KEY POINTS

Elman Wall
Audit Tax Advisory

BUDGET 2020

70 days ago, we welcomed in the new decade with optimism and hope for the year ahead. What a difference 70 days can make.

Today, the new Chancellor Rishi Sunak, only 4 weeks into his role, announced emergency provisions in the Budget to support businesses affected by the threat of the COVID-19 virus, or perhaps more accurately, the fear of the threat.

And this follows the announcement earlier this morning that the Bank of England has reduced the rate of borrowing, as an emergency response to this threat, to an historic low of 0.25%.

The global and UK crisis will blow over, but the coming weeks and months will be uncertain and challenging for the vast majority of businesses until normality reigns again.

The team at Elman Wall wanted to convey our best wishes to your continued health and that of your business. We are all in this together and stand shoulder to shoulder with you.

We are here to help, support and advise our many clients and contacts as best we can. Whether you want an industry perspective or specific advice around aspects such as cash flow preservation, HR policies or restructuring, help is only a call away.

And in a nod to our thousands of tourism industry friends, we back the #KeepCalmTravelOn campaign.

In context, some of the Budget announcements lose their importance. Nonetheless the Elman Wall Tax Team has reviewed the various announcements and summarise below of some of the main points that could impact on you or your business going forward.

Highlights

General

- UK economy grew by 1.4% in 2019, 0.1% higher than in 2018.

  The OBR expects GDP growth of 1.1% in 2020, revised down from 1.4% in its Spring Statement 2019 forecast.

- Budget announces investment in electric vehicle charging infrastructure, to ensure that drivers are never more than 30 miles from a rapid charging station.

- Plans set up to increase public R&D investment to £22 billion per year by 2024-25.

  The money will be invested in people, ideas and industries that will cement the UK's world-leading position in science and technologies.

- The government will consult on aviation tax reform in spring 2020.

RESPONDING TO COVID-19

Headline: Government's response to the Coronavirus - £30bn policy

Detail: The Chancellor of the Exchequer spent a considerable amount of time in responding to the immediate situation. With a focus on supporting individuals, Statutory Sick Pay (SSP) will be available to employees from day 1 of sickness instead of day 4, and this is extended to the self-employed who would otherwise have to wait until day 8 to get the 'new style' Employment and Support Allowance and Universal Credit.

Undoubtedly, many businesses have experienced disruptions to their cash flow. SME's will have SSP refunded for up to 2 weeks (per employee) for employers with less than 250 employees. There is 100% Business Rates Relief for businesses with less than £51k rateable value. HMRC will offer Time to Pay arrangements for businesses and self-employed individuals who are in financial distress. Finally, a temporary Coronavirus Business Interruption Loan Scheme will be introduced; up to £1.2m of loan will be offered, and of which, the government will guarantee 80% on each loan to the lender.

EW Tax Team Say: *Whilst the health impact of the virus should of course be always considered, the focus of the Budget is in providing financial assistance to those who most urgently need it. SSP covers those who have contracted the virus and will also extend to those in self-isolation as the Government recognises that up to 20% of the workforce could be off ill at any one time. Employees, even those in self-isolation do not need a GP fit note, and can instead obtain a notification to provide to employers by calling the NHS 111.*

The fact that there is immediate support for the self-employed is also reassuring, and it is greatly welcomed to have this available in line with non-self-employed individuals, so there is a fair and consistent approach by the Government to all those affected. Additionally, the minimum income floor for the Universal Credit will be temporarily relaxed to compensate business losses.

Businesses can be relieved that sick pay (up to two weeks per employee) will be refundable by the government, but it is important to record the dates of absence. With an aim to save small businesses on the highstreets, such as shops, cinemas, restaurants and music venues, there is 100% Business Rates relief for those who have rateable value below £51k.

Finally, one area small businesses may turn their focus to is the Coronavirus Business Interruption Loan Scheme which the government will guarantee bank loans of up to £1.2m to small businesses, and will cover losses to the lender of up to 80%. All these measures will be useful providing the underlying cash moves as quickly as needed.

