Initial highlights of today's budget - Click here to view online

Building a better working world

BUDGET 2020

Today's Budget: initial highlights

What approach did the Chancellor take?

The Chancellor presented the new Government's first Budget as seeking to provide ‘security today’ and ‘prosperity tomorrow’.

He addressed the nature of the economic challenge posed by the COVID-19 outbreak and set out his overall strategy for what he recognised was likely to be a temporary disruption that will nonetheless have a significant impact on the UK economy. He announced extraordinary measures representing £7bn to support the self-employed, businesses and vulnerable people which is on top of a £5bn emergency response fund.

Those measures are on top of plans to provide an additional fiscal loosening of £18bn to support the economy this year.

The March Budget will be followed by a Spending Review (to be concluded in July) and another Budget, probably in November.

What were the highlights?

We will be publishing our full Budget alert tomorrow. However, some of the initial highlights announced today include:

Coronavirus measures

To support businesses, the Government is proposing the following measures:

Statutory Sick Pay (SSP): Allowing small and medium-sized businesses and employers to reclaim SSP paid for sickness absence due to COVID-19. This refund will cover up to two weeks' SSP per eligible employee who has been off work because of COVID-19. Employers with fewer than 250 employees will be eligible – the size of an employer will be determined by the number of people they employed as of 28 February 2020.

Business rates: The Government will increase the business rates retail discount to 100% for one year and expand it more widely to the leisure and hospitality sectors as well as increasing the planned rates discount for pubs to £5,000. There will also be funding for a one-off grant of £3,000 to around 700,000 business currently eligible for Small Business Rates Relief or Rural Rate Relief.

Bank loans: A new temporary Coronavirus Business Interruption Loan Scheme, delivered by the British Business Bank, will launch in a matter of weeks to support businesses to access bank lending and overdrafts.

Time to Pay: All businesses and self-employed people in financial distress, and with outstanding tax liabilities, may be eligible to receive support with their tax affairs through HMRC's Time To Pay service. These arrangements are agreed on a case-by-case basis and are tailored to individual circumstances and liabilities. There is now a dedicated HMRC COVID-19 helpline for advice and support.

Supporting future prosperity

Tax rates: No changes were announced to the income tax rates and it was confirmed that the personal allowance and the higher rate threshold would both remain unchanged (£12,500 and £50,000). There are no changes to capital gains tax rates, but the capital gains tax annual exempt amount was increased to £12,300 for individuals and personal representatives and £6,150 for trustees of settlements.

The Government has laid legislation before Parliament setting out the National Insurance thresholds for 2020-21. The level at which taxpayers start to pay National Insurance Contributions will rise to £9,500 per year for both employed and self-employed people. All the other thresholds for 2020-21 will rise with inflation, except for the upper National Insurance thresholds which will remain frozen at £50,000.

It was confirmed that the rate of corporation tax will remain at 19% from 1 April 2020. This measure (cancelling the enacted cut to 17%) will be made under a Budget resolution which has statutory effect under the provisions of the Provisional Collection of Taxes Act 1968. As such, it is substantively enacted for UK GAAP and IFRS on the passing of the resolution, though it will not be enacted for the purpose of US GAAP until Royal Assent. The rate will also stay at 19% for the following year.

As previously announced, no change will be made to the VAT registration threshold.

Business taxes

Taxation of the digital economy: The Government has confirmed it will introduce a Digital Services Tax (DST) in the UK from April 2020. It will continue to participate in discussions on future reforms to the international corporate tax framework and will dis-apply the DST if an appropriate international solution is put in place. The DST will be set at 2% and apply to businesses that provide a social media service, search engine or an online marketplace to UK users. These businesses will be liable to DST when the group's worldwide revenues from these digital activities are more than £500mn and more than £25mn of these revenues are derived from UK users.

Capital allowances: The rate of the structures and buildings allowance (SBA) will be increased from 2% to 3% with effect from April 2020. The allowance provides relief for eligible construction costs for new non-residential structures and buildings incurred on or after 29 October 2018 and is given on a straight-line basis.

There are also technical changes which have effect from 11 March 2020 which are intended to prevent double relief when research and development allowances were available, clarify the rules for allowances on contributions to public bodies, allow relief for the first day that a structure or building comes into use, apportion expenditure for which an allowance can be made and other expenditure on a just and reasonable basis, extend aggregation of expenditure to simplify allowance calculations for persons not within the charge to tax and include oral construction contracts within the allowance statement.

Research and development: The rate of research and development expenditure credit will rise from 12% to 13% from April 2020.

The Government will consult on whether expenditure on data and cloud computing should qualify for R&D tax credits. However, it will delay the implementation of the PAYE cap on the payable tax credit in the SME R&D scheme until 1 April 2021 and will consult further on change to the cap's design.

