

March 2020 Budget Highlights

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A view from the market

Gauging the financial market response to the UK Budget is unusually difficult this year. Ahead of the event, the first budget in almost 18 months, UK equity markets were responding to the latest news on the coronavirus. Towards the end of Rishi Sunak's maiden outing as Chancellor they were being driven lower by US investors' concerns of apparent delays to the announcement of expected fiscal stimulus measures to counter the outbreak in the USA.

Peering through the window between those two global forces, the judgement of financial markets seems to have been largely neutral – the FTSE100 and the more UK-focused FTSE-250 equity indices ended roughly where they had begun when he stood up to deliver the Budget. Despite the undoubted political flourishes, there was little that had not been trailed in one form or another – with the notable exception of the even greater commitment to infrastructure spending: £175bn over 5 years and not the £100bn that had been anticipated.

While the Budget speech was undoubtedly politically astute, it marked a distinct break with the fiscal orthodoxy of recent years including a significant increase in public debt which the OBR estimates will add some £100bn to the national total by 2024. Increasing national debt at a time of national crisis, such as that represented by the coronavirus outbreak, will likely raise few eyebrows. UK gilt yields actually fell back over the announcement having anticipated an even larger issuance; the UK debt management office announced gilt sales of £156.1bn for 2020/21, the highest since 2012/13 but still lower than analyst forecasts of £166bn.

But that leaves questions which may come back to haunt the Government later in its term. If other tax raising measures fail to deliver their expected yield (£4bn+ in anti-tax-avoidance measures?) or the so-called 'Brexit Dividend' (no more contributions after the Divorce Settlement) is delayed or if the coronavirus epidemic spreads more significantly to test Mr. Sunak's open-ended ("whatever it takes") commitment to the NHS, then gilt issuance may have to rise back to levels originally anticipated by the markets, taking gilt yields with them.

As always the devil is in the detail and the balance of this article will look at those details more closely. But this overview ends with one final wrinkle: the Office of Budget Responsibility, charged with making the official and independent forecasts of the UK economy, published its latest outlook this morning ahead of the Budget statement. In it they said that they were, as always, required to submit their forecasts to the Treasury by mid/end February which, on this occasion, meant before they knew of the intended emergency measures to be announced. As a result and in its own words "It is impossible at this point to give a reliable estimate of their fiscal consequences". That uncertainty too could come back to haunt the Government later in its tenure.

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Company Taxation

Tax rates and allowances

The rate of corporation tax will remain at 19% in 2020/21, following the Conservative Party Manifesto pledge to scrap the planned reduction to 17%.

However, the Budget announced an adjustment to the rules for the 8% additional corporation tax surcharge for banks, so that in all cases losses surrendered into a banking company by a non-banking company are disregarded for the purpose of calculating the 8% surcharge. Accordingly, losses surrendered from a non-banking company can only offset a banking company's profits for its mainstream corporation tax calculation (currently 19%), not the 8% additional surcharge.

For a table of the main tax rates and allowances for 2020/2021, see page 22.

Digital services tax

The Digital Services Tax will be introduced from 1 April 2020, despite some prior uncertainty with the appointment of the new Chancellor and the possible impact of the tax's introduction on the negotiation of a UK-US trade deal. The 2% tax on revenues of search engines, social media services and online marketplaces which derive value from UK users is intended to address the perceived misalignment between the place where profits are taxed and where value is created by businesses operating in the digital economy.

The government expects DST to impact a small number of large multinationals and has exempted financial service providers from the online marketplace definition. With the rise of similar unilateral measures in a number of countries including Italy, Austria, Turkey and Spain etc. there is a risk of double taxing the same revenue. To address this, where one of the users is not a UK user but instead a user of a jurisdiction which applies a similar DST in the case of marketplace transactions, the revenues from the transaction will be reduced by 50%. Of course, it is a matter for the other jurisdiction whether they have a similar relieving provision, and no account is taken of transactions involving more than two jurisdictions. Nevertheless, the increased compliance burden associated with familiarising with the new rules, ongoing costs and, most importantly, having the systems in place to extract the revenue referable to UK users will be some of the key concerns businesses will continue to face as DST is implemented.

The impact of this legislation on the Exchequer has been estimated up to 2025, starting from £70 million in 2019/2020, rising to £515 million in 2024/2025. Compared to other recent high profile measures introduced by HMRC such as the Diverted Profits Tax legislation, this will not be the most significant tax revenue generator but is politically important.

Estimating the impact over a five year time frame is also interesting – DST is intended to be an interim measure until international consensus is reached on long-term reform to international corporate tax rules through the G7, G20 and OECD discussions. This is a challenging target. On the one hand, the OECD's revised definition of businesses in scope to explicitly refer to automated digital services which include the categories covered by most unilateral DST measures tries to appease the jurisdictions taking these actions. On the other hand, whilst the OECD's workplan expects to deliver a final report on recommendations this year, the timing of implementation of global measures and the repeal of unilateral actions is uncertain, particularly given the US's views on the subject.

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Review of the UK funds regime

Budget 2020 announced a broad review of the UK funds regime during 2020, covering direct and indirect taxes as well as regulation, with a view to considering the case for policy changes, one would assume to come into effect after the end of the transition period.

In addition to VAT proposals discussed elsewhere, the review begins with a consultation on whether there are changes that could help make the UK a more attractive jurisdiction in which funds could establish asset holding entities. As matters stand, there are tax barriers to the use of onshore UK vehicles as “below the fund” holding entities for credit, real estate and PE funds. The consultation covers a smorgasbord of topics, from an expansion of the UK securitisation company tax regime (the Government seems cool on this aspect) to reforms to the substantial shareholdings exemption and a possible extension of the REIT regime (potentially through a removal of the listing requirement) through to a possible review of withholding taxes on interest and the application of the hybrid mismatch rules to fund structures.

