Budget 2018

The Chancellor Philip Hammond presented his second Autumn Budget on Monday 29 October 2018. In his speech he stated that 'austerity is coming to an end'. He promised a 'double deal dividend' if the Brexit negotiations are successful but reserved the right to upscale the Spring Statement to a full-scale Budget in 2019 if not.

This summary focuses on the key tax measures which may affect you. In reality it was a benign Budget. Brexit is the focus of the Government and this, in itself, is an economic game changer. If you look forward, consider the massive hole in our public finances, future health and welfare costs, the off-balance sheet pension liability and the fact that technology will increasingly impact on the middle class job market, there can be only one direction of travel for tax rates! In other words the best is yet to come!

Personal tax

Rates and allowances

The personal allowance will increase from £11,850 to £12,500 in 2019/20.
For 2019/20, the basic rate band will increase from £34,500 to £37,500 so that the threshold at which the 40% band applies is £50,000 for those who are entitled to the full personal allowance. The additional rate of tax of 45% remains payable on taxable income above £150,000.

The National Insurance Contribution (NIC) rates have not changed, although the limits at which the rates apply have increased. The Lower Profits Limit will increase from £8,424 to £8,632 in 2019/20. And the Upper Profits Limit will increase in line with the Income Tax basic rate band from £46,350 to £50,000, which will result in more profits being liable to the main NIC rate.

Gift Aid - donor benefits

Draft legislation has been issued which simplifies the donor benefit rules that apply to charities for those who claim Gift Aid tax relief on donations. From 6 April 2019, the benefit threshold for the first £100 of the donation will remain at 25% of that amount. For gifts exceeding £100, charities can offer benefits up to the sum of £25 and 5% of the amount of the donation that exceeds £100. The total value of the benefit that a donor can receive remains at £2,500.

Gift Aid Small Donations Scheme

The Gift Aid Small Donations Scheme (GASDS) applies to small charitable donations where it is impractical to obtain a Gift Aid declaration. GASDS currently applies to donations of £20 or less made by individuals in cash or contactless payment. The limit will be raised to £30 from 6 April 2019.

Undisclosed income and gains

Draft legislation has been issued to increase the assessment time limits for offshore income and gains to 12 years. Similarly, the time limits for proceedings for the recovery of Inheritance Tax are increased to 12 years. Where an assessment involves a loss of tax brought about deliberately, the assessment time limit is 20 years after the end of the year of assessment and this time limit will not change.

The legislation does not apply to Corporation Tax or where HMRC has received information from another tax authority under automatic exchange of information.

The potential extension of time limits will apply from the 2013/14 tax year where the loss of tax is brought about by careless behaviour and from the 2015/16 tax year in other cases. The amendments will have effect when Finance Bill 2018/19 receives Royal Assent.

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Penalties for late submission of tax returns

Draft legislation has been issued which sets out a new points-based penalty regime for regular submission obligations, such as under Self Assessment and Making Tax Digital but, for the moment, will exclude Corporation Tax. Depending on the frequency of the return submission obligation, a defined number of penalty points will accrue to a threshold. Once this threshold has been reached, a fixed penalty will be charged to the taxpayer.

Penalties for late payment of tax

Draft legislation has been issued to harmonise the late payment penalty regimes for Income Tax, Corporation Tax and Value Added Tax. Late payment penalties are charged when taxpayers do not pay, or make an agreement to pay, by the date they should, and do not have a reasonable excuse for the failure to do so.

The penalties will consist of two penalty charges, one charge based upon payments and agreements to pay in the first 30 days after the payment due date and another charge based upon how long the debt remains outstanding after the 30 days.

Capital Gains Tax (CGT)

The annual exemption is £11,700 for 2018/19 and will be increased to £12,000 for 2019/20.

From April 2020, the Government will make two changes to Principal Private Residence relief:

- The final period exemption will be reduced from 18 months to 9 months. There will be no changes to the 36 months that are available to disabled persons or those in a care home;
- Lettings Relief will be reformed so that it only applies in circumstances where the owner of the property is in 'shared-occupancy' with a tenant.

The Government will consult on the detail of both of these changes and other technical aspects.

Draft legislation has been issued to change the reporting of gains and the associated CGT liability on disposal of property. The main change is a requirement for UK residents to make a return and a payment on account of CGT within 30 days following the completion of a residential property disposal on a worldwide basis. The measure will have effect for disposals made on or after 6 April 2020.

