not take effect until April 2022 and the relevant legislation is expected to be introduced by a future Finance Bill. Exceptions are to be made for the agriculture and rail sectors as well as for use in non-commercial heating. A consultation will take place later this year which will present other sectors with the opportunity to put forward a case for their continued entitlement to use red diesel and rebated biofuels.

Plastic Packaging Tax

The Government confirmed the introduction of a plastic packaging tax. The idea was posited in Budget 2018 and a consultation took place in 2019. Now paving legislation will be introduced in Finance Bill 2020 and a further consultation on the detailed policy design has been launched. The consultation closes on 20 May 2020.

Tax avoidance

General measures

HMRC is to publish a new strategy to deal with promoters of avoidance schemes. This will be aimed at disrupting the supply chain by making it harder for firms to promote schemes as well as making it clearer to potential users that HMRC will challenge these sorts of arrangements.

Following the review of the loan charge by Sir Amyas Morse the Government announced that it would introduce further measures to tackle marketed tax avoidance. No details of what is intended have been announced but it has been confirmed that draft legislation will be published in July 2020.

Notification of difference of view

From April 2021 large businesses will be required to notify HMRC when they take a tax position that HMRC is likely to challenge.

The concept will draw on international accounting standards which many large businesses already follow.

There will be a consultation soon on the detail.

Tax conditionality

From 2022 firms in the private hire and scrap metal businesses will only be able to obtain or renew a licence to operate if they can show that they are properly registered for tax. The Government will consult on whether or not it can be used more widely for all Government awards and authorisations. The rules will apply only in England and Wales but HMRC will work with the devolved administrations to extend the principle across the whole of the UK.

Raising the standards

HMRC will call for evidence as part of a project to raise the standards of tax advice. At the moment taxation is not a regulated profession in the UK with standards set by the professional bodies. There is no sign that HMRC wishes to move to become a regulator of tax advisers, but it clearly wants to have a closer involvement in the way that standards are set and monitored.

Administration

Limited liability partnership (LLP) returns

Legislation will be introduced with retrospective effect to ensure that where an LLP operates 'without a view to profit', HMRC can nevertheless amend the LLP members' returns. The vast majority of LLPs operate with a view to profit, and these will not experience any change at all.

HMRC debts in an insolvency

PAYE collected from employees, CIS deductions and VAT collected from customers will be preferential debts for HMRC to recover from 1 December 2020.

Other tax liabilities will remain unsecured and rank with other unsecured creditors equally.

Automated notices and penalties

The Government will legislate to confirm that HMRC may use automated processes to Issue taxpayers with notices to file tax returns and to issue penalty notices.

This will apply prospectively and retrospectively and is in response to cases that HMRC has lost at Tax Tribunals where judges have held that the requirement that a notice or penalty be determined by an Officer of the Board of HMRC meant that automatic notices and penalties were not valid.

VAT

Registration/de-registration limits

There are no changes to the VAT registration and de-registration limits, which remain at £85,000 and £83,000 respectively.

Zero-rating

Digital publications will be zero-rated from 1 December 2020. This will cover e-books, e-newspapers, e-magazines and academic e-journals.

Women's sanitary products will also be zero-rated, this time from 1 January 2021.

VAT on imports

Postponed VAT accounting will apply on imports of goods after Brexit.

Import VAT will be accounted for on the VAT return for period in which date of importation occurs, showing output VAT owed to HMRC and the potential recovery of this VAT as input VAT in Box 4.

At present, VAT on imports must be paid over to HMRC first, then recovered later.

New rules on 'call off' stock

Call off stock is stock held in another EU country for a single customer.

Previously, the company would have to have registered in the customer's country and charge local VAT to the customer when the stock was called-off.

The only exception to this was where the customer agreed to treat the movement of stock into their country as an acquisition by them, whereby they accounted for the VAT to their local tax authority. In this case, the UK supplier could use the foreign customer's VAT number to zero-rate the movement of goods.

The new rules apply from 1 January 2020.

An intra-community supply only takes place when the customer takes the stock (this means that an EC Sales List report will now be needed). There is therefore no need to register in other country, nor use the customer's VAT number.

If stock is not called off within 12 months of arrival, the supplier must register in the customer's country and treat the subsequent supply to the customer as a domestic supply in that country.

Agricultural flat rate scheme

There are new conditions for entry and exit into the AFRS from 1 January 2021 (aligning the criteria with the VAT Flat Rate Scheme).

A business can join the AFRS when their annual turnover for farming related activities is below £150,000.

They must notify HMRC once annual turnover for farming related activities exceeds £230,000, to be deregistered from the scheme and register for full VAT instead.

If turnover exceeds £85,000 for non-farming related activities, the business will still be required to register for VAT and will be ineligible for the AFRS.

Domestic reverse charge – construction services

The Budget confirms that the rules postponed from 1 October 2019 will go ahead from 1 October 2020. It will apply to CIS-type construction services from a VAT registered supplier (sub-contractor) to a VAT registered customer (contractor), where the customer will recharge the service to an end user.

Where reverse charging applies, the supplier does not charge VAT. Instead, the customer charges itself VAT at the appropriate rate (5% or 20%). It declares output VAT in Box 1 of return and recovers it as appropriate as input VAT in Box 4.

The net value is put in Box 6 of the subcontractor’s VAT return whilst the main-contractor will put the net amount in their Box 7.

Property taxes

SDLT changes

There will be a 2% SDLT surcharge on non-UK residents purchasing residential property in England and Northern Ireland from 1 April 2021.

Qualifying housing co-operatives will be relieved from ATED and the 15% flat rate of SDLT on purchases of dwellings over £500,000. SDLT relief in England and Northern Ireland will take effect from 11 March 2020. UK-wide ATED relief from 1 April 2021 with a refund available for 2020/21.

ATED rates

ATED rates will be increased from April 2020 by 1.7% (CPI increase to September 2019).