The fact that the Government is reviewing the position is positive, acknowledging as it does that the UK tax regime needs to remain competitive, and indeed that there may be benefits (in light of BEPS, ATAD, economic substance requirements and other developments) for structures to be brought onshore. It should though be remembered that this is only a consultation for now, and as ever, the devil will be in the detail of what emerges in due course.

Overseas fund regime

The brave new post-Brexit world will require a rewriting of the rule book for the marketing of EU-domiciled funds into the UK. As part of Budget 2020, a consultation has been announced on how the more than 8,000 UCITS that are currently passported into the UK (together with certain other funds) can continue to access the UK market from the end of the transition period, when passporting ceases, under the proposed Overseas Fund Regime (OFR). This will cover both retail and money market funds.

Although focussing on the regulatory aspects, the consultation also acknowledges the impact that the OFR will have on relevant areas of tax legislation. For example, as matters stand, relevant passported funds qualify as eligible investments for UK tax wrappers such as Individual Savings Accounts. The expectation is that retail funds recognised under OFR will continue to qualify for inclusion in these wrappers. The consultation does not specifically address VAT, although one might expect that a similar approach may be taken to include such funds within the scope of the UK VAT exemption for management of “special investment funds”, although this will no doubt form part of the review discussed elsewhere.

Maintenance of a stable UK financial services sector despite the current headwinds is key, given the significant contribution made to the UK economy, as acknowledged in the consultation, and no doubt the Government hopes that the proposed OFR will be reciprocated by EU Member States.

Business rates

One of the most contentious tax issues in recent years has been the impact of business rates on the high street. All parties pledged to review or reform business rates in the run up to the 2019 General Election and so it was no surprise to see the Chancellor return to this theme.

Some of the measures are short term in response to the impact of the coronavirus and include the temporary increase in the business rates retail discount to 100% for one year from 1 April 2020, as well as expanding it to include hospitality and leisure businesses. The measures do not, however, benefit the larger retailers, who have borne the brunt of the current business rates system.

However, in the longer term, the Government has announced that it is launching a fundamental review of business rates in autumn 2020.

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Taxation of LLPs

The Government's Budget notices included a rather opaque announcement on the tax treatment of UK limited liability partnerships (LLPs). No draft legislation was published alongside the announcement, but it is intended that the change will have both retrospective and prospective effect.

Having overcome the immediate wave of despair which can arise at the prospect of yet more tinkering with partnership taxation, it is a relief to discover that, on its face, the change is narrow and would not seem to be of wide relevance to the majority of LLPs. The announcement confirms that where an LLP filed a partnership tax return on the basis that it was carrying on a trade or profession with a view to profit, but it subsequently transpires that the LLP is not in fact operating with a view to profit, HMRC is nonetheless able to amend the tax returns of the LLP's members on a basis consistent with the adjustments made to the original partnership tax return. This is presented as a clarificatory non-change which simply affirms how everyone thought LLP taxation worked, but the tone of the announcement is otherwise coy, and no background is provided.

It is safe to assume that a change of this type must have been prompted by something specific. If one were to speculate about the background, it is possible that this could relate to recent suggestions that the deeming provisions which make LLPs (which are by default bodies corporate) transparent for tax purposes might not work as intended in all circumstances, in particular with respect to tax administration. Whilst more may become clear when draft legislation is published, as the announcement itself notes, it seems unlikely that this will have a practical impact on most LLPs.

Corporate capital losses

In an anticipated sequel to the corporate income loss restriction (CILR) comes the corporate capital loss restriction (CCLR). For accounting periods ending on or after 1 April 2020, companies will only be able to set off carried-forward capital losses against up to 50% of their chargeable gains. Aimed at large companies, the objective of the measure is to prevent companies from paying no tax in an accounting period where they realise substantial chargeable gains but can carry forward capital losses to reduce the chargeable gains to nil. The £5 million deductions allowance under the CILR will be shared under the CCLR, meaning that companies with profits of less than £5 million should be unaffected by the measure, which the Government estimates should be 99% of all companies.

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Withdrawal of LIBOR

A major forthcoming change in the banking industry is the withdrawal of LIBOR – which to date has been the main benchmark interest rate used by market participants for floating rates of interest. This is to be replaced by alternative reference rates based on objective actual transactions, instead of subjective judgements of market interest rates. Budget 2020 announced a consultation on the tax implications of this change. At present little detail is available of what issues this consultation will cover, or the timeframe for its launch or response window. But some possible issues include changes to tax legislation which currently makes reference to LIBOR, or the tax implications where securities need to be (or are automatically deemed to be) amended or replaced as a result of the withdrawal of LIBOR.

R&D tax reliefs

The Government has announced that the rate of “above the line” research and development expenditure credits (RDEC) will be increased from 12% to 13% in relation to expenditure incurred on or after 1 April 2020. This is the R&D tax relief which replaced the former “large company” relief in 2013, and which is available to large companies / non-SMEs and SMEs which either have been subcontracted to do R&D work by a large company or have received a grant or subsidy for their R&D project. The stated intention is to boost productivity, promote growth and drive innovation, and the increase certainly won't be unwelcome (especially if challenging economic waters lie ahead).

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As promised in the Conservative Manifesto, it was also announced that the Government will be consulting on extending the scope of R&D tax reliefs to cover expenditure on data and cloud computing. This is aimed at companies whose primary R&D activity is not software-related, but which are using data and cloud computing in other areas of research (including, for example, vaccine development).

Following a 2019 consultation on capping the payable tax credit under the SME R&D tax relief scheme to prevent abuse, the Government has now announced that implementation will be delayed until 1 April 2021 following representations from industry, and that further consultation will take place on the design of the cap.