Entrepreneurs' Relief (ER)

For disposals on or after 29 October 2018, two new tests are to be added to the definition of a 'personal company', requiring the claimant to have a 5% interest in both the distributable profits and the net assets of the company. The new tests must be met, in addition to the existing tests, throughout the specified period in order for relief to be due. The existing tests already require a 5% interest in the ordinary share capital and 5% of voting rights.

The Government will legislate in Finance Bill 2018/19 to increase the minimum period, throughout which certain conditions must be met to qualify for ER, from one year to two years. The measure will have effect for disposals on or after 6 April 2019 except where a business ceased before 29 October 2018. Where the claimant's business ceased or their personal company ceased to be a trading company (or the holding company of a trading group) before 29 October 2018, the existing one year qualifying period will continue to apply.

Draft legislation has been issued to provide a potential entitlement to ER where an individual's holding in a company is reduced below the normal 5% qualifying level (meaning 5% of both ordinary share capital and voting power). The relief will only apply where the reduction below 5% occurs as a result of the company raising funds for commercial purposes by means of an issue of new shares wholly for cash consideration.

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Where a disposal of the shareholding prior to the issue would have resulted in a gain which would have qualified for ER, shareholders will be able to make an election as if they had disposed of their shares and immediately reacquired them at market value just before dilution. To avoid an immediate CGT bill on this deemed disposal, a further election can be made to defer the gain until the shares are sold. ER can then be claimed on the deferred gain in the year the shares are sold under the rules in force at that time.

The new rules will apply for share issues which occur on or after 6 April 2019.

Gains for non-residents on UK property

Draft legislation has been issued to charge all non-UK resident persons, whether liable to CGT or Corporation Tax, on gains on disposals of interests in any type of UK land, whether residential or non-residential. Certain revisions are to be made following a technical consultation when the full legislation is introduced but the key points are covered here.

All non-UK resident persons will be taxable on indirect disposals of UK land. The indirect disposal rules will apply where a person makes a disposal of an entity that derives 75% or more of its gross asset value from UK land. There will be an exemption for investors in such entities who hold less than a 25% interest.

All non-UK resident companies will be charged to Corporation Tax rather than CGT on gains.
There will be options to calculate the gain or loss on a disposal using the original acquisition cost of the asset or using the value of the asset at commencement of the rules in April 2019.

The CGT charge relating to the Annual Tax on Enveloped Dwellings will be abolished. The legislation will broadly have effect for disposals from 6 April 2019.

Inheritance Tax

The Nil Rate Band has remained at £325,000 since April 2009 and is set to remain at this amount until April 2021.

Amendments are to be introduced to clarify the downsizing provisions of the Residence Nil Rate Band (RNRB) and to provide more certainty on the definition of 'inherited' for RNRB purposes. The changes will have effect for deaths on or after 29 October 2018.

Stamp Duty Land Tax (SDLT)

The relief for first time buyers will be extended to purchasers of qualifying shared ownership properties who do not elect to pay SDLT on the market value of the whole property when they purchase their first share. Relief will be applied to the first share purchased where the market value of the shared ownership property is £500,000 or less.

The relief will apply retrospectively from 22 November 2017, meaning that a refund of tax will be due for those who have paid SDLT after 22 November 2017 in circumstances which now qualify for first time buyers relief.

A minor amendment will extend the time allowed, from three months to one year, to claim back SDLT paid under the Higher Rates for Additional Dwellings rules where an individual sells their former home within three years of buying a new one. The measure also clarifies the meaning of `major interest` in land for these purposes.

The Government will publish a consultation in January 2019 on a SDLT surcharge of 1% for non-residents buying residential property in England and Northern Ireland.

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Business taxes

Corporation Tax (CT)

Corporation Tax rates have already been enacted for periods up to 31 March 2021. The main rate of CT is 19% and will remain at this rate for next year. The rate will fall to 17% for the Financial Year beginning on 1 April 2020.

Capital allowances

The Annual Investment Allowance will increase from £200,000 to £1 million for qualifying expenditure incurred in the two years from 1 January 2019. Complex calculations may apply to accounting periods which straddle this date.

The rate of writing down allowance on the special rate pool of plant and machinery will reduce from 8% to 6% from April 2019. This includes long-life assets, thermal insulation, integral features and expenditure on cars with CO_2 emissions of more than 110g/km. Again, complex calculations may apply to accounting periods which straddle this date.

