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BUDGET 2018

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FOREWORD

This Conservative Budget, the only one of 2018, is the last prior to Brexit in March 2019, and arguably one of the most crucial budgets in history.

The political arena has been under significant scrutiny of late and there are mixed feelings about the economy from next year while the UK waits with baited breath for a finalised Brexit agreement.

This was a Budget claiming "to end austerity" bringing good news for all sorts of people, as the Chancellor addressed the issues posed by many of his MPs, resulting in positive changes for:

- Income Tax
- Inheritance Tax
- Capital Gains Tax
- Corporation Tax
- Capital Allowances
- First time buyers

However Mr Hammond tried to drive down anti-avoidance by introducing a tax on digital tech giants and legislation to narrow the tax gap.

This was a budget to steady the Conservative ship with other proposals postponed until they/we know where we are sailing.

Paul Ffitch and Clair Dart 29 October 2018

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Further copies of this guide, together with further information concerning the Budget, are available on our website at www.sayersb.co.uk.

Note: This Guide has been compiled from the Chancellor's Autumn Statement, Budget Statement and Government Press Releases. The legislation necessary to implement these proposals will be contained in a Finance Bill expected to be published shortly. The Bill will then pass through Parliament before becoming law as the Finance Act 2019. Until then the Chancellor's proposals should be regarded as subject to amendment. No liability can be accepted for any loss incurred by a person relying solely on the content of this Guide.

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PERSONAL TAX AND ADMINISTRATION

Income Tax

The Personal Allowance will increase from £11,850 to £12,500 from April 2019.

Additionally, the Basic Rate Band will extend from £34,500 to £37,500.

These two measures effectively increase the higher rate threshold to £50,000 (previously £46,350), a year earlier than previously announced.

Private Residence Relief

In April 2020, two changes to Private Residence Relief will be introduced in an attempt to better focus the relief at owner-occupiers.

The final period exemption, currently 18 months, will be reduced to 9 months. Gains attributable to this period are CGT exempt, even where the property ceases to be occupied by the owner for any reason.

Lettings Relief (up to £40,000, or £80,000 for a couple) will be restricted, and only available where the owner is in shared occupancy with the tenant.

There may be significant CGT savings on the sale of a property if sold ahead of the April 2020 changes. Do get in touch if you would like us to run through some figures.

Voluntary Tax Returns

Effective from the date of Royal Assent of the 2018-19 Finance Bill, tax returns submitted voluntarily will be put on to a statutory basis. Historically HMRC have been able to apply discretionary collection and management powers with regards to voluntary returns and the move is intended to provide certainty that submissions are treated in the same way as those returns filed under statutory requirement.

Inheritance Tax

The Residence NIL Rate Band (RNRB) commenced on 6 April 2017. It is an additional Inheritance Tax nil-rate band where a residence is passed on death to a direct descendant.

For the tax year 2018/19 it is £125,000. It increases to £150,000 in 2019/20 and £175,000 in 2020/21.

For estates with a net value of more than £2 million the relief is withdrawn at a rate of £1 for every £2 above this threshold.

Any unused RNRB can be transferred to a surviving spouse or civil partner. The relief is also available when a person downsizes or ceases to own a home on or after 8 July 2015 and assets of an equivalent value, up to the value of the additional nil-rate band, are passed on death to direct descendants.

The amendments in the Budget provide more certainty over when a person is treated as inheriting property and they also clarify the working of the downsizing rules.

Pensions —Lifetime Allowance

The lifetime allowance continues to increase with the Consumer Prices Index (CPI) and rises to £1,055,000 for the tax year 2019/20.

Benefits – taxable or not

There are many Social Security benefits, some taxed and some tax free. Devolution has given us even more classes of benefit such as the Scottish Government Funeral Expense Assistance.

Legislation will be introduced in the Finance Bill to clarify the tax treatment of nine Social Security benefits.