Rate of Structures and Buildings Allowance

Although only announced in the 2018 Budget, and later introduced in July 2019, this year's Budget included an increase in the rate of Structures and Buildings Allowance, or SBA.

The rate of the SBA currently stands at an annual flat 2% rate of relief on qualifying expenditure, such as construction costs on non-residential commercial structures, incurred on or after 29 October 2018. The newly announced increase will raise this annual rate to 3% per year and will be effective from April 2020. It remains the case that qualifying expenditure must be incurred on construction contracts entered into on or after 29 October 2018. Where the relevant structure is brought into a qualifying non-residential use by a business prior to April 2020 that business will be entitled to claim the annual rate of 2% for days up to the relevant effective date and 3% for days following the relevant effective date. Businesses claiming in respect of structures brought into a qualifying use following the relevant effective date will be entitled to claim the annual rate of 3% from the date that qualifying use begins.

The Government also intend to make various technical changes to the Capital Allowances Act, which are set to be included in the Finance Bill 2020. These include, among other things, prohibiting the double recovery of allowances where both the SBA and R&D allowances apply to the same structure, allowing the SBA to be claimed by a contributor where a structure is first brought into a qualifying use by a public body and allowing the SBA to be claimed for the day on which the structure is brought into a qualifying use, as well as the days following it.

This announcement is likely to have a significant impact for those claiming the SBA. Whilst businesses will need to incur the cost of familiarising their staff with the new rate of relief and updating their systems to account for the change, the increase in the rate will significantly shorten the period of time required to relieve the full amount of the qualifying expenditure on a property. Where a business owns a property from the date it is brought into a qualifying use and continues to hold on to that property, applying the annual 3% rate, the relevant qualifying expenditure will be relieved in 33 and one third years. This is significantly shorter than the 50 years it would take to relieve the relevant qualifying expenditure were the rate of 2% to be applied annually for the life of the property.

Intangible fixed assets

The Government has announced the removal of restrictions currently applicable to pre-2002 intangible fixed assets acquired from related parties. Any such assets acquired on or after 1 July 2020 will now be within the regime for the taxation of intangible assets set out in Part 8 of Corporation Tax Act 2009, bringing the tax treatment of this class of assets into line with intangible fixed assets created after 2002 and pre-2002 intangible fixed assets acquired from unrelated third parties. (At present pre-2002 intangible fixed assets acquired from related parties are either within the capital gains regime or taxed under Part 9 of Corporation Tax Act as IP.)

Anti-avoidance provisions will apply to prevent abuse between related parties and will limit debit relief available under Part 8 by deducting the market value of the asset at the date of acquisition from any costs incurred on acquisition, with relief for remaining costs being available on later realisation.

This is a welcome change which will allow companies to claim relief for older intangible fixed assets that they acquire and simplifies compliance, with a single regime for tax and relief applying for acquisitions after 1 July 2020.

Construction industry scheme

The Construction Industry Scheme (CIS) was introduced to combat tax avoidance in the construction industry through requiring “contractors” to deduct tax at source from payments for construction services to “sub-contractors” which are not appropriately registered with HMRC. The Government is concerned that certain non-compliant sub-contractors are exploiting this anti-avoidance measure through claiming credit for amounts which have not actually been deducted. To counter this abuse, the Finance Bill 2020/21 will contain legislation to reduce or deny a credit for a CIS deduction where the sub-contractor cannot evidence that a deduction has been made.

The Government will also legislate to simplify the rules covering deemed contractors, to clarify the rules on allowable deductions for expenditure on materials, and to expand the scope of the penalty for supplying false information when registering for CIS.

Alongside these legislative changes, the Government will be consulting on how to promote supply chain due diligence, including how to tackle fraud in supply chains.

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Non-residents with UK property income

As legislated for in the Finance Act 2019, on 6 April 2020, non-resident companies with UK property income will come into the charge to UK corporation tax on their UK property income and profits from loan relationships and derivatives to which they are party for the purposes of generating that income.

The Finance Act 2019 contained a myriad of changes dealing with the transition from income tax to corporation tax. In view of the complexity of this transition, the amendments made by the Finance Act 2019 inevitably had some unintended consequences, which the Government intends to address in the Finance Act 2020. These changes include, amongst other things, allowing net financing costs incurred prior to a non-resident company commencing its UK property business being recognised for UK corporation tax purposes when that business commences.

Review of enterprise management incentives

The Government has announced that it will review the EMI scheme to ensure it provides support for high-growth companies to recruit and retain the best talent so they can scale up effectively and examine whether more companies should be able to access the scheme.

Under the EMI scheme, options enjoy favourable tax treatment and are specifically targeted at small, higher-risk trading companies. A number of statutory requirements must be met in order for a company to qualify to grant EMI options. In particular, a company must be an independent trading company with gross assets of no more than £30 million and fewer than the 250 full-time employees, as well as carrying on certain approved categories of business.

Hybrid mismatch rules

UK corporation tax payers have struggled for more than three years with the complexities and idiosyncrasies of the UK's hybrid mismatch legislation. It is widely acknowledged that these rules are burdensome and overreach their aims of combatting mismatches in the tax treatment between different jurisdictions.

The Government will be publishing a consultation seeking to ensure that these rules work proportionately and as intended. Taxpayers, advisers and other stakeholders should take this opportunity to highlight the issues raised by the existing rules.

Extending enhanced capital allowances in Enterprise Zones

Secondary legislation will be introduced to ensure that 100 per cent First Year Allowances (FYA) remain available for expenditure incurred in relation to all designated areas, whenever designated, until at least 31 March 2021. First Year Allowances are available to companies investing in qualifying plant and machinery for use in designated areas within EZs.

Enhanced FYAs were first introduced in 2012 and were extended to apply for 8 years. Since the 8 year period will expire from the introduction of the measure, the Government is taking this step to ensure that the allowances remain available. These changes will have effect from 1 April 2020.

