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Budget 2020

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FOREWORD

An interesting budget of two parts:

- A sensible economic package to mitigate the temporary consequences of coronavirus and;

- An encouraging package of infrastructure and scientific research investment designed to launch the UK economy following our departure from the European Union.

Given the time constraints the new Chancellor was under it is not surprising that the 2020 Budget was light on tax changes and we expect further "levelling up" in future budgets, perhaps even this coming Autumn.

On a more personal note, in 1987 a younger Tony Mahoney joined our firm, becoming a partner the following year. Some 32 years later, on 30 April 2020, he will be retiring from the firm. All of us at Sayers Butterworth would like to dedicate this guide to his many years here.

Any clients or contacts who know Tony will appreciate him as the embodiment of the service we wish to provide to all.

We wish him all the very best in his future endeavours.

James Hearsey and Paul Ffitch
12 March 2020

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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 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 2020. 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

Personal Allowance and tax bands

Having achieved the target of taking anyone earning below £50,000 out of higher rate tax, these have now been frozen for 2020-21.

National Insurance

While the income tax bands have been frozen, there is some movement on National Insurance, albeit only very modest. The starting point for National Insurance has now been increased to £9,500. This will no doubt be welcomed as the tax burden is reduced particularly for those on the lowest incomes.

Junior ISA/Child Trust Fund

One aspect that was not particularly highlighted in the speech itself was a dramatic increase to the JISA/CTF subscription limits. These have more than doubled from £4,368 up to £9,000 per annum.

As part of a wider family tax planning strategy this becomes increasingly important to help minimise taxation, while also providing for your children's futures.

Pension Provision

Annual Allowance

It is with relief that instead of further restrictions to pension provision, the Government announced some relaxations. The main change is designed to counter the unforeseen consequences of the Annual Allowance taper (by the Government at least) which has led to the widely reported reduction in overtime by NHS workers.

Since 6 April 2016 the annual allowance for pensions has been tapered where the taxpayer has a 'threshold income' in excess of £110,000 and 'adjusted income' over £150,000. In these circumstances the annual allowance of £40,000 (gross) is restricted by £1 for every £2 that the adjusted income exceeds £150,000 down to a minimum reduced annual allowance of £10,000 (gross).

From 6 April 2020 the taper thresholds for the pensions annual allowance will be increased to:

'Threshold income' : £200,000; and
'Adjusted income' : £240,000.

In contrast the minimum level the tapered annual allowance can be reduced to will be restricted from £10,000 to £4,000 (reached at an adjusted income level of £312,000).

While the measure is designed in principle to assist NHS workers, it will happily apply to everyone. For those taxpayers out of the tapering restrictions this will be a welcome change although for those with adjusted income in excess of £300,000 the position will become even more restricted. Unfortunately, the changes do not appear to do anything to alleviate complexity in an area which has become fraught with problems and pitfalls.

It also does nothing to prevent tax charges on any taxpayers with deemed annual pension savings in excess of £40,000. We suspect that further changes may be coming in the future.

Lifetime Allowance

The only other change of note is the increase in the pension lifetime allowance to £1,073,000 in line with CPI. We still wonder of the necessity for both the Lifetime Allowance and the Annual Allowance, considering both have the same aims, to tax "excessive" pension savings. Surely there is only need for one or the other, not both.

Investment Bonds/Life Policies

Life insurance policies (also known as investment bonds) are taxed in a rather unique way, with no direct tax applied to underlying investments, allowing for withdrawals of up to 5% per annum on a cumulative basis. If this limit is exceeded, or the bond is encashed in full, a chargeable gain may arise on the disposal which is subject to income tax. As this gain may push a taxpayer into higher rates of tax, a relief has been available known as top slicing relief (TSR).

For some time, there has been significant uncertainty of the calculation method of TSR, since the introduction of the withdrawal of personal allowances in 2010, with HMRC taking a hard line at the expense of the taxpayer.

However, in an effort to reduce the uncertainty surrounding the calculation for TSR, the government has confirmed that the personal allowance should be reinstated within the calculation for TSR itself.

This is a much-needed clarification which it is hoped will enable the policy to operate as originally intended and ensure a fairer application of relief for the taxpayer. There remain significant questions as to whether HMRC's previous approach was even correct.

Changes to the Loan Charge

From the 1990s, employers in certain sectors would reward employees with interest-free loans rather than actual bonuses. As these loans were taxed at a far lower rate, if at all, and with no expectation of the loan ever being repaid, employees effectively avoided income tax and National Insurance at great expense to the Government. While originally prevalent in sectors such as banking, this approach became more widespread and marketed even to include smaller companies who had been sold this tax saving product.

