

Spring
Budget
2020



Biggest spending spree for 28 years








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Important information

The way in which tax charges (or tax relief, as appropriate) are applied depends up individual circumstances and may be subject to future change.

The information in this report is based on our understanding of the Spring Budget 2020, in respect of which specific implementation details may change when the final legislation and supporting documentation are published.

This document is solely for information purposes and nothing in it is intended to constitute advice or a recommendation. You should not make any investment decisions based on its content.

While considerable care has been taken to ensure the information contained within this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information.

INTRODUCTION

“As we deal with coronavirus, this is a Budget that provides security today but it is also a plan for prosperity tomorrow.”

Chancellor, Rishi Sunak

“Getting it done” is the soundbite Chancellor Rishi Sunak clearly wanted us to take away from his debut Budget speech, but “giving it away” might be more accurate.

The Government's substantial majority gave Sunak carte blanche to overhaul taxes but, in the end, there were relatively few substantial changes.

Instead, one announcement after another was made on investment in public services, roads and railways. With the coronavirus (COVID-19) high on the agenda, there were also emergency measures designed to provide respite for beleaguered businesses and to protect jobs.

Having been forced to abandon plans to publish an economic forecast in November 2019, the Office for Budget Responsibility produced an overdue update on the future health of the economy – and it wasn't good. Its 2020 growth forecast was cut to 1.1%, having forecast 1.4% growth last year, and that's without taking into account the potential shock to the global economy of COVID-19.

Sunak delivered the first Budget speech since October 2018, just 27 days after succeeding Sajid Javid.

Inheritance tax may have been on Javid's mind prior to his Valentine's Day resignation, but not Sunak's. Despite the Office for Tax Simplification's multiple recommendations, no change was forthcoming.

Prior to Sunak's speech, there was a lot of noise about the potential scrapping of entrepreneurs' relief. Gauging public mood, Sunak went for a compromise, leaving the relief in place but lowering the lifetime allowance from £10 million to £1m.

Campaigners were also banging the drum for a revamp of the business rates system in England. Firms with rateable values of less than £51,000 in the retail, leisure and hospitality sectors won't have to pay business rates from April 2020 for a full year.

That will buy time for a comprehensive review of business rates, which is expected to report around the time of the next Budget in the autumn.

Sunak also announced cash grants of £3,000 for businesses with rateable values of less than £15,000 and a temporary loan scheme for SMEs.

The main rate of corporation tax was due to reduce from 19% to 17% next month. That no longer goes ahead – but we knew that already.

Changes to capital gains tax will also proceed as planned. A 30-day window for paying capital gains tax on property sales kicks in from 6 April, at the same time as changes to letting relief and private residence relief.

And, as promised in the Conservative Party manifesto before the election late last year, there were no increases to the rates for income tax, VAT or National Insurance.



PERSONAL TAXES

Rates and allowances

The tax-free personal allowance will remain at £12,500 for the 2020/21 tax year throughout the UK.

The basic-rate band in England, Northern Ireland and Wales will stay at £37,500 and consequently, the higher-rate threshold will continue to be £50,000.

The additional-rate band in those nations will also remain at £150,000.

In Scotland, the starter-rate rises to £14,585 and the basic-rate will increase to £25,158.

The intermediate-rate will remain at £43,430 and likewise, the higher-rate will stay at £150,000. The top rate will remain in place for income over £150,000.

National living wage

The national living wage applicable to over-25s increases by 6.2% from £8.21 an hour to £8.72 an hour from April 2020.

National Insurance contributions

The threshold for class 1 primary contributions paid by employees and the class 4 national insurance contributions (NICs) paid by the self-employed will increase from £8,632 to £9,500 for 2020/21.

From April 2021 employers will pay no secondary class 1 NICs in relation to veterans they employ that have left regular service.

This payment holiday will last for one year from the employment commencement date.

The class 2 NICs rate for the self-employed will increase from £3.00 per week to £3.05 per week from April 2020. Class 2 NIC is payable by 31 January following the end of the tax year.

Pension lifetime allowance

The lifetime allowance for pension savings increases for 2020/21 from £1,055,000 to £1,073,100.