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Income Tax and NICs

Income tax rates and allowances

No changes were announced to the income tax rates so that the basic rate of income tax for 2020/2021 will remain at 20%, the higher rate at 40% and the top (or additional) rate of income tax at 45% for English, Welsh and Northern Irish taxpayers (different rates apply to Scottish taxpayers).

Equally, the main personal allowances were also frozen, remaining at £12,500 for those aged under 65, whilst the higher rate threshold will remain at £50,000 in 2020/2021.

For a table of the main tax rates and allowances for 2020/2021, see page 22.

National insurance contributions

No changes to the rates of national insurance contributions were announced for 2020/21. However, in line with the Conservative Manifesto pledge, the 2020 Budget announced the increase in the NICs threshold from £8,632 to £9,500 from April 2020. Ultimately, the ambition is to raise the threshold to £12,500, in line with the income tax personal allowance.

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Employment allowance

The Budget announced that the maximum Employment Allowance will increase by £1,000 to £4,000 from April 2020. This means eligible businesses and charities will be able to claim a greater reduction on their employer Class 1 NICs liability.

The Employment Allowance was introduced in 2014 at a level of £2,000. It is being reformed from April 2020 so that only employers whose NICs liability in the previous tax year was under £100,000 are eligible. The new measure will support those eligible businesses by providing relief of up to £4,000 on their employer Class 1 NICs liability.

Loan charge

Budget 2020 implements the majority of the Morse Review's recommended changes to the Loan Charge.

The Loan Charge was announced in Budget 2016 as a means to bring historic disguised remuneration into tax. It operated on a long-running avoidance scheme where, rather than paying a salary upon which income tax and NICs were payable, employers paid an employee benefit trust that made limited-recourse loans to taxpayers. The Loan Charge charges the outstanding balance to income tax in the 2019/20 tax year. There was a political backlash – campaigners objected to the fact that HMRC was able to impose the Loan Charge even where they had not opened enquiries into taxpayers' returns, and the amount charged was often considerable. So in September 2019 the Government commissioned Sir Amyas Morse, formerly the Comptroller and Auditor General of the National Audit Office, to conduct an independent review of the Loan Charge. Sir Amyas presented his report, and the Government responded, in December 2019. Changes following Sir Amyas's report include that:

- the Loan Charge has been restricted in scope, applying only to the outstanding balance on loans made between 9 December 2010 and 5 April 2019;

- where taxpayers made a “reasonable disclosure” of loans taken out before the 2015/16 tax year and HMRC failed to take protective action, the Loan Charge will not apply; and
- taxpayers can elect to split their loan balance over the 2018/19, 2019/20 and 2020/21 tax years (particularly beneficial to lower rate taxpayers with relatively modest balances, as this could well reduce the rate, and therefore the overall amount, of the Loan Charge they are liable to pay).

Where taxpayers have made voluntary payments to HMRC that would now not be liable to the Loan Charge, they are expected to be eligible for refunds. (Where an employer has made those payments on an employee’s behalf, the employer will be eligible for the refund.)

The changes look likely to place a significant administrative burden on businesses, as, for taxpayers on PAYE, the interface between HMRC and the taxpayer will be their employer. Payroll departments will need to understand the changes. Employers will need to present their employees’ claims for refunds to HMRC and, if successful, account to the employee for the refunded tax, and may need to make changes to RTI returns already submitted to reflect their employees’ decision to spread their Loan Charge balance over three tax years.

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Tax treatment of welfare counselling

The Government has announced that it will extend the scope of non-taxable counselling services to include related medical treatment, such as cognitive behavioural therapy, when provided to an employee as part of an employer’s welfare counselling services. The change will take effect from April 2020.

Flat rate deduction for homeworking

In the UK, there is a small exemption for an employer contribution to homeworking costs (generally up to £4 per week). The Budget announced that this exemption will be increased to £6 per week with effect from April 2020.

Capital Gains Tax

Tax rates and allowances

The annual exemption for 2020/2021 will increase to £12,300.

No changes were announced to the rates of capital gains tax with the higher rate remaining at 20% and the basic rate at 10%. The former 28% and 18% rates continue to apply to chargeable gains made on the disposals of residential property and the receipt of carried interest, however.

For a table of the main tax rates and allowances for 2020/2021, see page 22.

Entrepreneurs' relief: reduction in lifetime limit

Many predicted that this Budget would result in the abolition of Entrepreneur's Relief (ER) in its entirety, but the Chancellor has instead proposed a pragmatic compromise to the existing rules. By way of reminder, the ER rules allow investors to claim for a lower 10% rate of capital gains tax when they dispose of all or part of their business provided they meet certain qualifying conditions. Prior to Budget Day, the ER rules included a capped "lifetime limit" of £10m. This meant that a taxpayer could no longer benefit from the reduced ER rate of capital gains tax once he or she had claimed ER on more than £10m of qualifying gains. The Budget has slashed that lifetime limit figure to £1m for any qualifying disposals made on or after 11 March 2020.

HMRC had previously faced criticism that it was foregoing large amounts of capital gains tax without receiving a corresponding upturn in entrepreneurial development. The Government notes that although only 17% of taxpayers who claim ER will be affected by this change, those 17% account for 58% of the qualifying gains made under the previous rules. The Government believes that this indicates that ER is being used to shelter gains realised by a small minority of very affluent taxpayers, and ultimately the rules are not incentivising entrepreneurialism as intended.

The Government's stated intention in making this change is therefore to shift the focus so as to encourage only "genuine" risk takers and entrepreneurs. The initial Exchequer impact costings figures ambitiously predict that the Revenue's tax base will be expanded by approximately £1.8bn by 2025 as a result of this change.

