

Tax Briefing



Budget 2018

Achorus

accounting

Sound business advice

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Entrepreneurs' relief curtailed

When you sell a business or shares in your personal company, the gain made on that disposal will normally qualify for entrepreneurs' relief which applies capital gains tax (CGT) at 10%. Up to £10m of gains can qualify for this relief in your lifetime.

For a company to qualify as your personal company you must hold at least 5% of the ordinary share capital and 5% of the associated voting rights. For disposals made from 29 October 2018 you must also

have a right to 5% of the net assets of the company and to 5% of its distributable profits. These additional conditions may prevent managers involved in management buyouts from qualifying for entrepreneurs' relief, although most owner-directors should not be affected.

Currently all the conditions for entrepreneurs' relief must be met for at least one year ending with the date of sale, or if the business has ceased, to the last day of trading. From 6



April 2019 all of the qualifying conditions must be met for at least two years ending with the date of disposal or cessation of trading.

If the business ceased trading before 29 October 2018, the one-year qualifying period will still apply to the gains arising from the shares or assets disposed of after cessation.

Tax exemption for homes clipped

When you sell your only or main home, you expect any gain you make to be free of CGT. But that CGT exemption only applies if you have occupied the property as your main home for the entire period of your ownership.

If you move out of your home before it is sold, the gain accruing for the final period when you were not living there would be subject to CGT. However, the tax rules allow up to 18 months of the final ownership period to be CGT exempt even if you were not living in the property.

HMRC is proposing to cut this final exempt period to nine months for properties sold from 6 April 2020. If the owner, or their spouse, is disabled or has moved into a residential care home, the final exempt period is extended to 36 months.

If you let out a property which had been your main home at some point, you can claim letting relief to reduce the taxable capital gain by up to £40,000. Letting relief is capped at the amount of relief due for the time (usually a different period) in which you



occupied the property as your main home.

HMRC wants to restrict letting relief to cover only periods in which the owner occupied the property while part of it was let. Homeowners who move and then let out their former home will be hit by this change in CGT relief, which is due to take effect for properties sold on or after 6 April 2020.

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Tax cuts and cliff edges

There was good news for individual taxpayers in the Budget; the personal allowance will rise from £11,850 to £12,500 on 6 April 2019. This will provide taxpayers on the basic rate (20%) with an income tax saving of £130 per year.

Those who pay tax at higher rates will also rejoice that the 40% band will effectively start at income over £50,000 for 2019-20.

This will not apply to taxpayers in Scotland as they pay tax on earnings and profits at different rates and bands than apply in the rest of the UK. The Scottish tax rates for 2019-20 are due to be announced on 12 December 2018.

Welsh taxpayers will pay Welsh income tax from 6 April 2019, but the Welsh tax rates and bands have initially been set to align with those in England and Northern Ireland. Welsh taxpayers should soon receive PAYE codes with a pre-fix "C" (Cymru).



If your total income is £50,000 or more and your family receives child benefit, you should inform HMRC that you need to pay the high income child benefit charge (HICBC) to repay some or all of that benefit. All the child benefit is clawed-back for income levels over £60,000. The HICBC is collected through the tax return of the highest earner in the family, or through their PAYE code, irrespective of who actually receives the child benefit.

This charge could make your marginal tax rate including national insurance, jump from 32% to 62% at £50,000 from 6 April 2019.

Rollout of IR35 rules postponed

Where an individual works through his or her own personal company to provide services, such as IT consultancy, that company must abide by the "IR35" rules, which HMRC calls "off-payroll working".

IR35 requires the individual to check whether he would be treated as an employee of his customer, if his personal company and any other intermediaries did not exist in the supply chain. If the relationship with the customer is effective employment, the income from the contract should be treated by the personal company as the individual's salary, subject to PAYE and NIC.

For contracts in the public sector the final customer (the public body) makes the decision about the IR35 status of the contractor. Where IR35 applies the fee-payer in the supply chain should deduct income tax under PAYE and employees' NIC at 12% from the amount invoiced by the personal company. Some public bodies have also incorrectly deducted employer's NIC at 13.8% from the invoiced amount.

HMRC is convinced that many small companies in the private sector do not follow the IR35 rules to the letter, as by remaining outside of IR35 the individual retains more income from his company. HMRC has proposed that large businesses

in the private sector should make the IR35 status decision on behalf of their contractors.

This switch will apply from 6 April 2020, but only where the final customer is a medium-sized or large business. If you contract through your own company, you should start planning for this change now.



New capital allowances

The government wants to encourage businesses to invest in plant and equipment to help them grow their operations and operate more efficiently. Where the cost of those items qualifies for the annual investment allowance (AIA), 100% of the expenditure is set against profits in the year of

purchase, so the business gets an immediate benefit. The AIA is currently capped at £200,000 per company or group. However, the cap will be raised to £1 million per year for equipment purchased in 2019 and 2020. When investment is made in buildings, the cost cannot be

set against business profits, as there are no capital allowances available for commercial buildings other than those used for R&D.

The Chancellor has bridged that gap by introducing a new structures and buildings allowance (SBA) to apply to

the cost of constructing non-residential buildings on and after 29 October 2018. The allowance will allow 2% of the building's cost (excluding land) to be deducted each year.

If the building is sold during its 50 year "tax life", the unclaimed allowance will be available to the purchaser. The cost of the building's fittings and integral features

(such as lifts) can be claimed as part of the AIA, up to that annual limit. Any excess expenditure must be claimed through the special rate pool which currently provides an 8% allowance. This special rate allowance will be cut to 6% from 1 April 2019.