HMRC attempted to treat the loans as disguised employment income, including settlement negotiations with the employers themselves. Following this (and to try to collect all remaining lost revenue) the Government announced in 2016 that affected employees had 3 years to repay loans or face being taxed on the full amount outstanding on 5 April 2019.

The measure, which has tragically resulted in taxpayer suicides, has been independently reviewed. The Government accepted the majority of the review's recommendations and as a result the loan charge will only apply to loans made after 9 December 2010 (and in some instances 5 April 2016) and payment of any tax can be made over 3 years. It is good to see that HMRC listened to the independent review but a shame that a more sensible approach was not taken in 2016.

Comic relief

On a lighter note, the Government has been forced to change legislation to reflect the increasing automation of processes at HMRC. A recent tax case resulted in a loss for HMRC as "an officer of HMRC" did not send a notice to the taxpayer.

The process was automated, and the notice sent essentially by a computer. The taxpayer won and left HMRC and the Government somewhat embarrassed.

Going forward legislation will be amended to allow such automated process.

BUSINESS AND CORPORATE TAXES

Corporation tax rate

The current rate of corporation tax is 19% and this is set to continue unchanged until 31 March 2022. At Budget 2016, the government announced a reduction to 17% from 1 April 2020 but this proposal has been scrapped, so while the UK's rate remains very competitive, it isn't moving towards the tax haven levels that some expected.

Corporation tax – RDEC

Companies that claim a Research and Development Expenditure Credit (RDEC) will benefit from a rate increase of 1% from 1 April 2020, with the credit increasing from 12% of qualifying R&D expenditure to 13%. Regrettably, there is no increase to the rates for the SME scheme, however the UK R&D tax relief regimes remain very generous and provide a great incentive.

Corporation tax – Capital loss restriction

An income loss restriction was introduced in 2017 to restrict the use of brought forward losses, to 50% of trading profits over £5m. A similar measure is being introduced from 1 April 2020 in respect of capital losses brought forward. The same £5m allowance will apply to all profits of the company, including trading and capital, so while HMRC expects 99% of companies to be unaffected by this measure, it may mean asset-rich companies such as those with investment property, will be paying corporation tax on disposals earlier than anticipated.

Capital Allowances

Structures and buildings

Qualifying expenditure on non-residential structures and buildings, incurred on or after 29 October 2018, will now qualify for a 3% writing down allowance. Relief was previously at a rate of 2%, so this is only a minor change to help support building and renovation.

Business vehicles

As the battle against emissions continues, government incentives for 'green' business vehicles are extended. 100% first year capital allowances (FYAs) will be available for the purchase of low CO2 emission cars and zero-emission goods vehicles until April 2025. From April 2021 the CO2 emissions thresholds will be reduced so that only vehicles with 0g/km CO2 will qualify for the FYA, but until then a car with emissions up to 50g/km will qualify. The reduced thresholds from 2021 will also apply for writing down allowances (WDAs) and the lease rental restriction.

Benefits in Kind - Vehicles

As the tax costs of businesses using low emissions vehicles are reduced, the costs of using conventional fuels continues to rise, with the multiplier for the car fuel benefit increasing to £24,500. This results in a significant Benefit In Kind charge which will often outweigh the actual cost of the private mileage covered. Company vans retain their relatively low Benefit in Kind charge with the charges increasing in line with CPI from 6 April 2020, to £3,490 for the flat-rate van benefit charge and £666 for the van fuel benefit charge.

There are also other incentives for businesses to use low or zero emission vehicles such as very low Benefit in Kind rates so if you are considering purchasing a low emissions vehicle, do speak to us about the tax incentives available.

Employment Allowance

From 6 April 2020 the Annual Employment Allowance will increase to £4,000, from the current £3,000 Allowance. The allowance is claimed against the Class 1 Employer National Insurance Contributions (NICs) liability in the tax year.

From 6 April 2020 the additional change will mean that the employer will only be able to claim the £4,000 Employment Allowance if the annual Class 1 National Insurance bill is below £100,000 in the previous tax year.

Off-payroll working (IR35)

The extension to off-payroll working rules to the private sector will commence from 6 April 2020. These rules shift the responsibility for determining the employment status of individuals using intermediary companies to the end client. In addition, the end client may become responsible for accounting for all PAYE and National Insurance (NI) Contributions on the payments made to the intermediary.