Tackling COVID-19

- Statutory Sick Pay (SSP) to be paid from the first day of sickness absence, rather than the fourth day; including those advised to self-isolate.
- The government will refund extra costs of paying COVID-19 related SSP to companies with fewer than 250 employees, limited to 2 weeks per employee.
- Businesses and self-employed individuals in financial distress will receive support under 'Time to Pay' with bespoke payment agreements.
- Coronavirus Business Interruption Loan Scheme to be launched to support businesses to access bank lending and overdrafts.

  The government will provide lenders with a guarantee of 80% on some loan.

Headline: Time to pay arrangements - businesses affected by COVID-19

Detail: The government announced temporary measures to aid businesses which are suffering substantially due to COVID -19. One of these measures, is the 'Time to Pay' arrangement. This is a helpline designed, with 2,000 specially recruited individuals, to give business and individuals a time limited deferral period to pay HMRC liabilities. These arrangements are tailored to the business or individual's circumstances.

EW Tax Team Say: *A 'Time to Pay' helpline already exists. However, this new and temporary helpline is intended to be more flexible in terms of agreements and there will be no late payment interest and penalties involved. Subsequently, this may assist in bridging some of the immediate cash flow problems caused by COVID-19. This will be a very important measure and clients are already taking advantage of this.*

Corporation Tax

- No change to tax rate at 19%.
- RDEC for large companies increased from 12% to 13% from April 2019.
- Structures and buildings allowance (SBA) rate increased from 2% to 3%.
- First year allowance on zero emission cars extended and eligibility criteria raised.

CORPORATION TAX

Headline: Extension of R&D tax relief for large companies

Detail: For large companies, a Research and Development Expenditure Credit (RDEC) can be claimed, which is based on a percentage of a company's qualifying R&D expenditure. Previously, for expenditure incurred since 1 January 2018, the percentage has been 12% of qualifying costs. Today, the Chancellor announced that this would increase by one per cent to 13%. This change does not however affect small and medium sized businesses.

EW Tax Team Say: *The Chancellor made a point today of stating a wish to invest in ideas and any increase in R&D tax breaks will appear conducive of this philosophy. Strengthening this ethos further, the Budget sets out plans to increase public R&D investment to £22 billion per year by 2024-25. This also follows previous announcements that the government would like the UK to lead by example in the digital market.*

Headline: Corporation tax rate will remain at 19% in 2020

Detail: The 2018 Budget proposed the rate of corporation tax fall to 17% from 2020. However, last year, in the Conservative's Election pledge this reduction was set to be put on hold. This has now been reaffirmed in the Budget, with corporation tax rates remaining at 19%.

EW Tax Team Say: *Given the announcement last November this confirmation is hardly surprising. The expected reduction would have been appreciated all round and truly bolstered the profits of those feeling the effects of the slowing economy. However, with the additional spending pledged in the wake of coronavirus, we don't see the rate going down to 17% anytime soon. Nonetheless the UK still has the lowest rate out of the G20 countries.*

Employment Tax

- Company car tax (CCT): Rates reduced by 2% in 2020-21 for cars first registered from 6 April 2020.
- Flat rate deduction on 'Use of Home office' increased from £4 per week to £6.
- NIC Class 1 primary threshold for employees and Class 4 lower profit limit for self-employed increased to £9,500 from April 2020.
- Employment Allowance (EA) increased to £4,000 from £3,000.

Headline: Changes to capital allowances

Detail: Along with the increase to the Annual Investment Allowance limit (currently at £1million), from 1 April 2020 the structures and building allowance (SBA) rate will increase from 2% to 3%. This allowance has been available from 2018 and is to provide additional relief to companies and individuals constructing new or renovating old non-residential structures and buildings.

Another policy announced as part of the government's plan to be greener, is a change to the allowances on business cars. From April 2021, any new business car additions with emissions over 50g/km will now only get writing down allowances (WDA) at 6% where it was previously 18%. In contrast however the 100% First Year Allowances will be available on zero and low emission vehicles acquired up to 2025.