BUSINESS AND CORPORATE TAXES

Copyrights held offshore

This is part of the general drive to tax multinationals for UK based activity. With effect from 6 April 2019, where large companies with UK sales exceeding £10m receive income for intangible property (copyrights, patents and life contracts) held in low tax jurisdictions, UK income tax will become payable.

Income tax will be charged on the gross income referable to the sale of goods or services in the UK. Generally, the measure will not be applicable to jurisdictions where the UK has a full tax treaty.

The aim is to tax arrangements where intangible property has been sold to an entity resident in a tax haven rather than to tax genuine commercial situations.

Remote Gaming Duty

The Treasury has realised that the reduction in the maximum stakes on Fixed Odds Betting Terminals (announced in May 2018) will reduce their tax take.

To compensate for this Remote Gaming Duty will increase from 15% to 21% for accounting periods beginning on or after 1 October 2019.

In effect the tax take is moving from pubs to the internet and we leave it to the reader to decide if that is a good thing or not.

Digital Services Tax (DST)

The introduction of a 2% tax on digital businesses was proposed and a consultation paper will be issued within the next few weeks. The tax will apply where revenues are attributable to business models which are linked to UK users.

This would include social media platforms, electronic marketplaces and search engines.

This will be effective from April 2020 and reflects a drive by the international community to tax revenues from such business models.

This area is highly political, the US wants no further taxes on these companies whilst the EU sees large, predominantly US, companies with a significant presence in the EU paying little or no tax in the EU.

The new UK measure comes with specific limiting provisions:

- Global revenues must exceed £500 million.

- UK revenues below £25 million will not be taxable.

- A safe harbour designed to provide proportionality to those with low profit margins.

- A provision for the tax to be reviewed in 2025 in light of international developments. It is anticipated that Spain, Italy and France will have introduced something similar by the end of the year.

  However, as possibly might be expected, Luxembourg and Ireland are unhappy about such proposals.

- DST will be an allowable expense for UK Corporation Tax purposes.

  However, it will not be covered by the UK treaty network so not creditable against UK Corporation Tax.

Diverted Profits Tax (DPT) Amendments

Introduced in Finance Act 2015, Diverted Profits Tax seeks to counter the situation where large groups either :

- artificially divert profits from the UK to a low tax regime using arrangements lacking commercial substance; or

- artificially avoid the creation of a UK taxable permanent establishment through using the services of another party.

The proposed provision introduces a number of technical changes relating to time periods for the review and alteration of Returns and also to ensure that profits will be subject to either corporation tax or DPT but not both.

The changes will take effect from 29 October 2018.

Taxation of hybrid capital instruments

Corporate issuers and holders of certain types of debt (known as hybrid capital) that have some equity-like features are likely to be affected.

With effect from 1 January 2019 this change will provide more certainty for hybrid capital instruments which allow deferral or cancellation of interest payments.

If the instruments meet certain specified conditions then 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 transfers of those instruments.

Corporation Tax: Change to the definition of Permanent Establishment

A non-UK company is subject to UK corporation tax only if it has a permanent establishment here.

Certain preparatory and auxiliary activities, usually of low value, such as storing the company's own goods or collecting information for the non-resident company, are excluded and this is commonly reflected in the UK's Double Tax Treaties.

The changes are designed to prevent non-UK companies from fragmenting their operations in the UK, through having a number of legally separate operations, so as to take advantage of the above exemptions. This change will be effective from 1 January 2019.

Capital Allowances:

A number of changes are being introduced to encourage further spending by businesses.

Annual Investment Allowance

The Annual Investment Allowance (AIA) is temporarily increasing to £1,000,000 from 1 January 2019 for 2 years.

The AIA has been £200,000 since 1 January 2016 but has been as low as £25,000 and as high as £500,000 just over the last 10 years, which makes it a little tricky for businesses to plan their capital expenditure.

This temporary increase will enable businesses to claim significantly more tax relief on expenditure on qualifying plant & machinery in the year of purchase.

Any businesses planning on spending large sums on qualifying assets should therefore consider doing so in the 2 year period to 31 December 2020.

