

Tax Insights

# Budget 2020

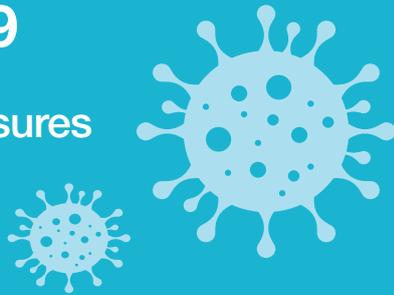
What it means for you.

We've reviewed and analysed last week's Budget so you don't have to.  
Here are our thoughts on the announcements and how they might affect you.

# Key points

## COVID-19

Various measures to help small businesses



## NATIONAL INSURANCE

0% below £9,500 income



## CORPORATION TAX

Rate to stay at 19%



## ENTREPRENEURS' RELIEF

Lifetime Allowance immediately reduced to £1m



## STAMP DUTY

2% Surcharge for property purchased by non-residents



## PENSIONS

Annual allowance threshold increased



## R&D

Tax credit rate increased to 13%



## VAT

No change to threshold or main rate



## **After a significant wait (498 Days) since the last Budget - not to mention a change of Prime Minister and subsequent General Election - the scene was set for a package of fundamental changes to the UK tax system.**

We will never know whether events of recent weeks had a significant impact on the wide-ranging measures announced today. However, a significant package of Coronavirus measures, which will not have been a consideration on 12 December, took centre stage. Immediate measures announced to assist with the epidemic include:

- Entitlement to Statutory Sick Pay (SSP) has been extended not just to Day 1 of sickness as previously announced, but further to Day 1 of self isolation.
- For SMEs (employers with up to 250 employees), SSP will be reimbursed to the employer, for up to two weeks, backdated for Coronavirus sick leave already taken.
- The increase of business rates retail discount from 50% to 100% for small businesses, with exemptions also applying to the leisure and hospitality sectors (when there is a rateable value of less than £51,000).
- Bank loan guarantees to enable struggling businesses to access working capital funding up to £1.2m
- Dedicated teams at HMRC to assist with Time to Pay arrangements in respect of taxes payable.

Aside from these immediate and, hopefully, short-term measures to tackle the current difficulties faced by Small businesses and their employees, the main event of the Budget is the significant reduction in the availability of Entrepreneurs' Relief, which cuts the lifetime gain allowance to £1m. This measure takes immediate effect. While we knew change was coming, this will have a significant impact for many business owners in the coming months and years.

The PKF Guide to the 2020 Spring Budget. We've Got it Done.

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- 1. Your income**
- 2. Your capital**
- 3. Your business**



# Your income

- The Personal Allowance remains at £12,500 for 2020/21.
- The Employee (and Self Employed Class 4) National Insurance threshold has been increased to £9,500 from April 2020.
- Automatic spirits, wine, cider and fuel duty increases have been cancelled.
- A new statutory pay and leave entitlement has been created for parents of babies requiring neonatal care, but this will not be effective until April 2023.
- The annual allowance for pension contributions before tapering takes effect remains at £40,000. Once adjusted income reaches £240,000, the minimum to which the allowance can taper down will reduce from £10,000 to £4,000. The minimum threshold will only affect those with over £312,000 of adjusted income.
- The lifetime allowance, the maximum amount that can be invested in a registered pension scheme in total, will increase to £1,073,100 from 2020/21.
- From April 2020, the Government will increase the maximum flat rate income tax deduction available to employees to cover additional household expenses from £4 per week to £6 per week, where they work at home under homeworking arrangements.
- As widely publicised, the off-payroll working rules for medium and large businesses in the private and third sectors will go ahead from April 2020. These changes will not apply if the end user is considered a small business, which for this purpose is if it has two or more of the following features: a turnover of £10.2m or less; a balance sheet total of £5.1m or less; and/or 50 employees or fewer.
- The starting rate for savings income remains at 0% for the first £5,000 of interest income for 2020/21. The exempt dividend allowance stays at £2,000.
- The Government will extend the scope of non-taxable counselling services from April 2020 to include related medical treatment, such as cognitive behavioural therapy, when provided to an employee as part of an employer's welfare counselling services.
- The Government remains committed to tackling disguised remuneration schemes and what it considers to be tax avoidance schemes.