The new legislation also includes new rules to counter forestalling arrangements to prevent taxpayers from seeking to 'lock-in' the higher pre-Budget Day lifetime limit with a purpose of obtaining a tax advantage. This would prevent taxpayers from trying to circumvent the new rules by transferring an asset after 11 March 2020 under a contract made before that date. Similarly, the legislation also provides special rules to determine which lifetime limit figure applies where ER is claimed in relation to share-for-share exchanges which took place in the tax year 2019/2020, but prior to 11 March 2020.

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Stamp Duty and SDLT

Rates

The main rates and thresholds for stamp duties and stamp duty land tax (SDLT) on both residential property and non-residential property remain unchanged for 2020/2021. However, the Government has confirmed that it will introduce a 2% surcharge on non-UK residents purchasing residential property in England and Northern Ireland with effect from 1 April 2021. This was a Conservative Manifesto pledge (albeit at a 3% rate).

For a table of the main tax rates and allowances for 2020/2021, see page 22.

Stamp duty and SDRT deemed market value rule

The Government introduced a targeted deemed market value rule in Finance Act 2019 to prevent the reduction of stamp duty or SDRT due on share acquisitions when listed shares are transferred to a connected company for less than their market value. The Government has announced that this rule will be extended to unlisted shares in Finance Bill 2020, though only where there is an issue of shares by way of all or part consideration for the transfer of the unlisted shares.

This is likely to affect certain company reorganisations involving swamping structures, where shares in a valuable UK subsidiary are exchanged for shares of lesser value. The Government has indicated that it will amend the relevant legislation to exclude most share for share exchanges which are part of a partition demerger arrangement from the scope of the new rule.

Non-UK resident SDLT surcharge

Following a previous consultation, the Government has announced that it will introduce a 2% SDLT surcharge on non-UK residents purchasing residential property in England and Northern Ireland from 1 April 2021. This is intended to help control house price inflation and to support UK residents to get onto, and move up, the housing ladder. The money raised from the surcharge will be used to help address rough sleeping.

Housing co-operatives: ATED and SDLT

To make the taxation of housing co-operatives fairer, the Government has announced that it will introduce a relief for qualifying housing co-operatives from the ATED and the 15% flat rate of SDLT on purchases of dwellings over £500,000 by non-natural persons. 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.

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Pensions and investments

Lifetime allowance for pensions

The lifetime allowance for pension savings will increase in line with CPI for 2020/21, rising to £1,073,100.

Annual allowance for pensions

The income levels for the tapered annual allowance will increase by £90,000. Specifically, the 'threshold income' level will increase from £110,000 to £200,000, and the 'adjusted income' level will increase from £150,000 to £240,000.

The minimum level to which the annual allowance can be tapered down to will be decreased by £6,000 (i.e. from £10,000 to £4,000). Therefore, anyone with an 'adjusted income' level of £312,000 or more will be subject to an annual allowance of £4,000.

ISAs

The ISA annual subscription limit for 2020/21 will remain unchanged at £20,000. The annual subscription limit for Junior ISAs and Child Trust Funds for 2020/21 will be increased to £9,000.

Inheritance Tax

Tax rates and allowances

The Government has previously announced that the inheritance tax (IHT) threshold will remain frozen at £325,000 until 2021/2022. The rate remains at 40%.

In April 2017, the Government introduced an additional nil-rate band when a residence is passed on death to a direct descendant. Initially this was set at £100,000, but rises to £175,000 in 2020/21. When added to the IHT threshold of £325,000, it allows each individual to pass on £500,000 with no IHT payable - or £1m per couple. There is a tapered withdrawal of the additional nil-rate band for estates with a net value of more than £2m. This is at a withdrawal rate of £1 for every £2 over this threshold.

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Value Added Tax and indirect taxes

Thresholds

The standard rate of VAT remains at 20%. For a table of the main tax rates and allowances for 2020/2021, see page 22.

The VAT registration and deregistration thresholds will remain at £85,000 and £83,000 respectively from April 2020. In particular, the Government previously announced that, on the basis of the recommendations of the Office of Tax Simplification (OTS) concerning the distortions created by the high registration threshold in the UK, the registration threshold would be frozen for a further two years until April 2022 pending further consideration of the issue.

VAT on financial services

In addition to recognising the (already announced and legislated) broadening of the UK VAT exemption for management of “special investment funds” (SIFs) from 1 April 2020, Budget 2020 announced a review of VAT on fund management fees alongside the establishment of an industry working group to review how financial services are treated for VAT purposes.

The review is an acknowledgement that the UK VAT treatment of financial services, and in particular the scope of relevant exemptions, has developed in piecemeal fashion, largely in response to judgments from the CJEU. It has not kept pace with developments in financial services – for example, is it right that where a retail customer receives portfolio management services direct, this is subject to VAT, whereas if that customer invests via a pooled fund, with fees charged at the fund level, no VAT is due where the fund qualifies as a SIF? How does the use of technology to deliver financial services affect VAT liability? Does the use of an onshore UK investment vehicle by a fund lead to an unnecessary UK VAT cost that would not exist where an offshore vehicle is used?

Until the end of the transition period, the UK is limited by EU law in what it can do, and therefore it may well be the case that even if there are changes agreed, these will not come into effect until post-transition. In the meantime, financial services businesses should keep an eye on what emerges from the working group, given the potential impact on their financial position.

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VAT postponed accounting

From 1 January 2021, postponed accounting for VAT will apply to all imports of goods, including from the EU. The aim of this measure is to help businesses manage administrative costs and VAT cash flow when the UK exits the EU.

In the run up to the end of 2019 and with the prospect of a no deal Brexit and no transition period, the Government published a number of amending Statutory Instruments to make changes to UK VAT law post-Brexit to ensure that it would continue to operate effectively in the event of a hard Brexit. In particular, since “acquisition VAT” on the acquisition of goods from other Member States will be replaced by “import VAT”, provision was made for traders to account for import VAT on a deferred basis on their VAT returns rather than at the point of customs clearance.

