PKF Littlejohn LLP

Accountants & business advisers

Tax Insights

Budget 2018

What it means for you.

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

Key points

PERSONAL ALLOWANCE
Increased to £12,500 from April 2019

HIGHER RATE INCOME TAX
Threshold increased to £50,000

CORPORATION TAX
Still 17% from 2020

ENTREPRENEURS' RELIEF
Two-year holding period from April 2019

CAPITAL ALLOWANCES
100% relief (AIA) on £1m of spend in 2019 and 2020

INTANGIBLE ASSETS
Better, refined rules for companies

NEW COMMERCIAL BUILDINGS
New tax relief on construction of new properties

IR35
Onus moves from the employee to employer

After two largely forgettable Budget statements last year, PKF Littlejohn's Tax team had high hopes for the sole fiscal event of 2018. And the Chancellor didn't disappoint this time, proclaiming several times during his speech that the "era of austerity is finally coming to an end".

In many ways, however, the Budget is limited in its impact both by the continued uncertainty over Brexit and the Government's lack of a Commons majority - and many of Philip Hammond's announcements may be considered as a tinkering and tweaking exercise.

Tomorrow's newspapers are likely to focus on the significant spending announcements and the proposed new 'Digital Services Tax', which moves the UK ahead of the EU and other OECD nations by introducing a 2% charge on sales generated in the UK. However, as this only affects businesses with global income of over £500 million, it is unlikely to cause many sleepless nights for the vast majority of our clients.

It will come as a relief to many business owners that the calls to scrap Entrepreneurs' Relief have not been heeded. However, changes in the terms of the relief – to extend the minimum holding period from 12 to 24 months from 5 April 2019, and to prevent the use of some widespread artificial structures - will affect many. We wonder whether this is the first step to making Entrepreneurs' Relief less widely available.

It is perhaps no surprise that the 'off payroll working' rules are being extended from the public sector to the wider economy, placing PAYE responsibilities on the employer rather than contractors, and replacing the somewhat cumbersome IR35 regime. The fact that this change will not take effect until April 2020 will give cause for relief for many, giving them time to correct their arrangements.

Finally, increases to the personal allowance and the higher rate tax band, again predicted to be delayed or even scrapped in the weekend news, have instead been accelerated. Perhaps the Chancellor is right and the era of austerity really is coming to an end…

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1. Your income

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- The Personal Allowance for individuals will increase from 6 April 2019 to £12,500. The threshold for higher rate tax will also increase from the same date to £50,000.
- Reforms to the off-payroll working rules (IR35) for engagements in the private sector will be introduced in April 2020, following reform in the public sector. Responsibility for operating the rules will move from individuals to the organisation, agency or other third party engaging the worker. Small organisations will be exempt.
- A National Retraining Scheme and skills pilots are to be introduced to help both employees and the self-employed to develop work-related skills, instead of changing the scope of tax relief currently available.
- From April 2020, the Employment Allowance, which is worth up to £3,000 off the employer's National Insurance Contributions (NICs) bill, will be restricted to employers with an employer NICs bill below £100,000 in their previous tax year.
- Reforms to the NICs treatment of termination payments and income from sporting testimonials will take effect from April 2020.
- With effect from April 2020, the eligibility for PAYE special arrangements for Short Term Business Visitors from overseas branches of UK headquartered companies is to be widened and deadlines for reporting and paying tax are to be extended.
- There is no change to the savings income threshold for the 0% starting rate, which remains at £5,000 for 2019-20.
- There is no change to the £20,000 adult ISA annual subscription limit for 2019-20.
- The annual subscription limit for Junior ISAs for 2019-20 will rise in line with CPI to £4,368.
- The Government will publish a consultation in 2019 on draft regulations for maturing Child Trust Fund accounts. The annual subscription limit for Child Trust Funds for 2019-20 will be increased in line with CPI to £4,368.

"Personal allowance increased to £12,500 from April 2019, one year earlier than planned"

2. Your capital

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- The lifetime allowance for pension savings will increase to £1,055,000, in line with inflation from 2019.
- In order to improve the international competitiveness of the UK's tax system, new non-residential structures and buildings will be eligible for a 2% capital allowance where all the contracts for the physical construction works are entered into on or after 29 October 2018.
- Entrepreneurs' Relief is being retained. However, from 6 April 2019 the minimum period throughout which the qualifying conditions for relief must be met will be extended from 12 months to 24 months.
- In addition to the current requirements on share capital and voting rights, shareholders must be entitled to at least 5% of both the distributable profits and net assets of a company to claim Entrepreneurs' Relief. This is to address an identified abuse of the current rules, and is introduced with immediate effect.

