Budget 2020

Temporary, timely and targeted
£12 billion coronavirus stimulus on top of increased general public spending.

Pension annual allowance changes
Thresholds increased by £90,000 each from 2020/21.

Investing for children
Annual investment limit for junior ISAs and child trust funds will be increased to £9,000 from 2020/21.

Close Brothers
Asset Management

Important information

This summary has been prepared very rapidly and is for general information only. The proposals are in any event subject to amendment before the Finance Act. You are recommended to seek competent professional advice before taking, or refraining from taking, action on the basis of the contents of this publication. The value of investments can go down as well as up and you may get back less than you invested. Tax benefits are dependent on your individual circumstances and are subject to change. This guide represents our understanding of the law and HM Revenue & Customs practice as at 11 March 2020 which is subject to change.

Budget highlights

- The Chancellor announced a £12 billion "temporary, timely and targeted" coronavirus stimulus on top of an £18 billion increase in general public spending, but tax measures were relatively few.
- The pension annual allowance thresholds will each be increased by £90,000 from 2020/21, removing taper as an issue for most people with incomes under £200,000.
- The capital gains tax entrepreneurs' relief lifetime limit has been cut from £10 million to £1 million with immediate effect.
- The annual investment limit for junior ISAs and child trust funds will be increased to £9,000 from 2020/21.
- The national insurance contributions employment allowance will increase from £3,000 to £4,000 from April 2020.
- There will be a review of the taxation of funds to make the UK more attractive for fund management. It will also consider the VAT treatment of fund management fees.
- From April 2021, only zero emission vehicles will get 100% first year allowances. Cars with emissions up to 50g/km will have an 18% a year writing down allowance; for higher emitters the allowance will be 6% a year.
- E-publications (e-books, e-newspapers, e-magazines and academic e-journals) will be VAT zero-rated from 1 December 2020.

Introduction and investment insight

"….get it done" was a recurrent phrase in the Budget speech of the new Chancellor, Rishi Sunak. It could equally have been "get it spent" or "get it borrowed" as Mr Sunak announced a raft of spending initiatives with few supporting tax increases.

His performance did not follow the standard playbook for the first Budget after a general election. Such set pieces have generally been when a Chancellor takes advantage of his distance from the next visit to the polls to deliver the bitter medicine of tax rises. However, with the threat to the global economy caused by the coronavirus pandemic these were not normal times.

WHAT IS THE GOVERNMENT DOING IN RESPONSE TO COVID-19?

The Covid-19 pandemic is likely to negatively impact UK GDP growth in 2020, with measures necessary to limit contagion likely to weigh on both output and consumption in the UK and abroad. In response to the weak outlook for the UK domestic economy, Mr Sunak announced a total package of fresh spending for 2020/21 of £30 billion, of which £12 billion was directly attributed to countering the impact of coronavirus on the UK economy and NHS finances. Additional measures include £1bn of welfare spending to support people self-isolating, and funding to offset those businesses most impacted by the virus outbreak. The total increase in current spending is higher than was pre-announced before the Budget, or that which was expected to be possible within the government's own fiscal rules.

WHAT IS HAPPENING TO GOVERNMENT INVESTMENT SPENDING?

Investment spending is expected to grow significantly over the parliament, almost trebling by 2024-25. There is limited detail on what this spending will be on, but based on the election manifesto we expect measures focussed on "levelling up" regional inequalities, with spending more heavily focused in the north of England. The plans to increase government investment spending are so large that the Office of Budget Responsibility anticipates that the government may have difficulty finding projects on schedule. This spending is anticipated to have a direct impact on GDP, with the full value of spending transferring through to economic growth.

WHAT DOES THE BUDGET MEAN FOR UK GROWTH?

In the near term, the measures designed to bridge a difficult period for the UK economy will hopefully have a significant short-term impact, especially in concert with emergency liquidity measures announced yesterday by the Bank of England. These included a 0.5% point cut to interest rates, the creation of a special funding scheme to help banks support small and medium sized businesses, and allowing banks to hold less capital in order to promote lending. Over the medium term, the impact of the budget is expected to boost GDP growth into 2022 by 0.5%points, but the effect is subsequently expected to fade. Longer term, higher investment spending in areas such as transport infrastructure may yield higher potential growth rates, a positive for the economy. However, the decision not to cut corporation tax will likely weigh on business investment.