Structures and buildings

A new Structures and Buildings Allowance (SBA) is being introduced which will enable businesses to write off qualifying capital expenditure for tax purposes over a period of 50 years.

The SBA will only be available for non-residential structures and buildings that are intended for commercial use and will apply to eligible costs incurred on or after 29 October 2018.

The 2% writing down allowance will be available on new structures and alterations to existing structures to convert them for use in a qualifying activity.

Following the abolition of the Industrial Buildings Allowance (IBA) in 2011, capital expenditure on structures and buildings does not currently qualify for capital allowances and therefore relief would only be due on the disposal of the building. The introduction of the SBA addresses this.

Electric charge points

Expenditure on the acquisition of new electric charge points will qualify for a 100% first year allowance (FYA) until 31 March 2023.

It looks like we're all going to be driving electric cars eventually, so allowing businesses to claim tax relief immediately on the installation of charging points should help keep us all moving! FYAs are available in addition to the AIA.

Enhanced allowances for energy and water efficient plant & machinery

The lists of energy efficient and environmentally beneficial technologies and products which are eligible for first year allowances (FYAs) are being updated which will remove all but the most efficient from the FYA regime.

This is as to be expected as technologies improve and the government seek to improve the environment, but the temporary increase to the AIA should soften the blow for businesses spending significant amounts on energy efficient products.

Special rate pool expenditure

The rate of the writing down allowance on special rate pool expenditure is being reduced from 8% to 6% from 1 April 2019.

Special rate pool expenditure includes expenditure on long-life assets, thermal insulation, integral features and low emissions cars.

With the introduction of a couple of additional reliefs for capital expenditure, it is no surprise to see some cut-backs in other areas of the capital allowances legislation.

Off-payroll working (IR35)

Individuals who provide their services through a company, but are in effect employed by their customer, are subject to the off-payroll working legislation, otherwise known as IR35.

When first introduced in 2000 it was the responsibility of the individual to assess whether or not the legislation applied to them and make the tax adjustments if necessary.

In 2017, measures were introduced for the public sector, making it the responsibility of the public sector "employer" entity to assess the individual's employment status and operate PAYE and NI if necessary.

From 1 April 2020, this will be extended to the private sector but only for medium and large businesses.

If the results of the 2017 changes for the public sector are anything to go by, it is likely that most individuals providing their services through a company to a medium or large private sector entity will have PAYE and NI deducted from their income, as the "employing" entities seek to avoid the risk of non-compliance.

R&D tax relief for SMEs.

Small and medium entities (SMEs) claiming R&D tax relief will be subject to a restriction on the amount of repayable tax credit they are able to claim from 1 April 2020.

The limit will be set at three times the company's total PAYE and NI payments for the period.

While this should not have much of an effect on those company's with employees who are engaged in R&D activities, it could severely impact those that engage with sub-contractors or externally provided workers.

VAT registration threshold

Last year, instead of drastically reducing the VAT registration threshold, as had been considered, the Chancellor maintained the limits for two years until 31 March 2020.

This Autumn, the Chancellor has gone on to further extend the time for which the limits will be frozen for an additional two years from 1 April 2020.

This move seeks to address the fact that the UK, with a registration limit of £85,000 and deregistration at £83,000, has the highest threshold in the EU thus distorting competition between businesses.

The threshold is to be reviewed again once the Brexit terms are clear.

VAT anti-avoidance

Some financial services companies have been exploiting a loophole in legislation whereby they were able to form arrangements with organisations outside of the EU to 'loop' services to that country and then back again to the UK.

This arrangement allowed those companies to reclaim input VAT where they otherwise would not be able to do so and thus created a competitive advantage for them over purely UK based companies.

Measures have therefore been introduced from 1 March 2019 so that input VAT recovery is only available where the final consumer is not in the UK, thereby preventing companies from exploiting the loophole.

CAPITAL TAXES

Capital Gains Tax

The annual exempt amount for CGT will increase to £12,000 from April 2019.

Trustees' annual exempt amount will increase to £6,000.