"Although most entrepreneurs keep their business for at least two years, the changes to Entrepreneurs' Relief reduce flexibility for owners who wish to sell when they receive a good offer or need to sell to try something different"

- The Government will extend first-time buyers stamp duty relief in England and Northern Ireland for shared ownership property purchasers, whether or not the purchaser elects to pay SDLT on the market value of the property. This change will apply as of today's Budget. For those who have acquired property prior to this date, a stamp duty refund can be obtained if the purchase took place after 22 November 2017.
- 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.
- The Government will consult on aligning the consideration rules of Stamp Duty and Stamp Duty Reserve Tax and introducing a general market value rule for transfers between connected persons.
- The Government has introduced tougher restrictions from April 2020 in respect to principal private residency relief, whereby lettings relief will only apply in circumstances where the owner of the property is in shared occupancy with the tenant. In addition, the final period exemption will be reduced from 18 months to nine months.
- As announced last year, the Government has reiterated that it will publish a consultation on the taxation of trusts to make the taxation of trusts simpler, fairer and more transparent.

"The current tax treatment of trusts is a minefield and any simplification will be welcome"

- The major changes made to the taxation of property for non-residents is largely unchanged from the draft legislation issued in July 2018, with the exception of the treatment of non-resident funds:
  - Direct gains made on the sale of commercial property owned by non-residents is taxable from April 2019 - rebasing as at that date - so all property will be taxable from April 2019.
  - Indirect gains made on the sale of shares of property rich companies owned by non-residents will be taxable from April 2019, again rebasing as at that date.
  - Non-resident companies with a property business will be brought within Corporation Tax with effect from April 2020.

3. Your business

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- The Chancellor's announcement was largely positive for innovative tech start-ups, but big tech giants have been targeted with a new 2% digital services tax from April 2020. This new narrowly designed tax will only apply to groups that generate global revenues arising from specific digital activities that are in excess of £500 million per annum, with a £20 million annual allowance for activities linked to the participation of UK users.

"No prizes for guessing which established search engines, social media platforms and online marketplaces the Chancellor had in mind when he announced the digital services tax"

- The UK's R&D scheme remains in place. However, from 1 April 2020, the payable cash tax credit for small and medium enterprises will be restricted to three times the company's total PAYE and NIC liability for the year.
- The Annual Investment Allowance (AIA) will temporarily increase to £1 million for all eligible capital expenditure incurred from 1 January 2019 until 31 December 2020. Special rate writing down allowances (WDA) will reduce from 8% to 6%, making it even more beneficial to allocate special rate expenditure to the AIA in priority to expenditure on standard plant (which will continue to qualify for a rate of 18%).
- From 1 April 2020, capital gains will be brought into the corporate loss restriction rules and subject to a similar 50% annual cap. The existing £5 million allowance will be shared between both income losses and capital losses. The extension of the relatively new corporate loss restriction rules to cover capital losses is not anticipated to have a significant impact for many companies.
- Further changes are planned for intangible assets. From April 2019, it is anticipated that tax relief will be available for the cost of goodwill on acquisition of a business, and changes will arise to align degrouping rules with the Chargeable Gains regime.
- New anti-avoidance rules are being introduced to ensure that HMRC does not lose out when companies fold. Once the latest Finance Bill receives Royal Assent, company directors and any other persons involved in tax avoidance, evasion or 'phoenixism' will be jointly and severally liable for company tax liabilities, where there is a risk that the company may deliberately enter winding up proceedings. HMRC will also become a preferred creditor in liquidations.
- Funding of £675 million has been set aside for Britain's struggling high streets, with immediate cuts in business rates. Whether this will be enough to reinvigorate the hospitality and retail sector remains to be seen.
- The co-investment rate for employers not subject to the Apprentice Levy will be slashed to 5%, with the Government paying the remaining 95% of training costs.
- From 1 March 2019, changes will be made to the VAT treatment of prepayments. This is to align the VAT treatment of all prepayments for goods and services where customers have been charged VAT but have failed to collect what they have paid for and have not received a refund.
- The rules governing the circumstances in which adjustments to VAT should be made following a reduction in price are to be tightened so as to require the issuing of a VAT credit note to the customer.
- Measures will be introduced to prevent VAT avoidance in the insurance sector that involves UK insurers benefiting by the use of associates in territories outside the EU to supply their UK customers. The input VAT credit which is available for supplies to such entities is to be withdrawn putting these businesses on an equivalent footing to insurance businesses based inside the UK.
- No clear option for reform of the VAT threshold has emerged. The threshold is to remain at the current level of £85,000 for a further two years until April 2022.
- Following consultation, the government has confirmed that it will introduce a VAT domestic reverse charge to prevent VAT losses through so-called 'Missing Trader' fraud in the construction sector. This occurs when sub-contractors collect VAT paid by their customers on sales, which then goes missing. This will shift responsibility for paying VAT along the supply chain by means of a reverse charge. The new rules will have effect on and after 1 October 2019.
- VAT grouping is to be extended in limited circumstances to allow the inclusion of non-corporate entities.

Our expert team can help you understand the impact of the Budget on you and your business.

To find out more, please contact us.

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