EW Tax Team Say: *Now would a great time for those companies that can afford it, to invest in improvements to their business properties and to take advantage of both the SBA and the higher rate of AIA (which is planned to go back down to £200,000 in 2021).*

Given the previous implementation of first year allowances on zero emission vehicles we've seen an increase in the number of companies buying cleaner vehicles, so we're expecting even more companies to do so now. For those wondering, relief is also available for electric charging points, should you wish to install one for the new vehicles.

EMPLOYMENT TAX

Headline: Favourable treatment of 'green' company cars

Detail: It is clear the government is still pursuing the green agenda and will invest £1 billion towards innovative research and development in the area of clean and more efficient forms of accessible transport. Whilst some zero emission cars will continue to generate a low benefit in kind there is a small technical change in how emissions are measured. For new cars registered after 6 April 2020 this will be based on the Worldwide harmonised Light Vehicle Test Procedure. Compared to the current New European Driving Cycle test, this could reduce relevant benefit percentages by 2%.

EW Tax Team Say: *Given the highly publicised and topical area of climate change, this opportunity does not come as a surprise. Such an investment is expected to change the attitudes of the nation and create a positive trend toward preserving our environment. This timely announcement coincides well with the forthcoming tax breaks expected for company car drivers choosing an electric vehicle. No benefit in kind tax charge will arise in the tax year 2020/21. An increase of just 1% will occur from 6 April 2021 and 2% from 6 April 2022.*

Headline: Increasing the flat rate for homeworking

Detail: From April 2020, the flat rate deduction for Homeworking will increase from £4 per week to £6 per week. This is where an employee works at home under Homeworking arrangement and the employer covers the costs of additional household expenses.

EW Tax Team Say: *This is good news for the employee in being able to receive additional tax free expenses or making a claim for a deduction. The 50% increment of the fixed weekly rate gives advantage to the employee to claim an additional £2 per week and does not need to keep records of their additional costs. Also, the employer does not need to justify the expenditure incurred. However it's still questionable as to whether this actually covers the additional cost of homeworking.*

Headline: Employment support for businesses

Detail: From April 2020, the government is increasing the Employment Allowance to £4,000. This is an increase of £1,000 from the previous £3,000. Employment allowance is designed to provide relief on employers' National Insurance Contributions.

EW Tax Team Say: *Effectively, this means that a small business can potentially recruit four members of staff on the national living wage without the need to make any employers' national insurance payments. Another change to note is that the employment allowance will only apply to businesses with an employers' NIC bill of less than £100,000 per year. This is a boost to small businesses and should be claimed where appropriate.*

Headline: Increasing National Insurance thresholds

Detail: From April 2020, the National Insurance thresholds will increase from £8,632 to £9,500. This means that if an employee earns more than £9,500, they will pay 12% NIC Class 1 of their earnings between £9,500-£50,000 and 2% NIC Class 1 on any earnings above £50,000.

EW Tax Team Say: *Not only is this good news for employees who will see an increase in their net pay, but there should be a saving to employers as well by the increase in threshold below which no employers NIC is due. In addition there has been no increase in the upper earnings limit meaning the employee 12% band has reduced, benefitting higher earning employers further.*

Income Tax

- Personal Allowance unchanged at £12,500 for 2020/21.
- Higher Rate Tax Band is £50,000 same as previous year.
- Pension tapered annual allowance thresholds increased by £90,000 from 2020-21.
- Top Slicing Relief (TSR) amendments apply all relevant gains occurring on or after 11 March 2020.

INCOME TAX

Headline: Changes on pension relief for higher earners

Detail: The limit before which the maximum pension allowance starts to be tapered has been increased. The chancellor has raised the relevant limits by £90k, so in essence only those earning more than £240k will have a reduced pension entitlement. The announcement comes in support for NHS workers facing the coronavirus crisis and this would potentially remove around 96% of GPs out of the taper. The government has also reduced the minimal level which the annual allowance can taper to from £10,000 to £4,000, so top earners will be restricted even further. The lifetime allowance has also increased in line with CPI for 2020-21 to £1,073,100.