Following the entry into force of the Withdrawal Agreement with the EU, the Government announced that this easement had been withdrawn, as it considered that businesses now had sufficient time to prepare for the changes. However, it now seems that these proposals have been replaced by deferred VAT accounting. Affected businesses should review the proposals to ensure that they meet the conditions required to benefit from the easement.

More broadly, the Government has announced that it will also be reviewing its longer term cross-border goods policy and will launch an informal consultation in spring 2020 to review the VAT and excise treatment of goods crossing the border once the UK leaves the EU.

VAT partial exemption

The Finance Act 2016 required the OTS to present routes to simplification of VAT. The interim report from the OTS issued an additional call for evidence in 2017. Simplification of the partial exemption framework and capital goods scheme was a key recommendation of the report issued as a result of that consultation with businesses highlighting significant concerns about the time required to obtain approval of proposed partial exemption methods. HMRC issued a call for evidence regarding the simplification of the rules on partial exemption in July 2019 with the consultation closing in September 2019. The Government has committed to continuing to engage with stakeholders in relation to the issue and to publish a response in due course. In the meantime, businesses may continue to face a significant time-frame to agree partial exemption methods.

VAT and e-publications

The Government has committed to introduce legislation to apply a zero-rate of VAT to e-publications from 1 December 2020, 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 will be welcomed by publishers, newspapers and e-book sellers as it comes after many years of lobbying. The change in rate will have prospective effect, however, a recent VAT Upper Tribunal Decision (*News Corp UK & Ireland Limited v Commissioners for HMRC* [2019] UKUT 0404 (TCC)) effectively ruled that VAT should not have been applied to electronic newspapers retrospectively, as they are in essence the same as a physical publication. Although we expect HMRC to challenge this decision, the Government's move to remove VAT on electronic publications could signal a change in mood. Businesses who have put in a claim for overpaid VAT may be feeling more optimistic of success. The 20% VAT saving should result in a price drop for consumers (just before Christmas, as noted by the Chancellor).

The Government has committed to introduce legislation to apply a zero-rate of VAT to e-publications from 1 December 2020

VAT rules for call off stock arrangements

The Government is legislating to introduce one of the European Council's "quick fixes". Where goods are moved into a Member State on a "call off" arrangement and meet certain conditions, there will be no intra-EU supply at the point when the goods are moved. When the goods are eventually "called off" by the customer, the customer will make an acquisition in the destination State and supplier will make a dispatch in the origin State. This measure will prevent an unnecessary VAT registration by the supplier where for logistics purposes the goods have been moved in advance of the final supply to the end customer. Care must be taken that the conditions are met and that the arrangements are monitored effectively. Where the conditions are not met, businesses should continue to apply the current VAT accounting rules. The measure is retrospectively effective from the 1 January 2020. The position after the transition period will be determined by the outcome of the negotiations on the future economic partnership with the EU.

Import duties

Billed as a technical amendment, the Government announced that it will legislate in Finance Bill 2020 to amend section 15 of the Taxation (Cross-Border Trade) Act 2018 by refining the criteria that determines when the Government may vary the amount of import duty in the context of an international trade dispute. This will allow the Government to vary import duty where it considers this appropriate having regard to relevant international agreements and obligations.

Consultation on duty and tax-free goods

The Government has announced that it intends to review the long-term approach to duty-free and tax-free goods carried by passengers in light of its new relationship with the EU.

A consultation document has been released which sets out a number of policy options, including new opportunities as a result of EU exit. These include:

- the amount of goods that passengers are allowed to bring in to the UK without paying duty and tax;
- the sale of duty-free goods to passengers on departure from the UK;
- the sale of tax-free goods to passengers on departure from the UK; and
- the VAT Retail Export Scheme, which allows certain non-UK residents to obtain a VAT refund on high street goods they buy and take home with them in their luggage.

The personal allowance for bringing non-excise goods into the UK (currently £390, unless the passenger arrives by private plane/boat in which case the allowance is £270), and customs processes for passengers are out of scope of this consultation.

The Government has committed to introduce legislation to apply a zero-rate of VAT to e-publications from 1 December 2020

IPT call for evidence

On 3 June 2019 the Government called for evidence on the operation of Insurance Premium Tax, noting its commitment to ensuring "that Insurance Premium Tax (IPT) continues to operate in a fair and efficient way, modernising the rules as needed to reflect commercial, regulatory, and other wider developments". The call for evidence asked questions about the administrative burden that would flow from a number of hypothetical changes to the operation of the tax. The Government has announced that it intends shortly to publish a response and a consultation document setting out its planned reforms.

Landfill tax (LFT)

The annual increases in the standard and lower rates of LFT continue in line with inflation (based on Retail Prices Index (RPI)) rounded to the nearest 5p. Therefore, the new rates for 2020/21 will be £94.15/tonne (standard) and £3.00/tonne (lower). The Government announced that these increases will continue for 2021/22. LFT is a devolved tax and therefore the increases will not apply in Scotland or Wales. LFT is intended to encourage efforts to minimise the amount of material disposed at landfill and increase the use of non-landfill waste management options. The increase will affect both landfill site operators and users who will see an increase in disposal costs.

Climate change levy (CCL)

As announced in the 2018 Budget, the Government has set the rate of CCL for 2020/21 and 2021/22 which reflects the Government's commitment to rebalance the main rates paid for gas and electricity and meet the UK's net zero commitment.

The electricity rate will be lowered in 2020/21 and 2021/22. The gas rate will increase in 2020/21 and 2021/22 so it reaches 60% of the electricity main rate by 2021/22. Other fuels, such as coal, will continue to align with the gas rate.