The rules changes will only apply if the end client is a medium or large organisation, which are defined as meeting at least two of the following:

- Annual turnover greater than £10.2 million
- Balance sheet total greater £5.1 million
- More than 50 employees

Workers providing services to small private sector companies will remain responsible for their own employment determination and Income Tax and NI payments.

Digital Service Tax (DST)

Pending an agreed international solution, as from 1 April 2020 a 2% DST will be charged on revenues of search engines, social media services and online marketplaces. Businesses will be liable where the group's worldwide revenues exceed £500m and more than £25m derives from UK users. The first £25m of revenues will not be subject to DST.

This is a long overdue and brave attempt to realign the taxation of online and traditional bricks and mortar businesses and is consistent with the government's levelling up mantra. It also has the potential to end up as a negotiating chip in any UK US trade negotiation.

Large Business Notification

With effect from April 2021, large businesses will be required to notify HMRC when they take a tax position which HMRC is likely to challenge. How a company is supposed to identify such situations and notify HMRC will be subject to a consultation. It is to be hoped that full guidance will be provided with examples to help companies meet their obligations.

CAPITAL TAXES

Entrepreneurs' Relief

Despite speculation that Entrepreneurs' Relief (ER) could be abolished, it is pleasing that the 10% rate for individuals disposing of their qualifying business interest will remain.

However, from 11 March 2020 the lifetime limit for capital gains qualifying for ER will be reduced from £10 million to £1 million, taking us back to the limits applying pre-2010. The cap applies to all disposals on or after 11 March 2020 and includes the value of all ER claims made in the past.

The reduced £1 million lifetime cap can also apply to certain arrangements entered into before 11 March 2020 that sought to 'lock-in' the pre-Budget day lifetime limit, as well as certain cases where shares have been exchanged for those in another company.

It is important to note that the above change does not impact "Investors' Relief", the similar relief targeted at investors which granted a £10m allowance for capital gains tax at 10%. This relief is not generally available for remunerated employees but may still be of some use in certain circumstances.

Private Residence Relief

As announced in the 2018 Budget, from 6 April 2020, two changes to Private Residence Relief will be introduced in an attempt to better focus the relief on 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.

Stamp Duty Land Tax (SDLT)

It has now been confirmed that a 2% SDLT surcharge will apply to any non-UK residents purchasing residential property in England and Northern Ireland (SDLT being devolved matters for Scotland and Wales). For most this will mean a top rate of SDLT of 17%, but for some the top rate could be 20%. This is clearly not an unpopular move politically, and will help generate some revenue, although the wider impact of such a measure remains to be seen.

OFFSHORE ISSUES

Non-UK Resident Companies

New rules were enacted in the Finance Act 2019 to bring non-UK resident companies that carry on a UK property business or have other UK property income within the scope of Corporation Tax with effect from 6 April 2020. This change brings non-UK resident companies in line with UK resident companies and will actually result in the tax rate falling from 20% Income Tax to 19% Corporation Tax. The changes to the taxation of Capital Gains for non-UK resident companies came into force on 1 April 2019.

The Finance Bill 2020 has introduced a small change to ensure that non-UK resident companies can now bring into the company's first accounting period an amount for the net financing costs incurred related to the UK property business before it starts to carry on its UK property business. This amount will be limited to the expenses incurred within a period of 7 years before the date on which the UK property business begins.

YEAR END PLANNING TIPS

Please find below a list of year end planning tips that we hope provides a reminder to allow you to maximise reliefs and allowances:

- For incomes between £100,000 and £125,000 the personal allowance is withdrawn. Any personal pension contributions made now could save tax at a rate of up to 60%.

- Unused pensions annual allowances can be carried forward up to three tax years. If you have unused allowances from 2016/17 it is worth considering making a larger contribution now to fully utilise available allowances before it drops away on 6 April 2020. Any contributions (employer, employee or personal) must be paid on or before 5 April 2020 to utilise the Annual Allowance.

- ISAs continue to be valuable, allowing savings of up to £20,000 per annum to be placed in a tax-free wrapper. For those with available funds it is well worth maximising amounts invested.

- Most people have a tax-free CGT annual exemption of £12,000 in 2019-20. If not yet fully utilised it may be worth making disposals before 5 April 2020. Any proceeds could perhaps be invested through an ISA (see point above).

- For business owners, consider paying dividends now to maximise the use of the £2,000 dividends allowance, as well as any basic rate tax bands with a tax rate on dividends at 7.5%.

- For our R&D clients with 31 March year ends, please ensure any expenditure is paid before the year end to ensure relief is included this year.