EW Tax Team Say: *This is good news not just for NHS workers but for individuals whose adjusted threshold income is in excess of £150,000. Under the current rules, individuals who earn in excess of £150,000 find their annual allowance tapered down to a minimum of £10,000. The £90,000 increase will potentially allow many of those who previously only could utilise a tapered allowance, contribute more to their pensions without having a tapered allowance and thus benefit from additional tax relief. However, higher earners are potentially being punished as now individuals whose income is in excess of £300,000 could find themselves restricted to an allowance of only £4,000.*

Headline: Changes to Top Slicing Relief on life insurance policy gains

Detail: Top Slicing Relief has been amended to allow the personal allowance (£12,500) to be reinstated within the calculation for TSR. This provides additional relief for those individuals, who have made gains on life insurance policies whose entitlement to the personal allowance has been reduced because a gain is included as part of their income.

The measure also clarifies the treatment of allowances and reliefs within the TSR calculation by confirming that they must be set as far as possible against other income in preference to the gain. This will ensure that the relief is calculated in a fair and consistent way.

EW Tax Team Say: *Life insurance policy gains accrue over a number of years but are taxed in one year. This can result in gains being taxed at a higher rate.*

The amendment to the legislation is in line with the governments objective of promoting fairness in the tax system as it provides additional relief for taxpayers whose entitlement to the personal allowance has been reduced because a gain is included as part of their income.

Although this is a change to the original measure, this amendment has been made to achieve what the original measure intended and that is to provide relief to taxpayers who have become subject to a higher rate of tax due to a gain being included in their income.

Capital Tax

- Annual exemption unchanged at £12,000 for 2020/21.
- Lifetime limit on gains eligible for Entrepreneurs' Relief reduced from £10 million to £1 million.

SDLT

- 2% SDLT surcharge introduced on non-UK residents purchasing residential property in England and Northern Ireland from 1 April 2021.

CAPITAL TAX

Headline: Changes to Entrepreneurs Relief

Detail: For disposals of qualifying assets, in particular shares in a trading company, where certain conditions are met, the rate of capital gains tax is 10% via claiming Entrepreneurs Relief. Currently there is a lifetime limit of £10m for such gains. Having immediate effect for disposals on or after today, this lifetime limit is now reduced to £1m.

EW Tax Team Say: *This particular relief was introduced in 2008 with a lifetime limit of £1m. It was then increased in 2010 to £2m and almost immediately thereafter increased to £5m and then £10m from 2011 onwards. So the reversal downwards today of the lifetime limit back to where it started is perhaps from one perspective disappointing, albeit not unexpected given recent hints. The stated rationale for the reduction is that it has benefitted a "small number of very affluent taxpayers and done little to generate additional entrepreneurial activity." This does not necessarily accord with our experience, where many genuine entrepreneurs have benefitted from the higher limits.*

STAMP DUTY LAND TAX (SDLT)

Headline: 2% SDLT surcharge on non-UK residents purchasing property

Detail: The government has introduced a 2% SDLT surcharge on non-UK residents purchasing residential property in England and Northern Ireland from 1 April 2021.

To make the taxation of housing co-operatives fairer, the government will introduce a relief for qualifying housing co-operatives from the ATED and the 15% flat rates of SDLT on purchases of dwellings over £500,000. The SDLT relief in England and Northern Ireland will take effect from Autumn Budget 2020 and the UK-wide ATED relief from 1 April 2021 with a refund available for 2020-21. The charge will apply to individuals and those buying through a company.

EW Tax Team Say: *The 2% surcharge for overseas residents is in addition to the stamp duty fees due when buying a property, and on top of the 3% surcharge if the individual already owns a home.*

Although the Chancellor has not quite delivered on the Tory manifesto pledge and has opted for a 2% surcharge rather than 3%, the policy should go down well with domestic property buyers and landlords as competition from overseas buyers is likely to reduce significantly.

The additional tax could pose problems in the already struggling London market in which there is currently a huge amount of overseas investment. The market has been struggling since the stamp duty reforms in 2014 and this latest policy could see a further reduction in prices and activity.

