DIXON WILSON
CHARTERED ACCOUNTANTS

2018 Budget Update

30 October 2018

This document highlights the more important tax changes and announcements from the 2018 Budget.

PERSONAL TAXES

PERSONAL ALLOWANCE AND HIGHER RATE THRESHOLD

The planned increases to the personal allowance and higher rate threshold have been advanced by one year. From 6 April 2019 the tax-free personal allowance will be £12,500 and the basic rate limit will be £37,500. These will be frozen for 2020/21, and increased in line with CPI thereafter.

ENTREPRENEURS' RELIEF (ER)

Two changes are being made to the conditions to qualify for ER.

First, where shares are being sold, the claimant must have at least a 5% interest in both the distributable profits and the net assets of the company. This will apply to disposals on or after 29 October 2018. The intention of this new test seems to be to prevent ER being claimed on ordinary shares which have at least 5% voting rights but less than a 5% economic interest.

Second, the minimum qualifying period will be increased from one to two years, and this will apply to all disposals on or after 6 April 2019 other than where the business ceased before 29 October 2018, in which case the minimum qualifying period remains one year.

Also, new legislation will be introduced to allow individuals whose shareholdings are diluted below 5% as a result of a new share issue to claim ER up to the date of dilution.

NON-RESIDENTS' GAINS ON UK PROPERTY

Non-UK residents individuals, trusts and companies are already liable to UK tax in respect of gains made on UK-situs residential property. As previously announced, from 6 April 2019 the charge on non-residents will be extended to cover all disposals of UK land and property (including, in particular, commercial property). Non-residents will be liable to the charge where they make gains on property held either directly or 'indirectly' – i.e. on gains from entities which derive at least 75% of their value from UK land and property.

CAPITAL GAINS TAX (CGT) PAYMENT WINDOW – RESIDENTIAL PROPERTY

Legislation will be introduced requiring a CGT payment on account of residential property gains for UK residents (non-UK residents are already subject to these rules). The new rules will apply to disposals made by UK residents from 6 April 2020.

CGT PRIVATE RESIDENCE RELIEF

The final period exemption will be reduced from 18 months to nine months. Furthermore, letting relief will be reformed such that it only applies in circumstances when the owner of the property is in 'shared occupancy' with the tenant. These amendments will apply to disposals from 6 April 2020, although the detail is yet to be finalised and is subject to consultation.

STAMP DUTY LAND TAX (SDLT)

First-time buyer's relief will be extended to include qualifying shared ownership purchases on properties valued up to £500,000. The first £300,000 of an initial share purchased will not be liable to SDLT; thereafter the remainder will be liable at the rate of 5%. Separately, the government will consult on an SDLT surcharge of 1% for non-resident purchasers of residential property in England and Northern Ireland.

EXTENSION OF OFFSHORE TIME LIMITS

As previously announced, the government will legislate to increase the assessment time limit for careless or negligent offshore tax non-compliance to 12 years (from the current four or six years) for income tax, capital gains tax and inheritance tax. The time limit will remain 20 years in cases of deliberate non-compliance.

BUSINESS TAXES

OFF-PAYROLL WORKING IN THE PRIVATE SECTOR (IR35)

From April 2020 responsibility for operating the off-payroll working rules will move from individuals to the organisation, agency or other third party engaging the worker, to bring the private sector rules in line with the public-sector body rules. The revised IR35 rules will not apply where the engaging business is 'small' but, it is not yet known how the government will define 'small'. For more details see our update here.

ANNUAL INVESTMENT ALLOWANCE (AIA)

The annual investment allowance will increase temporarily to £1million for all qualifying investment in plant and machinery made between 1 January 2019 and 31 December 2020.

SPECIAL RATE POOL CAPITAL ALLOWANCES (SRP)

From April 2019, the capital allowances special rate for qualifying plant and machinery assets will be reduced from 8% to 6% to more closely match average accounts depreciation.

NEW STRUCTURES AND BUILDING ALLOWANCE (SBA)

New non-residential structures and buildings will be eligible for a 2% capital allowance where all the contracts for the physical construction works are entered into on or after 29 October 2018. This is to address a gap in the UK's capital allowance regime and to improve the international competitiveness of the UK's tax system.

ENVIRONMENTAL ENHANCED CAPITAL ALLOWANCES

The 100% allowance scheme for green technology will end on 31 March 2020 for companies and 5 April 2020 for unincorporated businesses.

However 100% tax relief for electric charge points will be available until 2023.

EMPLOYMENT ALLOWANCES

From 2020 the government will legislate to restrict access to the National Insurance contributions (NICs) Employment Allowance to employers with an employer NICs liability below £100,000 in their previous tax year. Where employers are connected under the Employment Allowance rules the threshold will apply to their aggregated liability.

DIGITAL SERVICES TAX (DST)

From April 2020, the government will introduce a new 2% tax on the revenues of certain very large digital businesses whose revenue is derived from search engines, social media platforms or online marketplaces. This will only apply to groups where global revenues exceed £500million per annum.

CORPORATE CAPITAL LOSS RESTRICTION

From April 2020 the government will restrict the proportion of annual capital gains that can be relieved by brought-forward capital losses to 50% of the capital gain. This measure will include an allowance that gives companies unrestricted use of up to £5million capital or income losses each year.

TAXES AND INSOLVENCY

From April 2020 when a company enters insolvency certain taxes collected and held by businesses on behalf of taxpayers (VAT, PAYE, income tax, employee NICs and CIS deductions) will get preferential creditor treatment over other creditors. The rules will remain unchanged for taxes owed by businesses themselves(corporation tax and employers NICs).

Also following Royal Assent of Finance Bill 2019-20 directors and other persons involved in tax avoidance, evasion or phoenixism will be jointly and severally liable for company tax liabilities, where there is a risk that the company may deliberately enter insolvency.

R&D SME TAX CREDIT

From April 2020, the amount of payable R&D tax credit that a qualifying small and medium-sized loss-making company can receive in any tax year will be restricted to three times the company's total PAYE and NICs liability for that year. This is subject to consultation.

INTANGIBLE FIXED ASSET REGIME

From April 2019 the government will introduce targeted relief for the cost of goodwill in the acquisition of businesses with eligible intellectual property.

With effect from 7 November 2018, there will also be reform to the de-grouping charge rules, which applies when a group sells a company that owns intangibles, so that the rules more closely align with the equivalent rules elsewhere in the tax code.

CHARITIES

From April 2019 the charities' small trading exemption limits for non-primary purpose trading will increase from £5,000 to £8,000, where turnover is under £32,000 and increase from £50,000 to £80,000 where turnover is over £320,000. Where turnover is between £32,000 and £320,000, the limit will be 25% of income.

Also from April 2019 the government will increase the Gift Aid Small Donations Scheme individual donation limit to £30.

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