CGT: Entrepreneurs' Relief: Definitions of a 'personal company'

Entrepreneurs' relief reduces the Capital Gains Tax paid on disposal of a business or shares in a personal company by offering a reduced 10% tax rate on up to £10m worth of lifetime gains.

From 29 October 2018 individuals who realise gains on disposals of shares in a trading company in which they are employed or hold an office will require two new tests in order to meet the definition of a 'personal company' and claim entrepreneurs' relief.

The new conditions require the individual to be beneficially entitled to at least:

- 5% interest of the company's distributable profits and;
- 5% of the company's assets available for distribution to equity holders in a winding up.

Please note that reference to the company includes any other company which is a member of the same group.

Capital gains tax: dilution of 5% holding

Where further shares are issued it is easy for existing shareholders to fall foul of the 5% threshold.

Legislation will be introduced with effect from 6 April 2019 to allow an election for a deemed disposal and re-acquisition at market value prior to any such dilution, thereby enabling gains up to that point to benefit from the 10% entrepreneurs' relief rate.

CGT: Entrepreneurs' Relief: Minimum qualifying period extended

From 6 April 2019 individuals who dispose of shares in their personal company or Trustees who dispose of trust business assets will be required to hold these assets for a period of 2 years in order to claim the entrepreneurs' relief. The current conditions require the holding period to be 1 year.

Transitional rules will apply where the business has ceased before 29 October 2018 so that the existing 1 year qualifying period will continue to apply to claims on disposals of assets.

Capital gains tax : deferral of exit charge

Interestingly our legislation is still being altered to comply with rulings from the Court of Justice of the European Union (CJEU).

Our existing legislation imposes a CGT exit charge where trusts cease to be UK resident or when assets cease to be used in a trade carried on through a branch or agency in the UK.

Provisions will be introduced allowing tax on assets used for an economically significant activity to be deferred and paid over 6 years.

Residential Property gains : payment on account

There has been a relaxation to the previously announced proposals for capital gains tax on residential property disposals to be paid within 30 days of sale.

This is now being defined as a payment on account where reasonable estimates are acceptable.

Also, disposals by UK residents of non-UK property are exempted.

The changes will apply to disposals by non-UK residents on or after 6 April 2019 and for UK residents on or after 6 April 2020.

Corporate Intangible Fixed Assets

The Government intends to publish detailed proposals on how they plan to partially reinstate relief for acquired goodwill in the acquisition of businesses with eligible intellectual property.

Stamp Duty Land Tax

In a welcome addition to the existing first time buyers relief in England and Northern Ireland, all qualifying shared ownership properties can now benefit irrespective of whether the election to pay SDLT on the market value of the property is made.

This change is backdated to 22 November 2017 meaning those now eligible but who have not claimed will be able to obtain a refund.

In other changes, the time limit for claiming back higher rates of stamp duty paid as a result of an individual buying a new home before selling their old home has been extended.

The higher rate of SDLT is due at an additional 3% where an individual acquires additional residential dwellings whilst already owning such a property.

An exception exists if the old home is sold within three years of acquiring the new home, with additional rates being paid upfront and reclaimed when certain conditions are met.

Reclaims of additional SDLT paid upfront must now be made by the later of 12 months from selling the old home (previously 3 months) and a year from the filing date for the SDLT return for the new home.

This is a welcome minor amendment which is effective immediately and gives taxpayers more time to obtain a refund.

Stamp Duty Land Tax – non residents

Further news from the government is due in January 2019 regarding a consultation on a 1% SDLT surcharge for non-residents purchasing residential property in England and Northern Ireland.

Such a move could of course be presented as protection of the UK market for residents.

OFFSHORE ISSUES

Overseas Landlords

A number of previously announced measures affecting overseas owners of UK property were confirmed by the Chancellor.

Firstly, from April 2019 the tax charge on capital gains arising on the sale of UK land will be extended to include commercial property as well as residential property.

Owners will have the option of calculating the capital gain on a sale of commercial property by using either the original purchase cost or the April 2019 value, so only historical increase in value will potentially escape the new tax charge.

