Meeting a major challenge

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Chancellor Rishi Sunak delivered his first Budget on 11 March in challenging circumstances.

Appointed less than a month earlier, he faced the major challenge of responding economically and financially to the coronavirus pandemic. Without any introductory remarks, he immediately moved into the government’s response, noting that the virus would have a sharp economic impact on the UK, and indeed globally.

Response to coronavirus pandemic

The government's response at the Budget was to offer substantial additional finance to the NHS and improved financial support to individuals and to businesses. For individuals, waiting periods for benefits will be removed so that benefits are paid from the first day of sickness and indeed for a 14 day period of quarantine without symptoms. Businesses will receive 'time to pay' help if needed. Details of the support package are available on the Low Incomes Tax Reform Group website at bit.ly/2WqF8Xr. The Budget support package is expected to cost £12 billion.

Within a week, it was clear that further support for individuals and businesses is needed, as activity in the UK and indeed globally is substantially reduced. On 17 March, the chancellor announced support in the form of guarantees and loans for smaller businesses (up to £5 million, interest free for six months), together with 12 month business rate holidays for those in the retail, hospitality or leisure sector. Smaller businesses in that sector with a rateable value of less than £51,000 will now get a cash grant of up to £25,000. 700,000 of the smallest businesses (those which currently get small business rate relief, in any sector) will get a cash grant of £10,000. This support package is worth £20 billion, on top of the original £12 billion. The chancellor said that he would be working with business and trade unions to 'develop new forms of employment support to help protect people's jobs and incomes'. No doubt support will also be needed for self-employed people – and it's also clear the businesses in all sectors will need more financial support.

As a further response to the pandemic, the government also announced that the extension of the off-payroll working rules to the private sector would be delayed a year. The CIOT has also asked the chancellor to consider deferring the introduction of the 30 day reporting and payment arrangements for capital gains tax on the sale of residential property.

Manifesto changes

The increase in the national insurance threshold for individuals to £9,500 (and £8,788 for employers) had already been announced. The upper earnings limit remains at £50,000.

The announcement of the chancellor's review of entrepreneurs' relief had been well trailed in advance of the Budget, with proponents and opponents making their views clear. The relief was introduced in 2008, as the then Labour government announced the end of the effective 10% capital gains tax rate on business assets. The initial level of the relief was £1 million – and that’s where the relief now returns, after having been increased to £5 million and £10 million by George Osborne. To many, the relief now becomes a retirement relief. There are some quite draconian anti-forestalling provisions worth noting in case of contracts before Budget Day, with the disposal afterwards. The cut in the level of the relief is expected to bring in about £1.5 billion annually and will affect about 45,000 people.

The other well-trailed change is the removal of the reduction in corporation tax to 17%, from 1 April 2020. This was confirmed in the Budget and brings in some £6-7 billion annually. This change will affect the valuation of deferred tax assets and liabilities, once substantively enacted (which means once the Finance Bill has finished the House of Commons stages).

Business tax changes

The structures and buildings allowance was introduced from 29 October 2018, with an annual allowance of 2% for businesses incurring qualifying expenditure on newly constructed or renovated non-residential structures and buildings. The chancellor announced a new rate of relief of 3% per year from 1 or 6 April 2020, not just for new buildings but for existing ones already receiving the allowance. This reduces the time it will take to relieve qualifying expenditure from 50 years to just over 33 years. There will also be technical changes, to ensure that the legislation: allows relief for the first day of qualifying use; allows simplified calculations for all qualifying non-residential structures or buildings; prevents double relief where research and development allowances are available; includes oral construction contracts; and clarifies apportionment of allowances and allowances on contributions towards another person’s costs.

The topic of business rates is raised constantly by retailers. There have been a number of recent reviews, but the chancellor has decided to commission a new one, ideally to report in time for the autumn Budget. This time it will be a ‘fundamental review of business rates with the objective of reducing the overall burden on businesses; improving the current business rates system; and considering more fundamental changes in the medium-to-long term’.

The review will focus on four main areas:

1. Short-term improvements that could be made from April 2021, alongside the forthcoming revaluation including the Transitional Relief Scheme.

