Budget 2018 round-up

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Bill Dodwell considers the implications of Budget 2018

Budget 2018 stands out in many ways. It was the first Budget delivered under the new annual fiscal event strategy. It was the first since 1962 to be delivered on a Monday and, at an hour and a quarter, one of the longer recent Budget speeches.

The Chancellor opted for an early Budget, before any agreement had been reached between the EU and the UK on Brexit. This posed challenges for fiscal policy and forecasting; Philip Hammond told the country there would need to be a Spring Budget should there be no Brexit agreement. Despite naysayers, this wouldn't be a change to the single fiscal event policy but rather a recognition of the huge economic importance of reaching an agreement with the UK's largest trading partner.

The Budget arithmetic emphasised that this was a giveaway. Tax measures cost the Exchequer over £5 billion over the next five years, with all of that in the next two years. It was also a spending Budget, with additional spending of over £95 billion in aggregate over the next five years, unfunded by tax increases. The flagship increases in NHS funding and Universal Credit were supported by a considerable number of much smaller spending measures.

The costly tax elements were advancing by a year the Conservative promise to increase the personal allowance to £12,500 and the higher rate threshold (outside Scotland) to £50,000. The fuel duty freeze, i.e. not increasing duty in line with inflation, costs another £800-900 million every year, which is topped up to over £1 billion by freezing some alcohol duties.

For business, the Budget was a mixed bag. The Chancellor chose to stick to the previously-enacted 17% corporation tax rate, which arrives from 1 April 2020. There were new announcements on capital allowances, where the UK traditionally does badly in comparison with international competitors. The new Structures and Buildings allowance took everyone by surprise, as it goes much further than industrial buildings allowances abolished by Gordon Brown. The allowance will be enacted next year but applies to new construction from 29 October 2018. The cash cost is initially modest, as the allowance applies only to new structures and is given at 2% pa. Businesses may be able to take the benefit in their deferred tax accounts, though, as such assets will no longer be excluded from tax relief. There are no balancing adjustments on disposal, with the unamortised balance passing to the buyer. The writing down rate for fixtures drops from 8% to 6%, apparently to be more in line with accounts depreciation, but coincidentally roughly the same as the cost of the Structures allowance. There's an unexpected two-year increase in the Annual Investment Allowance to £1 million (from £200,000). The benefit of this won't go to many businesses, though. Currently only some 8,000 businesses routinely spend more than the current allowance. The costings imply that faster tax relief will be given on £3.8 billion. It's the end of the line for enhanced capital allowances for energy-efficient equipment, which economists have argued simply puts up the cost of such equipment. Whilst it's a good thing to offer tax relief on more business costs, no one can say that the UK's capital allowance regime has been simplified.

Perhaps the biggest item on the business wish list was the reintroduction of tax relief for purchased goodwill and customer-based intangibles. Many respondents to the consultation pointed out that the UK lags behind the rest of Europe, by failing to give tax relief on goodwill and customer-related intangibles. The government's proposal doesn't really respond to the calls for relief, by leaving out customer intangibles for no obviously good reason and limiting goodwill deductions to an amount no greater than other qualifying intangibles acquired in the same transaction. The 4% fixed rate allowance remains – although there is one piece of good news in that relief will be given for degrouping charges on intangibles in the same way as for capital gains assets.

The big costs for business come from the introduction in 2020 of the off-payroll working rules to private sector large and medium-sized businesses. HMRC will also look at improving the employment status checker (CEST). Regrettably, the proposals don't include better appeal rights for workers incorrectly classified by the engager, no doubt on the basis that this would be costly for HMRC to implement. I would suggest that the UK needs a new statutory test of self-employment, as it will never be satisfactory to attempt to apply the case law factors to modern situations.

The £3,000 annual Employment Allowance for national insurance contributions will from April 2020 be limited to employers with an Employer NI charge below £100,000. This brings in about £300 million pa.

The final business tax increase comes from the Digital Services Tax, levied at 2% on the revenues of certain digital businesses. The objective is to increase the overall tax levied on those digital businesses and encourage the United States in particular into agreeing a different split of tax revenues.

The most disappointing aspect of the Budget was the number of measures not consulted on, which have made it into the Finance Bill – likely to be enacted by Christmas.