Other

- Using freedom from EU law to enable a zero rate of VAT on women's sanitary products marks the end of tampon tax.
- Legislation to be introduced to apply a zero rate of VAT to e-publications from 1 December 2020.

OTHER

Headline: Income Tax Automation Clarified

Detail: In a measure introduced following recent legal challenges, it is confirmed that certain HMRC processes can be carried out without any human intervention and still be legally valid. Elements of tax legislation require 'an officer of Revenue and Customs' to undertake certain tasks, for example raising an assessment to tax, or levying a late filing penalty notice. It had been considered that this meant an actual officer needed to be directly involved. However, this has now been clarified so that notices can be issued by computer without any officer being involved.

EW Tax Team Say: *Recent Court rulings have severely criticised HMRC working practices, some going as far as to suggest HMRC is not fit for purpose. For example, significant concern surrounds the time wasted by all parties in dealing with incorrect penalty notices. This clarification, by means of introducing specific legislation, that no human intervention is legally needed for such matters, does nothing to allay such concerns, and if anything opens to the door to increased unnecessary HMRC automated interaction.*

Headline: Junior ISA doubled; income and savings tax remain the same

Detail: The Junior ISA and Child Trust Fund annual subscription limit has increased from £4,368 to £9,000. Meanwhile the personal allowance has remained the same at £12,500 and the starting rate for savings tax band has also remained the same at £5k.

EW Tax Team Say: *The increase in the Junior Isa and Child Trust Fund annual subscription will of no doubt be attractive to young parents who are looking to invest in their child's future and over £150k could be saved by the age of 18 on £9k of investment per year. The personal allowance has been frozen, meaning that income earned in excess of this up to £50k is still taxable at the basic rate of tax. As the starting rate for savings income has remained the same, individuals who do not earn non-savings income such as employment, pension or rental income can earn up to £18.5k in savings income before a tax liability is generated.*

Headline: Abolishment of the "Reading Tax" and "Tampon Tax"

Detail: From 1 December 2020, the government will introduce legislation to apply a zero rate of VAT to e-publications. This means that e-books, e-newspapers, e-magazines and academic e-journals are brought into line with their physical equivalents in terms of VAT treatment. From 1 January 2021, women's sanitary products will also be zero-rated for VAT. This has been levied since 1973 and after receiving a reduction to 5% in 2000, has now been completely abolished.

EW Tax Team Say: *Whilst the scrapping of VAT on e-publications seems merely an academic exercise in a move into an increasing digital age, the end of the so-called "Tampon Tax" invites more interesting discussion. Since 2015, £47m has been passed to women's charities from the increase to the exchequer from this tax. Clearly this initiative will come to an end when the new zero rate of VAT on sanitary products is introduced. It will be interesting to see if the government continues with this charitable giving going forward, or whether the charities in question will lose out.*

Headline: Targeted Measures of Promoters of Tax Avoidance Schemes

Detail: It has been announced that the government will provide extra funding and legislate in the Finance Bill 2020-21 to take further action against those who promote and market tax avoidance schemes. HMRC will publish new and ambitious strategy for tackling the promotors of tax avoidance schemes. This will outline the range of policy, operational and communication interventions both underway and in development to drive those who promote tax avoidance schemes out of the market.

EW Tax Team Say: *Although the general tone of the announcement was of stability, support and security, tackling anti avoidance always seems to make the agenda and thus remains a topical area of concern and discussion. Whilst this particular announcement is aimed at promoters, those within existing scheme arrangements or have an appetite for taking part, should take great care. The forthcoming announcement will likely lead to increased scrutiny by HMRC into the tax affairs of scheme users in addition to scheme promotors. To some extent however, such provisions may seem unnecessary. Changes to legislation as well as moral opinion, has all but eliminated such aggressive tax planning anyway.*

Savings

- ISA annual subscription limit for 2020/21 will remain unchanged at £20,000.
- Junior ISAs and Child Trust Funds subscription limit increased to £9,000.
- Starting rate for savings tax band remain at its current level of £5,000 for 2020-21.