Capital gains tax

From 6 April 2020, the annual exempt amount for individuals and personal representatives will increase from £12,000 to £12,300. For trustees of settlements, the annual exempt amount will increase to £6,150.

Disposal of UK residential property

UK residents who sell a residential property in the UK on or after 6 April 2020 may have to report the gain and pay any capital gains tax owed to HMRC within 30 days of completion.

Letting relief

From April 2020, letting relief will only be available in circumstances where the owner of the property is in shared occupancy with the tenant.

Private residence relief

In most cases, the final-period of exemption will fall from 18 months to nine months from April 2020.

Pension tapered annual allowance

From 6 April 2020, threshold income will increase from £110,000 to £200,000. The adjusted income will increase from £150,000 to £240,000 and the minimum reduced tapered allowance will be decreased from £10,000 to £4,000.

Residence nil-rate band

The residence nil-rate band for inheritance tax increases from £150,000 to £175,000 from 6 April 2020.

Company van and fuel benefit

From 6 April 2020, the flat-rate van benefit charge increases from £3,430 to £3,490, and the flat-rate van fuel benefit increases from £655 to £666. Any future rises will be in line with consumer price index (CPI).

A nil rate will apply to zero-emission vans that fall within the van benefit charge from April 2021.

Company car and fuel benefit

The car fuel benefit multiplier increases from £24,100 to £24,500 from 6 April 2020 and will rise in line with the CPI thereafter.

As previously announced, the Government will introduce new company car benefit-in-kind rates, with reductions for electric and certain hybrid cars.

Rates for cars first registered from 6 April 2020 will increase by 1% in 2021/22 and a further 1% in 2022/23. Rates will then be frozen until 2024/25.

ISAs

The adult ISA annual subscription limit remains at £20,000 for 2020/21 and will rise thereafter in line with CPI.

The junior ISA annual subscription limit and the child trust fund annual subscription limit both increase from £4,368 to £9,000 with effect from 6 April 2020.

Top-slicing relief on life insurance policies

For gains made on or after 11 March 2020, any allowances and reliefs within the top-slicing relief calculation must be set as far as possible against other income in preference to the gain.

The personal allowance will be reinstated within the calculation of top-slicing relief. Previously some taxpayers may have lost their entitlement to some or all of the personal allowance due to the gain having been included as part of their income.

Loan charge

In summary, the loan charge will:

- apply to loans made between 9 December 2010 and 5 April 2019
- not apply to loans made prior to the 2016/17 tax year where a reasonable disclosure had been made to HMRC.

Individuals affected by the loan charge will be able to elect to split their loan balance over the tax years 2018/19, 2019/20 and 2020/21.

In relation to 2018/19, individuals will not face any late payment penalties or interest, provided a return is filed and payment made by 30 September 2020.

Income tax bands & rates - England, Northern Ireland & Wales

| Band | 2020/21 | Rate | 2019/20 | Rate |
|--------------------|--------------------------|------|--------------------------|------|
| Personal allowance | Up to £12,500 | Nil | Up to £12,500 | Nil |
| Basic-rate | Over £12,500 to £50,000 | 20% | Over £12,500 to £50,000 | 20% |
| Higher-rate* | Over £50,000 to £150,000 | 40% | Over £50,000 to £150,000 | 40% |
| Additional-rate* | Above £150,000 | 45% | Above £150,000 | 45% |

*The personal allowance is reduced by £1 for every £2 of income from £100,000 to £125,000 (2019/20, £125,000).



BUSINESS

Corporation tax

The main rate of corporation tax will now remain at 19% from 1 April 2020, despite original plans to reduce this to 17%. This remains the lowest headline rate in the G20.

Additionally, it was announced that the main rate of corporation tax will be set at 19% for the financial year beginning 1 April 2021.

Employment allowance

With effect from April 2020, the employment allowance will increase from £3,000 to £4,000.

In contrast, access to the employment allowance will be restricted to employers whose national insurance contributions liability in the previous tax year was less than £100,000.

Structures and buildings allowance

From April 2020, the structures and buildings allowance (SBA) will increase from 2% to 3%.