The 100% first year allowance and first year tax credits for products on the Energy Technology List and Water Technology List will cease from April 2020 but there is an extension of the current 100% first year allowance for expenditure incurred on electric charge-point equipment until 2023.

A new Structures and Buildings Allowance has been introduced which will apply to capital expenditure on non-residential structures and buildings where the contract for physical construction works is entered into on or after 29 October 2018. For speculative building and those structures or buildings constructed 'in house', relief will not be available where the construction activity began before that date. Relief is at an annual rate of 2% on a straight-line basis.

Value Added Tax (VAT)

The VAT registration and deregistration thresholds will be frozen at £85,000 and £83,000 respectively until April 2022.

The Government will pursue legislation to shift responsibility for paying VAT along the supply chain with the introduction of a domestic VAT reverse charge for supplies of construction services with effect from 1 October 2019.

Class 2 and 4 National Insurance contributions (NICs)

The Government has recently announced that Class 2 NICs will not be abolished for the duration of this Parliament. The Chancellor confirmed in March 2017 that there will be no increases to Class 4 NICs in this Parliament.

R&D tax relief for Small and Medium Enterprises

The amount that a loss-making company can receive in R&D tax credits will be capped at three times its total PAYE and NIC liability from April 2020.

Employment taxes

Employment Allowance

From April 2020, the Employment Allowance, which provides employers with a reduction of up to £3,000 on employer NICs, will be restricted to those employers whose employers' NICs were below £100,000 in the previous tax year.

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CHAVEREYS.CO.UK
–
ENQUIRIES@CHAVEREYS.CO.UK

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Employer provided cars

The scale of charges for calculating the taxable benefit for an employee who has use of an employer provided car are normally announced well in advance. Most cars are taxed by reference to bands of CO_2 emissions multiplied by the original list price of the vehicle. The maximum charge is capped at 37% of the list price of the car.
For 2018/19 there was generally a 2% increase in the percentage applied by each band. For 2019/20 the rates will increase by 3%.
A new development for the current tax year is an increase in the diesel supplement from 3% to 4%. This applies to all diesel cars (unless the car is registered on or after 1 September 2017 and meets the Euro 6d emissions standard) but the maximum is still 37%. There is no change to the current position that the diesel supplement does not apply to hybrid cars.

Charging facilities for electric and hybrid cars

Legislation is proposed to provide a new exemption from a taxable employment benefit where an employer provides charging facilities for employees' all-electric and plug-in hybrid vehicles at or near the workplace. The exemption is backdated to have effect from 6 April 2018. Employer provided cars and vans are already exempt from this benefit.

Self-funded work-related training

The Government had previously announced that it would consult on extending the scope of tax relief currently available to employees and the self-employed for work-related training costs. The government has now decided to make no changes to the existing rules. However the National Retraining Scheme is being launched to help those in work, including the self-employed, to develop further skills.

National Living Wage

The National Living Wage will increase by 4.9%, from £7.83 per hour to £8.21, from April 2019.

Off- payroll working in the private sector

The changes affecting Personal Service Companies, which came into effect in April 2017 for the public sector, will be extended to the private sector from April 2020. Responsibility for operating the off-payroll rules will be transferred from the individual to the organisation, agency or third party engaging the worker. Only medium and large organisations will be subject to this change.

Other measures

Changes to the tax treatment of corporate capital losses from 1 April 2020 will restrict the proportion of annual capital gains that can be relieved by brought-forward capital losses to 50%.

An increase in the small trading tax exemption limits for charities from April 2019 from £5,000 per annum or, if the turnover is greater than £5,000, to 25% of the charity's total income resources, subject to an overall upper limit of £50,000, to £8,000 and £80,000 respectively.

Following a short consultation, the Government will seek to introduce targeted relief for the cost of goodwill in the acquisition of businesses with eligible intellectual property from April 2019.

Please contact your usual Chavereys contact if you have any specific questions on the above.

.**Issued 14/11/2018**

SOUTH
MALL HOUSE | THE MALL | FAVERSHAM | KENT | ME13 8JL
01795 594495

EAST
1 PENN FARM STUDIOS | HARSTON ROAD | HASLINGFIELD | CAMBRIDGE | CB23 1JZ
01223 874693