In addition, it is perhaps also worth noting that GDP growth is expected to be somewhat subdued for the duration of the forecast period, on the basis of the government's latest policies on trade and immigration.

ARE THE FISCAL RULES CHANGING?

The current fiscal rules remain in place for now, but the whole fiscal framework will be reviewed in the autumn. Given the weak outlook for growth, and comments in the Budget on reviewing the role of fiscal spending in the economy, the government may wish to increase the headroom for spending. In order to do so they will need to either change the “buckets” into which different kinds of spending fall, or adjust the rules on overall spending - most likely on current (rather than capital) spending.

WHAT WILL HAPPEN TO BORROWING?

Total government borrowing was increased for the next five years by over £110 billion as a result of decisions taken in this Budget and borrowing will be c. £30bn higher for the duration of the forecast period, mostly due to policy decisions. These plans are based on the assumption that the government’s borrowing costs will remain relatively low. This does pose a risk if financial conditions become less favourable.

CONCLUSION

The Budget contains some specific, near term measures to support the UK economy at a time of weak growth – 1% of GDP in extra spending is not to be sniffed at. For the longer term outlook, the government’s investment plans will be of greater importance, and we await details of how that spending will be allocated.

However, this is not the end of the story, as another Budget is due in the autumn. By then the consequences of coronavirus should be clearer and we may see other topics addressed, such as inheritance tax reform, which were understandably put on hold this time around.

Personal taxation

Main personal allowances and reliefs		2020/21	2019/20
Personal allowance[1]		£12,500	£12,500
Married couple's/civil partner's transferable allowance		£1,250	£1,250
Married couple's/civil partner's allowance at 10%[2] (if at least one born before 6/4/35)	maximum	£9,075	£8,915
	minimum	£3,510	£3,450
Blind person's allowance		£2,500	£2,450
Rent-a-room tax-free income		£7,500	£7,500
Registered pension schemes			
• Lifetime allowance		£1,073,100	£1,055,000
• Annual allowance[3]		£40,000	£40,000
• Money purchase annual allowance		£4,000	£4,000

[1] Personal allowance reduced by £1 for every £2 of adjusted net income over £100,000.
[2] Reduced by £1 for every £2 of adjusted net income over £30,200 (£29,600 for 2019/20), until the minimum is reached.
[3] Reduced by £1 for every £2 of adjusted income over £240,000 (£150,000 for 2019/20) to a minimum of £4,000 (£10,000 for 2019/20), subject to threshold income being over £200,000 (£110,000 for 2019/20).

Income tax rates and bands		2020/21	2019/20
UK taxpayers' excluding Scottish taxpayers' non-savings income			
20% basic rate on first slice of taxable income up to		£37,500	£37,500
40% higher rate on next slice of taxable income over		£37,500	£37,500
45% additional rate on taxable income over		£150,000	£150,000
All UK taxpayers			
Starting rate at 0% – on band of savings income up to[4]		£5,000	£5,000
Personal savings allowance at 0%:	basic rate taxpayers	£1,000	£1,000
	higher rate taxpayers	£500	£500
	additional rate taxpayers	£0	£0
Dividend allowance at 0% tax – all individuals		£2,000	£2,000
Tax rates on dividend income:	basic rate taxpayers	7.5%	7.5%
	higher rate taxpayers	32.5%	32.5%
	additional rate taxpayers	38.1%	38.1%

[4] Not available if taxable non-savings income exceeds the starting rate band.

Scottish taxpayers' non-dividend, non-savings income	2020/21	2019/20
19% starter rate on taxable income up to	£2,085	£2,049
20% basic rate on next slice up to	£12,658	£12,444
21% intermediate rate on next slice up to	£30,930	£30,930
41% higher rate on next slice up to	£150,000	£150,000
46% top rate on income over	£150,000	£150,000

Trusts	2020/21	2019/20
Standard rate band generally	£1,000	£1,000
Dividends (rate applicable to trusts)	38.1%	38.1%
Other income (rate applicable to trusts)	45%	45%
High income child benefit charge: 1% of benefit per £100 adjusted net income of £50,000 – £60,000.		