The SBA came in from 29 October 2018 and aims to relieve the construction, renovation or conversion costs of non-residential structures and buildings used for qualifying purposes over their lifetime.

Businesses with chargeable periods spanning April 2020 can claim 2% a year for days in the period before April 2020 and 3% for days thereafter.

Research and development expenditure credit

The research and development expenditure credit, often referred to as the RDEC or 'above the line credit', is rising from 12% to 13%, from 1 April 2020.

Capital allowances

The availability of first year capital allowances of 100% for zero-emission cars (as opposed to those cars not exceeding 50 g/km), zero-emission goods vehicles or equipment for gas refueling stations for use in the business will be extended from April 2021 to April 2025.

The main writing-down allowance of 18% will only apply to cars with emissions of up to 50g/km.

The special rate writing-down allowance of 6% will apply to cars with emissions above 50g/km. This is a reduction from the existing threshold of 110g/km.

The new 50g/km threshold will also apply for determining the lease rental restriction for the costs of hiring business vehicles for more than 45 consecutive days.

Research and development relief PAYE cap

The introduction of the PAYE cap on the payable tax credit in the SME research and development scheme will be delayed until 1 April 2021.

Off-payroll working rules

As previously announced, the Government has completed a review of the reform to off-payroll working in the private sector and, as planned, the rules will be implemented on 6 April 2020.

Deduction for home working

From April 2020, the flat-rate expense available to employees to cover additional household expenses, where they are required to work at home, will increase from £4 per week to £6 per week.

Business rates

There were a wide range of changes announced in relation to business rates.

It was already announced that from 1 April 2020, for one year, the business rates retail discount for properties with a rateable value below £51,000 in England will increase from one third to 50% and will be expanded to include cinemas and music venues.

In response to COVID-19, the retail discount will be increased to 100% and expanded to include hospitality and leisure businesses.

An increase from £1,000 to £5,000 business rates discount for pubs in England with a rateable value below £100,000 for one year from April 2020.

The £1,500 business rates discount for office space used by local newspapers in England will be extended for a further five years until 31 March 2025.

Entrepreneurs' relief

The lifetime limit on qualifying disposals eligible for the 10% tax rate is reduced from £10m to £1m for disposals made on or after 11 March 2020.

Any entrepreneurs' relief claimed on previous qualifying gains must be taken into account when establishing the extent of the lifetime limit still available.

There are special provisions for disposals entered into before 11 March 2020.

In such cases, the disposal will be subject to the £1m cap unless it can be demonstrated that the contract was not entered into to obtain a tax advantage and, where the parties are connected, the contract must have been entered into for wholly commercial reasons.

Enterprise management incentive scheme

A review into the enterprise management incentive scheme aims to ensure it continues to support high-growth companies to recruit and retain the best talent, and examine whether a wider number of companies should be able to access the scheme.

Intangibles reform

Legislation will be introduced to remove the pre-2002 exclusion from the intangible fixed assets regime to support UK investment in intellectual property and other intangible assets.

Tax relief for the cost of acquiring corporate intangible assets on or after 1 July 2020 will be provided under a single regime, subject to anti-avoidance restrictions.

This measure allows companies to claim corporation tax relief for pre-2002 intangible fixed assets acquired from related parties on or after 1 July 2020.

Corporate capital loss restriction

Companies making chargeable gains in accounting periods ending on or after 1 April 2020 will only be able to offset up to 50% of those gains using carried forward capital losses.

This measure includes an allowance that gives companies unrestricted use of up to £5 million capital or income losses each year, which means 99% of companies should be unaffected.

Transitional rules apply where an accounting period straddles the above date.



Abolition of the 'tampon tax'

The first headline for VAT in the Chancellor's speech came when Sunak announced that the UK leaving the EU presents an opportunity to introduce legislation applying the zero-rate of VAT to women's sanitary products.

VAT is currently charged at 5% on these products. This is to be scrapped from 1 January 2021.

This has been a controversial area of VAT for a number of years, with the media labelling it the 'tampon tax'. A growing number of protesters had called for its abolition.

VAT and digital publications

Zero-rate VAT will also apply to digital publications of books, newspapers, magazines or academic journals from 1 December 2020.