In addition, and to ensure better consistency between portable fuels for commercial premises not connected to the gas grid, the Government has also previously announced that it will freeze the CCL main rate for LPG (liquefied petroleum gas) at the 2019/20 level until April 2022. This is to help ensure a better consistency between portable fuel used for commercial premises that are not connected to the national gas grid. Budget 2020 announced that this freeze will continue through 2022/23 and 2023/24.

Carbon Price Support (CPS)

The Government announced that they will extend the rate freeze introduced from 1st April 2016 leaving the CPS rate at £18/tCO₂ for 2020/2021 and 2021/2022. This is intended to encourage decarbonisation of the power sector.

UK Carbon Tax EU ETS Replacement

In line with the Withdrawal Agreement, the UK will remain in the EU Emissions Trading Scheme (EU ETS) until 31 December 2020. As set out in the UK's Approach to Negotiations, the UK would be open to considering a link between any future UK ETS and the EU ETS if it suited both sides' interests. In the event that there is no link agreed between a UK ETS and the EU ETS, the UK intends to introduce an ambitious carbon pricing mechanism from 1 January 2021. The Government is also making preparations to introduce a Carbon Emissions Tax as a possible alternative. This proposed tax will be consulted on in spring 2020.

Aggregates levy

The Government announced that it will continue to freeze the rate of the aggregates levy for 2020/21 at £2/tonne.

The Government announced that it will be publishing a summary of responses to the 2019 comprehensive review of aggregates levy and will put forward its proposals for next steps in relation to the levy at that point.

Plastic packaging tax

Following a consultation in 2019, the Government has confirmed its plans to introduce a new plastic packaging tax (PPT) from April 2022. The measure will apply to plastic packaging (i.e. packaging that is predominately plastic by weight) manufactured in, or imported into, the UK that contains less than 30% recycled plastic. If imported, plastic packaging will be liable to PPT regardless of whether such packaging is filled or unfilled.

Finance Bill 2020 will introduce legislation to enable HMRC to prepare for the introduction of the new tax, with draft legislation on the key components of the tax also due to be published for consultation in Finance Bill 2020.

The PPT is intended to "tackle the scourge of plastic waste" and may deter businesses from manufacturing plastic packaging with non-recycled plastic. This should, in turn, create a higher demand for recycled plastic and result in increased levels of recycling of plastic waste.

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One key feature of the PPT will see businesses paying £200 per tonne on packaging made using less than 30% recycled plastic. However, producers and importers of small amounts of plastic packaging will be exempt from liability to the tax. The draft legislation will also go into further detail on: the scope of the tax by reference to the type of taxable product and recycled content; who will be liable to pay the tax and, as a result, be required to register with HMRC; and how HMRC will collect, recover and enforce the tax.

The impact of the PPT on UK manufacturers and importers of plastic packaging will be one-off costs associated with familiarisation with the rules, training of staff, HMRC registration requirements and developing an internal reporting framework to complete the necessary tax returns. The overall impact on affected businesses will largely depend on the way in which the tax is designed and implemented but will be significant. Consumers will not be impacted by the PPT unless businesses pass on the tax charge (albeit this will be small as plastic packaging only constitutes a small fraction of the total cost of goods).

There will be both civil and criminal penalties for failing to comply with the tax, including penalties for failure to register with HMRC, file returns or pay the tax.

The Government has launched a further consultation on the detailed design and implementation of the PPT alongside Budget 2020. Stakeholders now have until 20 May 2020 to respond to the consultation.

Tax Administration

Large business notification

From April 2021, large businesses will be required to notify HMRC when they take a tax filing position that HMRC is likely to challenge. It is said that the policy will draw on international accounting standards which many large businesses already follow.

This is presumably a reference to the situation where an entity, when facing uncertainty as to a particular tax treatment under IAS12, must consider whether it is probable or not that the relevant tax authority will accept its filing position. If the entity concludes that it is probable that the tax authority will accept the filing position, it should determine its taxable profits in accordance with the filing position. If the entity concludes that it is not probable that the tax authority will accept the filing position, it should use the most likely amount or expected value of the tax treatment to determine its taxable profits. In the latter situation the entity will presumably also be required from April 2021 to notify HMRC that it considers that HMRC is likely to challenge the filing position.

Tackling promoters of tax avoidance

The Government's response to Sir Amyas Morse's review into the Loan Charge noted that it is "not acceptable for promoters to market... tax avoidance schemes which do not work and deprive the Exchequer of tax that is owed" and promised further measures designed to prevent the marketing of avoidance schemes. Further detail was promised in Budget 2020.

No draft legislation appears to have been published (it may be that it will be included with the broader implementation of Sir Amyas's proposals), but the Government has now indicated what the substance will be. Highlights include strengthening HMRC's information-gathering powers; enhancing the penalty regime to ensure that promoters of avoidance schemes that fail are liable to a penalty equivalent to 100% of their fees; strengthening the Promoters of Tax Avoidance Scheme (POTAS) regime, which contains a broad suite of powers designed specifically to target scheme promoters; and making changes to the General Anti-Abuse Rule (GAAR) that are aimed at preventing the use of partnership structures in tax avoidance.

There is an obvious delicate balance between, on the one hand, giving HMRC the tools it needs to tackle marketed tax avoidance schemes, and on the other, intruding into perfectly legitimate tax structuring. We will be paying particularly close attention to any proposed expansion of the GAAR.

Tax conditionality

Tax conditionality was first announced as a principle for tackling tax losses in the hidden economy by requiring those who need licences to operate to demonstrate that they are properly registered for tax in Autumn Budget 2017. A consultation followed “Tackling the hidden economy: public sector licensing” which considered ways in which new tax-registration checks could be administered for those applying for licences to operate in the following sectors: private security, taxi and private hire vehicles, waste management, houses in multiple occupation and selective licencing in the private rental sector, scrap metal and retail and trade.