Large business notification: From April 2021 large businesses will be required to notify HMRC when they take a tax position which HMRC is likely to challenge. This policy will draw on international accounting standards. The Government will consult shortly on the detail of the notification process.

Intangible Fixed Assets: Legislation will be introduced in Finance Bill 2020 so that for intangible assets not within the charge to corporation tax prior to acquisition, there will be no need to consider whether the intangible asset is a ‘pre-Finance Act 2002’ asset. However, the tax treatment for pre-Finance Act 2002 assets already within the charge to corporation tax prior to 1 July 2020 will be preserved.

Certain transitional rules may apply from 11 March 2020. Transitional rules will also be introduced to counter avoidance between related parties where a pre-FA 2002 asset is acquired from a related party on or after 1 July 2020 (including a licence in respect of a pre-FA 2002 asset). Finally, the transitional related party rules will be extended to include related party acquisitions of assets from a person who is not a company in relation to assets created before 1 April 2002.

Hybrid mismatch arrangements: We understand a consultation on the corporation tax rules that apply to hybrid mismatch arrangements will be published on 19 March 2020, alongside the Finance Bill. It seems that the consultation will look at the way the rules work in particular the 'double deduction' rules, the 'acting together' definition and whether it is appropriate in all cases for hybrid counteractions to arise in respect of tax-exempt entities holding interests in hybrid payees which they see as opaque, but which the UK sees as transparent.

Corporate capital loss restriction: The Government will go ahead with introducing a new corporate capital loss restriction that will restrict the use of carried-forward capital losses to 50% of the amount of annual capital gains. This will have effect from April 2020 and the amount of the annual deductions allowance, covering capital or income losses, will remain as £5mn. It is expected that the design features that were set out in the previous draft legislation will be retained. These include the particular provisions governing the interaction with the BLAGAB rules as well as the Oil and Gas ring-fence and the REIT Property Rental Business ring-fence. There will be an anti-avoidance provision as well as the legislation of the anti-forestalling provision introduced on 29 October 2018.

Surcharge on banking companies: Draft legislation has been published to introduce a new adjustment to profits for the purpose of the surcharge which applies to banking companies, including building societies, within the charge to UK corporation tax. Currently the effect of elections to transfer allowable losses from a non-banking company to a bank is disregarded where they are used to reduce future chargeable gains. The amendment extends this disregard to transfers of such allowable losses used to reduce in-year chargeable gains. The amendment has effect for allowable losses deducted from chargeable gains accruing on or after 11 March 2020.

Economic crime levy: The Government intends to introduce a levy to be paid by firms subject to the Money Laundering Regulations to help fund new Government action to tackle money laundering and ensure delivery of the reforms committed to in the Economic Crime Plan. The Government will publish a consultation on the levy later this spring.

UK funds regime: A consultation has been launched to explore whether changes to the tax treatment of companies used by funds to hold assets could make the UK a more attractive location for these companies. This is an initial component of a wider review of the UK's funds regime, which the Government will undertake during 2020. The wider review will cover direct and indirect tax, as well as relevant areas of regulation with a view to considering the case for targeted policy changes. It will also consider the VAT treatment of fund management fees and other aspects of the UK's funds regime.

Employment taxes

Off-payroll rules in the private sector: The Government has reiterated that it is making a number of changes to support the implementation of the new off-payroll rules. It confirms that the reform will be legislated in Finance Bill 2020 and implemented on 6 April 2020.

Tackling Construction Industry Scheme (CIS) abuse: The Government will introduce legislation in Finance Bill 2020-21 to prevent non-compliant businesses from using the CIS to claim tax refunds to which they are not entitled. The measure will allow HMRC to reduce or deny the CIS credit claimed on employer returns where the sub-contractor cannot evidence the deductions and does not correct their return when asked. It will also simplify the rules covering deemed contractors, clarify the rules on allowable deductions for expenditure on materials, and expand the scope of the penalty for supplying false information when registering for the CIS. The Government will also publish a consultation on how to promote supply chain due diligence, including ideas for tackling fraud in supply chains.

Other employment tax changes: The Chancellor announced a new national insurance holiday from April 2021 for employers employing veterans in their first year of civilian employment and confirmed the rise in the employment allowance from £3,000 a year to £4,000 a year.

Personal taxes

Entrepreneurs' relief: The Chancellor indicated that he has finished his review of this relief and has decided not to abolish the relief entirely but to reduce the entrepreneurs' lifetime limit to £1mn. This will apply to qualifying disposals made on or after 11 March 2020. There are special provisions for disposals entered into before 11 March 2020 that have not been completed, and in relation to certain entrepreneurs' relief elections following an exchange of shares for those in another company.

Pension tax relief: Against a background of addressing pension issues for senior NHS staff, the Chancellor has announced an increase in the threshold income and adjusted income for the purpose of calculating the tapered annual allowance. Individuals with a threshold income of below £200,000 or adjusted income below £240,000 will not be affected by the tapered annual allowance. For individuals who continue to be affected by the tapered annual allowance, the minimum tapered annual allowance will be reduced to £4,000 (currently £10,000) in line with the money purchase allowance.