At the same time, UK tax will be charged on gains made by certain investors on a sale of shares in a 'property-rich' company.

Capital Gains Tax or Corporation Tax will be charged on gains made by non-UK residents (whether individuals, trustees, partnerships or companies) if the company derives 75% or more of its gross asset value from UK land.

The new tax charge will only apply to investors who have held more than 25% of the company's shares in the 2 years before disposal. When considering whether the 25% threshold is breached, it will be necessary to include shares owned by a spouse/civil partner as well as direct lineal ancestors and descendants.

From 6 April 2020, overseas companies renting out UK property will be subject to Corporation Tax rather than Income Tax.

This change will bring non-UK property investors in line with UK companies, but will actually result in the tax rate falling from 20% to, potentially, 17%.

However, the overseas companies will be subject to various Corporation Tax anti-avoidance legislation such as an interest restriction. These changes are part of a general drive to ensure all UK activity is taxed in the UK.

RATES AND ALLOWANCES (1)

INCOME TAX			2018/19	2019/20
Personal Allowance		*	£11,850	£12,500
Married Couple's Allowance	(born before 6 April 1935)	***	£8,695	£8,915
	Minimum amount	**	£3,360	£3,450
Income limit for Married Couple's Allowance		**	£28,900	£29,600
Marriage allowance	Transferable amount	****	£1,190	£1,250
Blind Person's Allowance			£2,390	£2,450

* Personal Allowance restricted by £1 for every £2 of income over £100,000 (irrespective of age)

** The Married Couple's Allowance will be restricted by £1 for every £2 of income over the "Income Limit" down to the minimum amount

*** Indicates allowances where tax relief is restricted to 10%

**** Available to spouses/civil partners born after 5 April 1935. Allows a spouse/civil partner to transfer this amount of their personal allowance to their spouse/civil partner. Neither can be liable to income tax above the basic rate.

Tax bands	2018/19 £	2019/20 £
Basic Rate	0 – 34,500	0 – 37,500
Higher Rate	34,501 – 150,000	37,501 – 150,000
Additional Rate	Over £150,000	Over £150,000

Tax rates	2018/19		2019/20	
	Income tax	Dividend tax	Income tax	Dividend tax
Dividend 0% band	n/a	First £2,000	n/a	First £2,000
Basic Rate	20%	7.5%	20%	7.5%
Higher Rate	40%	32.5%	40%	32.5%
Additional Rate	45%	38.1%	45%	38.1%

UK savings income falling within the first £5,000 of the basic rate band is taxed at 0%, provided that the non-savings income does not exceed this limit.

The £1,000 Personal Savings Allowance is available for basic rate taxpayers, £500 for higher rate taxpayers, and £nil for additional rate taxpayers. Although called an 'allowance', income falls within the usual tax bands, but is taxed at 0% rather than the usual rate.

The £2,000 0% dividend tax band is treated as the first slice of dividend income, taking up the part of any tax bands that it falls into.

INHERITANCE TAX	2018/19 £	2019/20 £
Nil-Rate Band (frozen until 2020/21)	325,000	325,000
Additional Nil-Rate Residential Band	125,000	150,000

The rate of Inheritance Tax is 40% on death and 20% for lifetime chargeable transfers. The rate of Inheritance Tax on death where 10% or more of the net estate is left to Charity is 36%. The annual allowance and small gifts exemption remain at £3,000 and £250 respectively. The additional nil rate band for residential property is tapered away for estates over £2million.