RATES AND ALLOWANCES (1)

INCOME TAX

			2019/20 £	2020/21 £
Personal Allowance		*	12,500	12,500
Married Couple's Allowance	(born before 6 April 1935)	***	8,915	9,075
	minimum amount	***	3,450	3,510
	transferable tax allowance	****	1,250	1,250
Income Limit for Married Couple's Allowances (where born before 6 April 1938)		**	29,600	30,200
Blind Person's Allowance			2,450	2,500

*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

	2019/20 £	2020/21 £
Basic Rate	0 – 37,500	0 – 37,500
Higher Rate	37,501 – 150,000	37,501 – 150,000
Additional Rate	Over £150,000	Over £150,000

Tax rates

	2019/20 Income tax	2019/20 Dividend tax	2020/21 Income tax	2020/21 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 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.

NATIONAL INSURANCE – 2020/21

Class 1 Contributions for Employees (primary)

Contribution Rate	0%	12%	2%
Weekly Earnings	£0 - £183	£184 - £962	Over £962
Monthly Earnings	£0 - £792	£793 - £4,167	Over £4,167
Annual Earnings	£0 - £9,500	£9,501 - £50,000	Over £50,000

Class 1 Contributions for Employers (secondary) *

Contribution Rate	0%	13.8%
Weekly Earnings	£0 - £169	Over £169

*The rate for employees under 21 and apprentices under 25 is 0% up to £962 per week and 13.8% over £962.

RATES AND ALLOWANCES (2)

NATIONAL INSURANCE – 2020/21 (continued)

Class 2 Contributions for the Self-Employed*

Weekly Flat Rate	£3.05
Small Earnings Exemption	£6,475

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

Class 3 Voluntary Contributions

Weekly Rate	£15.30

Class 4 Contributions for the Self-Employed

Profits between £9,500 and £50,000	9%
Profits above £50,000	2%

CORPORATION TAX - Standard rate 19%

CAPITAL GAINS TAX

	2019/20 £	2020/21 £
Annual Exemption		
Individuals and executors (within two years of death)	12,000	12,300
Trusts	6,000	6,150
Entrepreneurs' Relief - tax at 10%*	10,000,000	1,000,000
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%.

*Any disposals made from 11 March 2020 are subject to the £1,000,000 subject to limited transitional provisions.

INHERITANCE TAX

	2019/20 £	2020/21 £
Nil-Rate Band (frozen until 2020/21)	325,000	325,000
Additional Nil-Rate Residential Band	150,000	175,000

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 £2 million.

TAX FREE SAVINGS ACCOUNTS

	2019/20	2020/21
Individual Savings Account (ISA) subscription limit	£20,000, of which £4,000 can be saved into a Lifetime ISA	£20,000, of which £4,000 can be saved into a Lifetime ISA
Junior ISA subscription limit	£4,368	£9,000
Child Trust Fund (CTF) subscription limit	£4,368	£9,000

PENSIONS TAX RELIEF

	2019/20	2020/21
Lifetime Allowance Limit	£1,055,000	£1,073,000
Annual Allowance Limit – gross (maximum) *	£40,000	£40,000

* This is tapered down to £4,000 per annum (2019/20 - £10,000) for annual income between £240,000 and £312,000 (2019/20 - £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.

RATES AND ALLOWANCES (3)

STAMP DUTY

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

Any person acquiring a second (or additional) property may be subject to a Stamp Duty surcharge of 3%.

From 1 April 2021 Non-UK residents purchasing residential property will be subject to an additional Stamp Duty surcharge of 2%.

First time buyers paying up to £300,000 for a residential property will pay no SDLT.
First time buyers paying £300,000 to £500,000 will pay SDLT at 5% on the amount of purchase price exceeding £300,000.
A first time buyer purchasing a property for more than £500,000 will not be entitled to this relief.

Sale or Transfer of Shares and Securities (excluding AIM shares) – 0.5%

ANNUAL TAX ON ENVELOPED DWELLINGS (ATED)

Property Value	Charge for tax year 2019/20	Charge for tax year 2020/21
More than £500,000 but no more than £1m	£3,650	£3,700
More than £1m but not more than £2m	£7,400	£7,500
More than £2m but not more than £5m	£24,800	£25,200
More than £5m but not more than £10m	£57,900	£58,850
More than £10m but not more than £20m	£116,100	£118,050
More than £20m	£232,350	£236,250

VALUE ADDED TAX (VAT)

Thresholds from 1 April 2020		£	
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%.