**“The Employee (and Self Employed Class 4) National Insurance threshold has been increased to £9,500 from April 2020.”**

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# 2. Your capital

- From 11 March 2020, the lifetime limit on gains eligible for Entrepreneurs' Relief (ER) will be reduced from £10 million to £1 million.
- A retrospective change is also made in respect of share exchange transactions that have already occurred in the current tax year. Where an election is made from today to realise a gain that would otherwise have been treated as an exchange of securities, the availability of ER will be considered only by reference to the new £1 million cap where the initial transaction was entered primarily to 'lock in' the relief, and not a disposal to a third party.
- The ISA annual subscription limit for 2020-21 will remain unchanged at £20,000. The annual subscription limit for Junior ISAs and Child Trust Funds for 2020-21 will be increased from £4,368 to £9,000.

**“A 2% Stamp Duty Land Tax (SDLT) surcharge will apply to non-UK residents purchasing residential property in England and Northern Ireland from 1 April 2021. This will be on top of the existing 3% SDLT surcharge for owning more than one residential property.”**

- The band of savings income that is subject to the 0% starting rate will be kept at its current level of £5,000 per annum for 2020-21.
  - The calculation of Top Slicing Relief (TSR) on life insurance policy gains will be clarified in new legislation. This will specify how allowances and reliefs can be set against life insurance policy gains.
- A 2% Stamp Duty Land Tax (SDLT) surcharge will apply to non-UK residents purchasing residential property in England and Northern Ireland from 1 April 2021. This will be on top of the existing 3% SDLT surcharge for owning more than one residential property.
  - From 6 April 2020, taxpayers will have a 30-day window in which they must report and pay any capital gains tax arising on the disposal of UK residential property, including non-UK residents no longer able to defer the tax payment.
  - As a reminder, the Annual Tax on Enveloped Dwellings (ATED) applies where enveloped residential property valued above £500,000 is held by certain non-natural persons. These include companies, partnerships with corporate partners and certain collective investment schemes. Enveloped dwellings must be revalued every five years, and the most recent valuation date was 1 April 2017. This applies to all properties owned at that date even if acquired within the last five years.
  - Properties purchased after this date are valued at the purchase date. The due date for both filing returns and paying the ATED charge for 2020-21 is 30 April 2020. Depending on the value of the property at 1 April 2017, the ATED charge for 2019-20 will vary between £3,650 and £232,350.
  - The ATED bands for 2020-21 are yet to be released. Genuine business activity and property run as a business or provided to employees were already excluded from the ATED charge and, from 1 April 2021, housing co-operatives will also be exempt.

# 3. Your business

- Ultra-low emission vehicles will attract 100% First Year Allowance from 1 April 2021. Cars with emissions less than 50g/km will attract 18% Writing Down Allowances, with higher emission cars at 6%. From April 2020, the Structures and Buildings Allowance increases to 3%.
- From 1 April 2020, the Research & Development Expenditure Credit (RDEC) will increase from 12% to 13%. The proposed claim cap, set at three times a company's total payroll taxes liability, will be deferred by one year, and there will be a de minimis of £20,000 before the cap applies.
- Increased funding of up to £400 million will be made available to research institutes and universities. The Government will also allocate £10 million for R&D spending to help UK distilleries go green.

## **“There will be a review of the UK funds regime in 2020, to make the UK a more attractive location for companies used by funds to holds assets and a consultation on the hybrid mismatch arrangements”**

- As previously announced, a 2% Digital Services Tax will be introduced from 1 April 2020 on revenues earned by certain digital businesses. In addition to this, a restriction to corporate capital losses will take effect from 1 April 2020. This will restrict the proportion of annual capital gains that can be relieved by brought-forward capital losses to 50%. An allowance that gives companies unrestricted use of up to £5 million capital or income losses each year will be available.

- In a welcome simplification move, Finance Bill 2020 will legislate to remove the pre-2002 exclusion from the Intangible Fixed Assets regime.
- There will be a review of the UK funds regime in 2020, to make the UK a more attractive location for companies used by funds to holds assets and a consultation on the hybrid mismatch arrangements.
- From April 2021, large businesses with a turnover of more than £200 million per year or balance sheet total of more than £2 billion will need to make a notification to HMRC when they take a contentious filing position. The details will be subject to consultation.
- The Employment Allowance will increase from £3,000 to £4,000 from April 2020. This is available to employers with a Class 1 NIC bill of less than £100,000 in the previous tax year and who do not breach de minimis State Aid rules.
- The 'Tampon Tax' will be abolished from 1 January 2021 to enable a zero rate of VAT to be charged on women's sanitary products. One month earlier, the supply of e-publications will be zero-rated.
- From 1 January 2021, postponed accounting for VAT will apply to all imports of goods, including from the EU. Additionally, the Government will legislate retrospectively to introduce simplified rules for the VAT treatment of intra-EU movements of call-off stock which are removed from a Member State on or after 1 January 2020.

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