RATES AND ALLOWANCES (2)

NATIONAL INSURANCE – 2019/20

Class 1 Contributions for Employees (primary)	**Up to £166**	**£167 -£962**	**Over £962**
Contribution Rate/(Contracted Out Rate)	**0%**	**12% (10.6%)**	**2%**
Weekly Earnings	£0 - £166	£167 - £962	Over £962
Monthly Earnings	£0 - £719	£720 - £4,168	Over £4,168
Annual Earnings	£0 - £8,632	£8,633 - £50,024	Over £50,024

Class 1 Contributions for Employers (secondary)		
Weekly Earnings	**Up to £166**	**Over £166**
Standard Rate/(Contracted Out Salary Related)	0%	13.8% (10.4%)

Class 2 Contributions for the Self-Employed*

Weekly Flat Rate	£3.00
Small Earnings Exemption	£6,365

***The Government had previously announced its intention to abolish Class 2 NICs in 2018.**

Class 3 Voluntary Contributions

Weekly Rate	£15.00

Class 4 Contributions for the Self-Employed

Profits between £8,632 and £50,000	9%
Profits above £50,000	2%

CORPORATION TAX - Standard rate 19% (17% financial year 2020/21)

CAPITAL GAINS TAX

	2018/19 £	2019/20 £
Annual Exemption		
Individuals and executors (within two years of death)	11,700	12,000
Trusts	5,850	6,000
Entrepreneurs' Relief/Investors' Relief - tax at 10%	10,000,000	10,000,000

Capital Gains are added to taxable income as the top slice and are taxed at 10% if the total falls within the basic rate band. All excess gains are taxed at the rate of 20%. Residential property continues to be taxed at 18%/28%.

VALUE ADDED TAX (VAT)

Thresholds from 1 April 2019		**£**	
VAT registration threshold		85,000	
VAT deregistration threshold		83,000	
Flat-rate scheme	VAT turnover	150,000	(ex VAT) in next 12 months
Cash Accounting	Turnover	1,350,000	(ex VAT) in next tax year
Annual Accounting	Turnover	1,350,000	

The standard rate of VAT is 20%.

RATES AND ALLOWANCES (3)

TAX FREE SAVINGS ACCOUNTS	2018/19	2019/20
Individual Savings Account (ISA) subscription limit	£20,000, of which £4,000 can be saved into a Lifetime ISA	£20,000
Junior ISA subscription limit	£4,260	£4,368
Child Trust Fund (CTF) subscription limit	£4,260	£4,368

PENSIONS TAX RELIEF

	2018/19	2019/20
Lifetime Allowance Limit	£1,030,000	£1,055,000
Annual Allowance Limit (maximum) *	£40,000	£40,000

* This is tapered down to £10,000 per annum for annual income between £150,000 and £210,000, to include employer pension contributions.

** A lower annual allowance limit of £4,000 may apply if you have already started drawing a pension.

STAMP DUTY

Residential Property	Rate Payable (incremental)	First time buyers	Rate Payable (incremental)	Commercial and Mixed Property	Rate Payable (incremental)
£0-£125,000	Nil	£0-£300,000	Nil	£0 -£150,000	Nil
£125,001—£250,000	2%			£150,001-£250,000	2%
£250,001—£925,000	5%	£300,001-£500,000	5%	Over £250,000	5%
£925,001—£1,500,000	10%	> £500,000	Rates as normal		
Over £1,500,000	12%				
Certain non-natural persons >£500,000	15%				

In this Budget it was announced that the first time buyers relief will extend to include qualifying shared ownership property purchases. The first £300,000 of an initial share purchased will not be liable to SDLT. The remainder of the initial share will be chargeable at 5%. The relief will not apply to purchases of properties valued over £500,000, or to further shares purchased. This further relief will be implemented retrospectively to when the first time buyers relief was introduced on 22 November 2017.

From 6 April 2017, any person acquiring a second (or additional) property may be subject to a Stamp Duty surcharge of 3%.

Sale or transfer of shares and securities (excluding AIM shares) - 0.5%

ANNUAL TAX ON ENVELOPED DWELLINGS (ATED)

Property Value	Charge for tax year 2018/19	2019/20
More than £500,000 but no more than £1m	£3,600	£3,650
More than £1m but not more than £2m	£7,250	£7,400
More than £2m but not more than £5m	£24,250	£24,800
More than £5m but not more than £10m	£56,550	£57,900
More than £10m but not more than £20m	£113,400	£116,100
More than £20m	£226,950	£232,350