

Budget 2018: Personal Tax

(Lecture P1101 – 22.04 minutes)

Income Tax

Rates and allowances

For 2019/20, the personal allowance is increased from £11,850 to £12,500 and the basic rate limit from £34,500 to £37,500, so that the level of income at which an individual comes within the charge to income tax is extended from £46,350 in 2018/19 to £50,000 in 2019/20. The 2019/20 figures will remain the same for 2020/21. After that they will rise with the annual increase in the Consumer Price Index.

The higher rate limit and the personal allowance income limit remain unchanged at £150,000 and £100,000 respectively for 2019/20. The basic, higher and additional rates are all unchanged, as are the rates on dividends and savings income. The dividend allowance, personal savings allowance, starting rate for savings and starting rate limit all stay at their 2018/19 levels. The transferable tax allowance for married persons (aka the marriage allowance) automatically becomes £1,250 for 2019/20. Other income tax personal reliefs are increased in line with inflation, as is the capital gains tax annual exempt amount which becomes £12,000 from 6 April 2019. Rates of capital gains tax are unchanged, as are income tax rates for trustees.

Property businesses — rent-a-room relief

It had previously been announced that Finance Bill 2019 would introduce a shared occupancy test for rent-a-room relief for 2019/20 onwards. The potential claimant (or a member of his household) would have to use the residence as sleeping accommodation for at least part of the period of the tenancy in order to qualify for rent-a-room relief on the rents. It is now announced that this test will *not* be introduced by Finance Bill 2019.

ISAs and Child Trust Funds

The ISA annual subscription limit will remain at £20,000 for 2019/20. The annual subscription limits for Junior ISAs and Child Trust Funds are increased in line with inflation to £4,368 from 6 April 2019.

Voluntary tax returns

A number of cases before the tribunal have made it clear that HMRC's powers are limited with regard to self-assessment tax returns submitted voluntarily, i.e. in a case where notice to file a return has not been given or has been given but not properly served. For example, HMRC cannot enquire into such a return and neither can they charge a penalty for late filing. With retrospective effect to 1996/97 (the first year of income tax self-assessment), the same rules apply to these unsolicited returns as to any other self-assessment returns.

Brexit

Legislation will be introduced in Finance Bill 2019 to provide a power to make minor consequential amendments pursuant to Brexit. The Government intend to use the power to make such minor amendments to tax law as to keep it working in the same way as it does now if the UK leaves the EU without a deal.

Employment Tax

Car and van benefits

The amount to which the appropriate percentage is applied in determining the taxable benefit of company car fuel is £24,100 for 2019/20 (£23,400 for 2018/19). The cash equivalent of the benefit of a company van for 2019/20 is £3,430 (£3,350 for 2018/19). The cash equivalent of the benefit of van fuel for 2019/20 is £655 (£633 for 2018/19).

Off-payroll working in the private sector

Responsibility for operating the off-payroll working rules (IR35) in the private sector, and deducting any tax and national insurance contributions due, will move from the individual to the organisation, agency or other third party paying the individual's personal service company. Small organisations will be exempt. This change will bring private sector organisations into line with public sector bodies and agencies, and will have effect from 6 April 2020.

National insurance contributions (NICs)

Reforms to the NICs treatment of termination payments and income from sporting testimonials, which were originally to be introduced from 6 April 2018 but were then deferred until 6 April 2019, are still further delayed, this time until 6 April 2020.

Employment allowance

Most employers can currently claim an employment allowance of up to £3,000 to offset against their liability to employer Class 1 NICs. The Government are to restrict the allowance to employers with an employer NICs liability of less than £100,000 in the preceding tax year. Where employers are connected, the £100,000 threshold will apply to their aggregated liability. This change will take effect from 2020.

Self-funded work-related training costs

Following consultation, the Government are maintaining, but not widening, the scope of tax relief currently available to employees and the self-employed for work-related training costs.

Short Term Business Visitors (STBVs)

Following consultation on the tax and administrative treatment of STBVs from overseas branches of UK headquartered companies, the Government will widen eligibility for the STBV PAYE special arrangement and extend its deadlines for reporting and paying tax. This will have effect from April 2020.

Abuse of insolvency rules

The Government are to introduce legislation in Finance Bill 2020 to enable HMRC to make directors and other persons involved in tax avoidance, evasion or phoenixism jointly and severally liable for company tax liabilities, where there is a risk that the company may deliberately enter insolvency. This will have effect from Royal Assent of Finance Bill 2020.