Unlike the tampon tax, this is not a Brexit-related change. The EU rules in respect of electronic publications were actually relaxed in October 2018 allowing such publications to be treated the same as hard-copy titles.

However, the intended change to the UK rules follows the recent relatively high-profile News Corp case, which saw the electronic versions of *The Sun* and *The Times* newspapers found to be zero-rated.

It also overturns HMRC's recent Revenue and Customs Brief 1 (2020), which suggested it was of the opinion that other digital publications would remain standard-rated following the case.

The new rules should see eBooks, eNewspapers and academic journals having the same VAT treatment as physical copies of the same titles.

Reverse charge VAT in the construction industry

Firms in the construction industry are reminded about the domestic reverse charge, which was initially announced in Budget 2018 and seeks to reduce fraud.

It will be similar to the construction industry scheme and will see contractors accounting for VAT on supplies by their subcontractors when those supplies will be recharged on by the contractor.

The scheme could require firms in this sector to update their accounting systems and could result in an impact to some businesses' cashflow position.

It was scheduled to be introduced in October 2019, but was postponed at the last minute. It will be introduced on 1 October 2020 and may be very important to a number of businesses in this sector.

Agricultural flat-rate scheme

Following a consultation, the Government will introduce new entry and exit rules for the agricultural flat-rate scheme (AFRS) next year.

These changes will kick in from 1 January 2021:

- Businesses can join the AFRS when their annual turnover for farming-related activities is £150,000 or less.
- Businesses must notify HMRC once their annual turnover for farming-related activities exceeds £230,000 to be deregistered for the scheme and registered for VAT instead.
- Non-farming businesses with turnover exceeding £85,000 will still be required to register for VAT and will be ineligible to use the AFRS.

VAT on goods entering the UK

Spring Budget 2020 makes a number of references to bringing goods into the UK.

Firstly, the UK will implement legislation to bring the EU 'quick-fix' legislation into UK law. This will apply during the transition period and for UK purposes, it will mainly relate to 'call-off stock'.

Many of the other EU quick fixes, such as the need to put EU VAT numbers on invoices, already apply.

The rules that apply to 'call-off stock' can be complex but can allow businesses storing goods in other EU member states to avoid the need to register for VAT there. If a business is likely to store goods overseas during the transition period, it will probably require further advice.

The documentation also mentions the concept of postponed accounting, which will come into play after the end of the transitional period.

From 1 January 2021, postponed accounting will apply to all goods coming into the UK, including EU goods. The VAT will be accounted for on a business's VAT return in a similar way to the acquisition tax, which currently applies to EU acquisitions of goods.

Last but not least, there will be two consultations in respect of the VAT treatment of goods.

One will relate to goods supplied to the UK by overseas sellers.

This will be open to interested stakeholders and will consider low-value imports and goods which are located in the UK.

The other will look at tax and duty-free goods.

Partial exemption and capital goods scheme

The Government has been calling for evidence from stakeholders on the application of partial exemption and the capital goods scheme.

Many taxpayers and advisers believe the rules surrounding VAT recovery where a business has both taxable and VAT-exempt activities are complex.

The Government has promised to engage with stakeholders and will publish a response following the call for evidence in due course.

VAT and financial

An industry working group is to be formed to consider the future application of VAT to financial services.

In the meantime, the Government will be legislating in order to widen the scope of the VAT exemption for the management of special investment funds.

VAT

| From 1 April | 2020 | 2019 |
|-----------------------------------|------|------|
| Standard rate | 20% | 20% |
| VAT fraction | 1/6 | 1/6 |
| Reduced rate, eg on domestic fuel | 5% | 5% |
| VAT fraction | 1/21 | 1/21 |

Taxable turnover limits

| From 1 April | 2020 | 2019 |
|------------------------|---------|---------|
| Registration over* | £85,000 | £85,000 |
| Deregistration under** | £83,000 | £83,000 |

* Last 12 months or next 30 days

** Next 12 months



DUTIES

Stamp duty land tax surcharge on non-UK residents

With effect from 1 April 2021, a 2% stamp duty land tax surcharge will apply to non-UK residents purchasing residential property in England and Northern Ireland.