2. Medium-term reforms to put the tax on a more sustainable basis. This will include:

- whether a tax on open market rental values remains the best base for commercial property, how such rental values are determined, and how often;
- the effectiveness and operation of different reliefs;
- how to minimise the impact of business rates on investment and growth, including the treatment of plant and machinery;
- how the business rates multiplier(s) should be set; and
- who pays the tax (the owner or the occupier).

3. Administration of business rates, covering the valuation and appeals process, billing and compliance with the tax.

4. Exploring alternatives to business rates, particularly within the taxation of land and property. This last element may consider a land value tax, where the tax is supposed to be based on the best possible use of the land. It is unlikely that any proposal put together so quickly could propose the introduction of a land value tax, as there is no detailed information available on the potential impact of such a tax in the UK.

Unexpectedly, the Budget includes a new proposal on intangible assets. Enhancements to the regime were introduced in Budget 2018, which concluded that there would be no changes to the pre-2002 assets rules. However, from 1 July 2020, companies which acquire assets from related parties will qualify for tax relief under the intangibles regime, whether or not the asset dated back before 2002. The impact note suggests this could benefit 1,000 companies at a cost rising to £185 million by 2024/25. Assets already within the scope of corporation tax before 1 July won’t have their status changed, though.

Employment and pensions changes

After much furore over NHS pension tax charges for higher-paid doctors, the government decided to reduce the impact substantially by increasing the income limits used in calculating a tapered annual allowance. The threshold income, which is broadly net income before tax (excluding pension contributions), is increased from £110,000 to £200,000. Adjusted income, which adds on the pension accrual, is increased from £150,000 to £240,000. At the same time, the minimum tapered annual allowance is decreased from £10,000 to £4,000.This change affects about

250,000 individuals; those earning up to £300,000 will be better off than under the current rules.

At the same time as the restriction on the employment allowance commences, the amount payable is going up to £4,000. The allowance will be paid to employers whose National Insurance liability in the prior year did not exceed £100,000. Apparently, 590,000 businesses have no current National Insurance liability under the current £3,000 allowance. 510,000 businesses will benefit from the additional £1,000 relief, of which 65,000 will have no National Insurance liability.

The Office of Tax Simplification is pleased to see that the government will launch a Call for evidence on pension tax administration, which will look at the different treatment of low-paid individuals contributing to a pension scheme under so-called net pay arrangements and those where the employer uses relief at source. The issue was highlighted in the October 2019 Taxation and Life Events report (see bit.ly/2vxxPlQ). Those earning around or below the level of the personal allowance and saving into a pension may benefit from a top-up on their pension savings equivalent to the basic rate of tax, even if they pay no tax, provided the relief at source method of pension administration is used. The OTS report highlighted that over 1 million workers didn’t receive the top-up, as the net pay arrangement was used. The government has committed to reviewing options for addressing these differences.

Individual tax changes

One out of the blue measure was a large increase in the amount that can be contributed to a Junior ISA. This goes up to £9,000 from the current level of £4,368. Investment advisers AJ Bell pointed out that no one had called for this big increase – and that the average amount contributed to a junior ISA is less than £1,000. The main ISA limits remain unchanged, though,

There’s a small change to top slicing relief, which is intended to reduce the impact of including taxable life assurance gains in an individual’s income, following a recent tribunal case. HMRC’s note says the measure will partially impact around 2,000 of the 45,000 individuals who return gains annually. These individuals will benefit from the reinstatement of personal allowances.

Indirect tax

The government will legislate to apply a zero rate of VAT to e-publications, to make it clear that e-books, e-newspapers, e-magazines and academic e-journals are entitled to the same VAT treatment as their physical counterparts. This change will take effect from 1 December 2020. This issue has been litigated in the EU and domestically; the Upper Tribunal recently held that electronic newspapers were entitled to zero-rating.

Finally, one of the big revenue raisers in the Budget 2020 is the removal of the entitlement to use red diesel (officially, rebated heavy oil) and rebated biofuels from all sectors that currently use it from April 2022, apart from the agriculture (including pisciculture, forestry and horticulture) and rail sectors and for use in non-commercial heating. The government will consult later this year on whether the entitlement to use red diesel and rebated biofuels is justified for any other users, and whether to align the proposed treatment of these rebated fuels with fuel oil and non-aviation kerosene.