The lifetime allowance for pensions will increase in line with CPI, rising to £1,073,100 for the tax year 2020-21.

The Government will shortly publish a call for evidence on pension administration and the availability of tax credits for pension savers earning around or below the level of the personal allowance.

Changes to Top Slicing Relief (TSR) on life insurance policy gains: Following a recent tax case there will be technical changes to the calculation of top slicing relief designed effectively to spread the taxable gain arising on a life insurance policy over the number of years it has arisen, for the purpose of calculating the rate of tax payable. This will be advantageous for those taxpayers whose gain is large enough to remove their personal allowance.

Property taxes

Changes to corporation tax for non-UK resident companies with UK property income: Finance Act 2019 brings non-UK resident companies that carry on a UK property business or have other UK property income within the scope of corporation tax from 6 April 2020. Amendments will make additional provision so that non-UK resident company landlords when they move into corporation tax from income tax are entitled to the same reliefs for pre-trading financing costs and the same time limits for making elections as are available to UK resident companies.

Stamp duty land tax (SDLT) surcharge: The Government will go ahead with an SDLT surcharge for non-residents buying residential property in England and Northern Ireland. This will be set at 2% and apply from 1 April 2021. Where contracts are exchanged before 11 March 2020 but completed or substantially performed after 1 April 2021, transitional rules may apply subject to conditions.

Business rates review: The Government has published the terms of reference which sets out the objectives, scope and governance of the Business Rates Review. It will be followed by a call for evidence in spring 2020, ahead of the review reporting in autumn 2020.

Indirect taxes

Postponed import VAT accounting on EU and non-EU imports from 1 January 2021: The Government has confirmed that from 1 January 2021 (ie the end of the Brexit transition period) registered businesses will be able to account for VAT on goods they import from all countries, including the EU, on their periodic VAT return.

Confirmation that call-off stock legislation will be introduced: Where businesses transfer stock to customers in other Member States, the legislation (already published in draft) will enable businesses to delay accounting for VAT until the stock is called off. This will remove the need for the supplier to register in the Member State of destination. The measure has effect from 1 January 2020.

VAT on e-publications: The Government will legislate to apply a zero rate of VAT to e-publications, confirming that e-books, e-newspapers, e-magazines and academic e-journals will be entitled to the same VAT treatment as their physical counterparts. This change will take effect from 1 December 2020. The Government will be consulting on the details of the legislation ahead of its implementation.

Plastic packaging tax: To reduce the problem of excessive and environmentally harmful plastic packaging, and incentivise manufacturers to use recycled plastic, the Government intends to introduce a tax on the production and import of plastic packaging from April 2022. The tax of £200 per tonne will apply to plastic packaging which does not contain at least 30% recycled plastic. A consultation has been launched on the detailed implementation of the tax, including a de minimis exemption and determination of who in the supply chain should be liable to the tax.

Duties: Despite speculation to the contrary, the Chancellor continued the freeze on fuel duty, though he is proposing that red diesel relief will be abolished for most sectors from April 2022 (it will remain available for agriculture, railways, domestic heating and fishing). The Chancellor also froze duties on beer, wine, cider and spirits. Separately, he launched a call for evidence which seeks views on how the Government can use vehicle excise duty (VED) to further encourage the uptake of zero and ultra-low emission cars and reduce overall emissions from road transport. It also seeks views on the VED treatment of motorcycles.

Tax management and administration

Tax conditionality: The Government will publish a discussion document seeking views on the wider application of tax conditionality in the spring. Tax conditionality refers to a principle whereby businesses are granted access to government awards and authorisations (such as approvals, licences, grants) only if they are able to demonstrate good tax compliance.

Raising standards in the market for tax advice: The Government will publish a call for evidence on raising standards in the market for tax advice in the spring. This 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.

Tomorrow's webcast

In tomorrow's webcast, the EY ITEM Club will be discussing the economic impact of the Chancellor's announcements, with EY tax specialists assessing the key tax implications for individuals, employers and businesses, plus what we expect to be published in the Finance Bill on 19 March.

Date: Thursday 12 March
Time: 15:00-16:15

Register here

Contacts

For more detail please contact:

Claire Hooper (+44 20 7951 2486)
Chris Sanger (+44 20 7951 0150)
Tom Evennett (+ 44 20 7980 0890)
Fiona Campbell (+44 20 7951 3625)
Sue Robinson (+ 44 20 7951 8194)

Bookmark our Budget page for insight and analysis: ey.com/budget

Follow us on Twitter:
@EY_UKI , @JasonLesterEY , @ChrisSangerEY , @EY_ITEMClub , @MarkGregoryEY , @EY_PressUK