Stamp duty and stamp duty reserve tax

On the transfer of unlisted securities to connected companies, the Government previously introduced a targeted market value rule to prevent artificial reduction of the tax due on share acquisitions when listed shares were transferred to a connected company.

Spring Budget 2020 announced this rule will be extended to unlisted companies in order to prevent further tax avoidance.

As part of this change, legislation will be amended to prevent a double tax charge arising on certain company reorganisations.

Alcohol duties

The duties on alcoholic drinks – beer, cider, wine and spirits – are all being frozen.

Fuel duty

There has been a freeze on fuel duty for the last 10 years, and this continues for at least another year.

Gaming duty

Gross gaming yield bands for gaming duty will increase in line with inflation from 1 April 2020.

Air passenger duty

Long-haul air passenger duty (APD) will increase by the Retail Prices Index (RPI) with effect from 1 April 2021, with short-haul rates remaining frozen at £13.

The rates are announced a year in advance to give industry sufficient advance notice. The rates applying from 1 April 2021 are as follows:

| Destination bands | Reduced rate | Standard rate | Higher rate |
|-------------------|--------------|---------------|-------------|
| Band A | £13 | £26 | £78 |
| Band B | £82 | £180 | £541 |

*APD rates for flights starting from UK airports, excluding Northern Ireland, and the Scottish Highlands and Islands region.

Vehicle excise duty

The government has announced vehicle excise duty (VED) rates for cars, vans and motorcycles will increase in line with the RPI from 1 April 2020.

Starting from 1 April 2020, any zero-emission vehicle with a list price exceeding £40,000 registered from 1 April 2017 to 31 March 2025 will be exempt from the VED 'expensive car' supplement.

Tobacco duty

Most tobacco duties will increase by RPI plus 2% with immediate effect.

The exception is hand-rolling tobacco which will suffer an increase of RPI plus 6%.



OTHER ANNOUNCEMENTS

Plastic packaging tax

A new plastic packaging tax will take effect from 1 April 2022 at a rate of £200 per tonne.

This will apply to plastic packaging produced in, or imported into, the UK that does not contain at least 30% recycled plastic.

The lead time is intended to give those businesses affected time to adapt.

The Government intends to publish draft legislation later this year for consultation, which will address an exemption for producers and importers of small quantities of plastic packaging, as well as how the tax will be collected, recovered and enforced.

Red diesel relief

From April 2022, the Government will remove the entitlement to the use of red diesel and rebated biofuels although exceptions will be in place for agriculture, rail and for non-commercial heating.

There will also be a consultation on whether the exceptions should be widened to include other specific industries.

The measure is aimed at incentivising business to move to greener alternatives.

Small brewers' relief

The Chancellor expects the results of the review into small brewers' relief will be published in the spring.

Aggregates levy

The Government will freeze the aggregates levy rate in 2020/21 and will publish its next steps as part of the comprehensive review of the levy.

Climate change levy

As previously announced, the Government's intention to make gas and electricity rates equal by 2025.

In order for the UK to meet its net-zero commitment, the Government recognises that it must continue to remove incentives to choose gas over electricity.

With this in mind, the rates on electricity are being frozen, while the rate on gas will rise to £0.00568/kWh in 2022/23 to £0.00672/kWh in 2023/24.

Landfill tax

Landfill tax is charged in England and Northern Ireland on material disposed of at a landfill site.

It aims to encourage recycling and composting, and to minimise material going to landfill.

Standard and lower rates are being increased on 1 April 2020 by RPI as follows:

| Material sent to landfill | Rates from 1 April 2019 | Rates from 1 April 2020 |
|---------------------------|-------------------------|-------------------------|
| Standard rated | £91.35/tonne | £94.15/tonne |
| Lower rated | £2.90/tonne | £3.00/tonne |

Housing co-operatives

Two new reliefs were announced:

- Qualifying housing will be exempt from the annual tax on enveloped dwellings (ATED).
- The 15% stamp duty land tax flat rate will not apply to housing co-operatives on purchases of dwellings over £500,000.

The stamp duty land tax 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.



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