The consultation closed in March 2018 and a summary of responses was published in November 2018, around the time of the last autumn Budget.

Today’s Budget announcement included confirmation that the Government will legislate to make the renewal of licences to: drive taxis or private hire vehicles; operate private hire vehicle firms; and deal in scrap metal conditional on applicants completing checks that they are appropriately registered for tax. The changes will take effect from April 2022. It is not clear at this stage how HMRC will determine which tax registrations are relevant for the purpose of the new rules. It was also announced that a further discussion document seeking views on the wider application of tax conditionality will be published in spring 2020.

These are interesting steps, though as the Low Incomes Tax Reform Group (LITRG) pointed out in its responses to the 2018 consultation, the measures will not affect those that operate illegally without the appropriate licences or indeed ensure that those who are registered are actually compliant.

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Other compliance measures

The Government has announced that it is investing in additional compliance officers and new technology for HMRC. An HM Treasury internal estimate based on HMRC data suggests that the investment will bring in £4.4bn of additional tax revenue up to 2024/25 by enabling HMRC to further reduce the tax gap through additional compliance activity and expanding debt collection capabilities.

The Government will also publish a call for evidence in spring 2020 on raising standards for tax advice. It is said that the process will seek evidence about providers of tax advice, current standards upheld by tax advisers, and the effectiveness of the Government’s efforts to support those standards, in order to give taxpayers more assurance that the advice they are receiving is reliable. Although in practice most tax advisers will be members of one of the accountancy bodies, the CIOT or be practising as solicitors or barristers, the measure appears to acknowledge that one can practice as a tax adviser without necessarily belonging to any professional body, and the Government is clearly concerned that there are some advisers out there whose standards fall short of what the Government expects. The Government will be consulting ‘shortly’ on the proposed process.

Protecting taxes in insolvency

The Government will introduce legislation in Finance Bill 2020 amending current insolvency legislation in order to change the order of distribution for assets from insolvent companies to move HMRC up the creditor hierarchy. This will ensure that HMRC has greater priority to recover taxes paid by employees and customers which businesses collect and hold temporarily before passing them on to the Government. These taxes include VAT, PAYE, employee NICs, student loan deductions and CIS deductions.

HMRC will become a secondary preferential creditor in respect of these taxes, ranking behind certain secured creditors (holders of fixed charges) and insolvency practitioners, but ahead of other secured creditors (holders of floating charges), unsecured creditors and shareholders. The rules will remain unchanged for taxes owed by the businesses themselves, such as corporation tax and employer NICs (in respect of which HMRC will continue to be ranked with other unsecured creditors).

This change will ensure that when businesses go insolvent more of the taxes paid in good faith by their employees and customers will go to fund public services as intended (rather than being distributed to creditors other than HMRC).

The implementation date of the measure will be 1 December 2020.

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HM REVENUE & CUSTOMS TAX RATES AND ALLOWANCES FOR 2020/21

Income tax allowances	2019/20 (£)	2020/21 (£)
Personal allowance	12,500	12,500
Higher rate threshold	50,000	50,000
Income limit for personal allowance ¹	100,000	100,000
Transferrable marriage allowance ²	1,250	1,250
Blind person's allowance	2,450	2,500

- (1) The individual's personal allowance is reduced where their income is above this limit. The allowance is reduced by £1 for every £2 above the limit.
- (2) The marriage allowance cannot be transferred to a recipient spouse liable to income tax at the higher or additional rate.

Other allowances/thresholds	2019/20 (£)	2020/21 (£)
Capital gains tax annual exempt amount for individuals etc.	12,000	12,300
Inheritance tax threshold	325,000	325,000

Income tax bands	2019/20 (£)	2020/21 (£)
Starting savings rate 0% ³	5,000	£5,000
Basic rate 20%	1 – 37,500	1 – 37,500
Higher rate 40%	37,501 - 150,000	37,501 - 150,000
Additional rate 45%	Over £150,000	Over £150,000

- (3) If non-savings taxable income exceeds the starting rate limit, the starting savings rate will not apply to savings income.

Corporation tax profits			
Main rate	2019/20 (£)	Main rate	2020/21 (£)
19%	Whole of profits	19%	Whole of profits

Stamp duty land tax				
Rate	Residential ^{5 6 8}		Non-residential or mixed use property	
	2019/20 (£)	2020/21 (£)	2019/20 (£)	2020/21 (£)
Total value of consideration				
0%	0 – 125,000	0 – 125,000	0 - 150,000	0 - 150,000
2%	125,001 – 250,000	125,001 – 250,000	150,001 - 250,000	150,001 - 250,000
5%	250,001 – 925,000	250,001 – 925,000	Over 250,000	Over 250,000
10%	925,001 – 1,500,000	925,001 – 1,500,000	N/A	N/A
12%	Over 1,500,000	Over 1,500,000	N/A	N/A
15% ⁷	Over 500,000	Over 500,000	N/A	N/A

- (5) Stamp duty land tax is charged at a rate of 3% above the current stamp duty land tax residential rates from 01 April 2016 on purchases by individuals of additional residential properties (such as second homes and buy-to-let properties), and by non-natural persons (companies, partnerships including companies or collective investment schemes) of a residential property, even if they do not own another residential property.
- (6) For purchases by first-time buyers of property worth £500,000 or less from 22 November 2017, the stamp duty land tax rate for a property valued £0 – 300,000 is 0% and for a property valued £300,001 – 500,000 is 0% on the consideration up to £300,000 and 5% on the remainder.
- (7) The 15% rate applies to certain acquisitions of residential property by “non-natural persons” (a company, a partnership including a company or a collective investment scheme).
- (8) A 2% surcharge will take effect from 01 April 2021 on non-UK residents purchasing residential property in England and Northern Ireland.

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