The 100% capital allowances for expenditure on energy or water efficient equipment will

cease from 1 April 2020. However, the 100% allowance for electric vehicle charging points will apply for costs incurred up to 31 March 2023.



Relief for first-time buyers

Stamp duty land tax (SDLT) is payable at rates ranging from 2% to 12% when you buy a residential property for £125,000 or more. Higher rates apply to the purchase of second homes and property acquisitions by companies.

If a residential property worth up to £500,000 is purchased by one or more first-time buyers, the first £300,000 of the purchase price is exempt from SDLT. This exemption applies for property purchases completed on and after 22 November 2017.

Many younger people buy their first home through a shared ownership scheme. In such cases the buyer can choose whether to pay SDLT on the



entire market value of the property or only on the share of the property they have acquired. If they elected to pay the tax on the full market value they could claim the exemption from SDLT, otherwise the exemption for first-time buyers did not apply.

The law will be changed to allow the exemption for first-time buyers to apply even

where they elect to pay SDLT only on the initial share acquired, as long as the market value of the whole property is no more than £500,000.

This change in the rules will be back-dated to cover acquisitions completed on and after 22 November 2017.

Where excess SDLT has been paid since November 2017 it can be reclaimed by amending the SDLT return before 28 October 2019.

Scotland and Wales impose their own versions of SDLT for properties located in those countries.

Business rates

High street shops and restaurants feel the burden of business rates acutely, as the tax does not reduce if their profits fall.

The Chancellor announced some help for businesses who operate from retail premises with a rateable value of up to £51,000. Their business rates bills will be cut by one third for the two years from 1 April 2019. Local newspapers will also continue to enjoy a £1,500 per year business rates discount on their offices in 2019-20.

Business rates are payable by owners of self-catering and holiday accommodation instead

of council tax, which is paid by individuals on residential property. In some instances the business rates charged are lower than the council tax would be for the same property, as small businesses can claim a number of discounts.

To qualify as a small business for business rates the holiday accommodation does not have to be let for any minimum period. This contrasts with the rules for furnished holiday lettings for income tax, which require the property to be actually let for at least 105 days a year to achieve the favourable income tax treatment.



Thus, a property which is held-out as a holiday letting but does not generate much income will benefit from registering as a business, even if it does not qualify as a furnished holiday letting for income tax. The government will consult on how to ensure that only genuine businesses pay business rates rather than council tax.

Making tax digital and VAT

There were rumours before the Budget that the VAT registration threshold would be reduced, but the Chancellor has committed to hold it at £85,000 until April 2022. This will provide some certainty to businesses who need to know whether and when they must comply with the Making Tax Digital (MTD) rules.

Currently only VAT registered businesses with annual turnover above the registration threshold have to sign up to submit VAT returns under the new MTD procedures. This will apply to most businesses for

VAT periods starting on and after 1 April 2019. However, a number of complex businesses, such as corporate groups and overseas businesses, have had their start date for MTD for VAT deferred until VAT periods beginning on and after 1 October 2019. If your business uses the annual accounting scheme for VAT you will also enjoy a deferral of MTD.

The MTD for VAT pilot is now open to single companies and sole traders but there are many businesses who can't sign up to the pilot yet. When



your business is eligible to join the MTD for VAT pilot you should receive a letter from HMRC inviting you to join. The first of these letters are being sent out this month.

We can help you sign up to submit VAT returns under MTD but first you will have to activate your business tax account on gov.uk. If you have not used your business tax account yet we can talk you through the procedure.

Tax Data 2019-20

All figures are annual amounts

Allowances

Personal allowance	£12,500
Allowance withdrawn from	£100,000
Transferable marriage allowance	£1,250
Trading income	£1,000
Property income	£1,000
Rent-a-room	£7,500

Tax on earnings

Earnings to £37,500	20%
£37,501 to £150,000	40%
Over £150,000	45%
Thresholds and rates for Scottish taxpayers	TBA

Tax on interest

First £5,000	0%
20% taxpayers	£1,000 @ 0%
40% taxpayers	£500 @ 0%
Balance taxed at marginal rates	

Tax on dividends:

First £2,000	0%
Balance in band to £37,500	7.5%
£37,501 to £150,000	32.5%
above £150,000	38.1%

National Insurance

<i>Class 1 employers</i>	13.8% over £8,632
Under 21 (apprentices 25)	0% to £50,000
<i>Class 1 employees</i>	12% on £8,632 to £50,000;
	2% above £50,000
<i>Class 4 self-employed</i>	9% on £8,632 to £50,000;
	2% on profits above £50,000
<i>Class 2 self-employed</i>	£156
Voluntary if profits under	£6,365
<i>Class 3 voluntary</i>	£780

Employment Allowance

Set against employer's class 1 NIC	£3,000
(Not available for one-person companies)	

Inheritance Tax

Nil rate band	£325,000
Residence nil rate band	£150,000
Excess taxed at	40%
Where 10% left to charity	36%

Pension Contributions

No earnings	£3,600 gross
Otherwise	100% of earnings

Annual contribution caps:

No pension taken	£40,000
Some pension taken	£4,000
Adjusted income over £150,000:	
annual cap tapered to	£10,000
Lifetime pension fund cap	£1,055,000

Capital Gains Tax

Within basic tax rate	10%
Higher tax bands	20%
Surcharge for residential property	
and carried interest	8%
Entrepreneurs' relief	10%
Investors' relief	10%
Annual exemption	£12,000

Corporation Tax

All profits	19%
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VAT

Registration turnover	£85,000
Deregistration turnover	£83,000
Standard rate	20%
Reduced rate	5%