Other measures

There are no changes to the following previously announced employment tax measures:

- amendment to salary sacrifice rules for taxable cars and vans;
- relief from benefit rules for employer provided electricity for electric vehicles;
- changes to benefit rules on emergency vehicles;
- widening the scope of the benefit exemption for employer pension contributions;
- abolition of receipt checking for subsistence benchmark scale rates;
- legislating existing overseas scale rates for accommodation and subsistence.

Pensions Tax

The much-predicted changes to pensions tax (reduction of annual allowance and/or taper limit, restriction of relief to basic rate etc.) have *not* materialised. The lifetime allowance is increased with inflation to £1,055,000.

Capital Gains Tax

Entrepreneurs' relief

With effect for disposals on or after 29 October 2018, a new test will be added to existing tests that determine if a company is an individual's personal company for entrepreneurs' relief. The new condition requires the individual to be beneficially entitled to at least 5% of the company's distributable profits and 5% of its assets available for distribution to equity holders in a winding-up.

The minimum period throughout which certain conditions must be met to qualify for entrepreneurs' relief, for example the period a business must be carried on immediately prior to a disposal, is to be increased from one year to two years. This will apply to disposals on or after 6 April 2019, except that where the claimant's business ceased, or his personal company ceased to be a trading company (or the holding company of a trading group), before 29 October 2018, the pre-existing one-year qualifying period will continue to apply.

As previously announced, the Government will legislate to allow individuals whose shareholding is diluted below the 5% qualifying threshold for entrepreneurs' relief as a result of a new share issue to obtain relief for gains up to that time, subject to conditions. The change will apply where a company ceases to be the individual's personal company as a result of its issuing shares on or after 6 April 2019. Following consultation, changes are being made to clarify and improve the computational and qualifying rules in the draft legislation.

Private residence relief

From April 2020, two changes will be made to private residence relief as follows.

The fraction of the gain that is exempt is given by dividing the length of the part period of ownership during which the dwelling-house was the individual's only or main residence, but inclusive of the last 18 months of the period of ownership in any event (36 months for certain disposals by disabled persons and long-term residents in a care home) by the length of the period of ownership. The 18-month period is to be reduced to 9 months, but the 36-month period, where it applies, will be unchanged.

Where the dwelling-house in question has at any time in the period of ownership been let as residential accommodation, the part of the gain, if any, which would otherwise be a chargeable gain by reason of the letting is exempt to the extent of the lower of £40,000 and the amount of the gain otherwise exempt. This lettings relief will be reformed so that it applies only in circumstances where the owner of the property is in shared-occupancy with a tenant.

Taxing gains made by non-UK residents on UK immovable property

As announced at Autumn Budget 2017, the Government will legislate in Finance Bill 2019 to broaden the UK's tax base to include disposals of all forms of UK land made by non-residents. This will include both direct disposals of UK land, and indirect disposals of entities that predominantly derive their value from UK land. The changes will take effect for disposals made on or after 6 April 2019.

Capital gains tax payment window

Also as announced at Autumn Budget 2017, the Government will legislate in Finance Bill 2019 to introduce a requirement for UK residents to make a payment on account of capital gains tax following the completion of a residential property disposal. This will apply to disposals by non-UK residents on or after 6 April 2019 and by UK residents on or after 6 April 2020. Following consultation, the legislation has been changed to allow reasonable estimates of valuations and apportionments needed to compute the gain, where this information is not available before the payment deadline and to remove disposals by UK residents of non-UK properties from the rules.

Inheritance Tax

Residence nil rate band

Some minor technical amendments are being made to the operation of the residence nil rate band. These will have effect from 29 October 2018.

Stamp Duty Land Tax

Extension of first-time buyers relief

First-time buyers relief will be extended to include qualifying shared ownership property purchases in England and Northern Ireland. The first £300,000 on an initial share purchased will not be liable to SDLT. This is whether or not the purchaser elects to pay SDLT on the market value of the property. The balance of the initial share purchased will be chargeable at 5% on amounts over £300,000 with no SDLT chargeable on the lease. There will be no relief on any further shares purchased. 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 when the relief for first time buyers was introduced.

SDLT higher rates

The Government will extend the time allowed to amend a tax return relating to higher rates for additional dwellings from three months to twelve months for those who sell their old homes more than 12 months after they buy a new home.

SDLT for non-UK residents

A consultation will be published in January 2019 on an SDLT surcharge of 1% for non-residents buying residential property in England and Northern Ireland.

Stamp duty (SD) and Stamp duty reserve tax (SDRT)

A targeted market value rule will come into force on 29 October 2019 for SD and SDRT will be introduced for listed securities transferred to connected companies. The transfer will be chargeable based on the higher of the amount or value of the consideration, if any, for the transfer or the market value of the securities.

The Government will also consult on aligning the Stamp Duty and SDRT consideration rules and introducing a general connected party market value rule.