INCOME TAX

The personal allowance will remain at £12,500 and the higher rate threshold will stay at £50,000 for 2020/21, as announced in the 2018 Budget. In Scotland, the higher rate threshold for non-savings, non-dividend income will also be unchanged at £43,430.

OFF-PAYROLL WORKING (IR35)

From April 2020 the responsibility for operating the off-payroll working rules in the private and third sectors will move from individual workers to the organisation, agency or other third party engaging them. The change applies to services carried out from 6 April 2020.

CAR BENEFIT

The car benefit scale charge percentages for 2020/21 will be restructured, taking account of the recently introduced Worldwide Harmonised Light Vehicle Test Programme (WLTP) emissions standards. The scales for 2020/21 are as follows:

All zero CO2 emission vehicles: 0%

Petrol and diesel hybrids with CO_2 emissions 1-50g/km

Range – electric-only miles	< 30	30 – 39	40 – 69	70 – 129	130 +
Registered pre-6/4/20 (NEDC)	14%	12%	8%	5%	2%
Registered post-5/4/20 (WLTP)	12%	10%	6%	3%	0%

All non-diesel cars over 50 g/km CO2	51-54	55 & over
Registered pre-6/4/20 (NEDC)	15%	16%*-37%
Registered post-5/4/20 (WLTP)	13%	14%*-37%
All diesels that do not meet RDE2 standards: add 4% to the above, subject to a maximum 37% scale charge.		

*Increased for every extra 5g/km by 1% up to the maximum 37%

The rates will increase by 1% in 2021/22 and a further 1% in 2022/23 before being frozen until 2024/25.

INCREASING THE FLAT RATE DEDUCTION FOR HOMEWORKING

From April 2020 the maximum flat rate income tax deduction available to employees to cover additional household expenses will increase from £4 per week to £6 per week, where they work at home under homeworking arrangements.

TAX TREATMENT OF WELFARE COUNSELLING PROVIDED BY EMPLOYERS

The scope of non-taxable counselling services will be extended from April 2020 to include related medical treatment when it is provided to an employee as part of an employer's welfare counselling services.

EMPLOYMENT ALLOWANCE

The employment allowance will be increased from £3,000 to £4,000 a year for 2020/21, as previously announced. But it will be restricted to employers with an employer Class 1 national insurance contributions (NICs) bill below £100,000 in 2019/20.

NATIONAL INSURANCE CONTRIBUTIONS

The primary threshold (employee contributions) for Class 1 NICs and the lower profits limit for Class 4 NICs will rise to £9,500 for 2020/21, as announced in January 2020. However, the secondary threshold (employer contributions) will not move in parallel, but instead it will increase to £8,788.

SAVER

DON'T LOSE YOUR PERSONAL ALLOWANCE. YOUR PERSONAL ALLOWANCE OF £12,500 IN 2020/21 IS REDUCED BY 50P FOR EVERY POUND BY WHICH YOUR INCOME EXCEEDS £100,000. YOU COULD MAKE A PENSION CONTRIBUTION OR A CHARITABLE GIFT TO BRING YOUR INCOME BELOW £100,000. AS ALWAYS, SPEAK TO YOUR FINANCIAL ADVISER BEFORE TAKING ANY ACTION.

Pensions, savings and investments

TAPERED ANNUAL ALLOWANCE FOR PENSIONS

The two tapered annual allowance thresholds for pensions will each be raised by £90,000 from 2020/21. The "threshold income" figure will therefore be £200,000 and the "adjusted income" figure will be £240,000. This will help many people, such as medical consultants, who have faced large tax bills on extra pay. While the rate of taper is unchanged, the minimum annual allowance for the highest earners from April 2020 will be reduced from £10,000 to £4,000 – at an "adjusted income" of £312,000 or more.

LIFETIME ALLOWANCE FOR PENSIONS

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

INDIVIDUAL SAVINGS ACCOUNT (ISA) SUBSCRIPTION LIMITS

The ISA annual subscription limit for 2020/21 will remain at £20,000. However, the annual subscription limit for junior ISAs (JISAs) and child trust funds (CTFs) will more than double, from £4,368 to £9,000.

TOP SLICING RELIEF ON LIFE INSURANCE POLICY GAINS

In response to the Silver First-Tier Tribunal case, legislation will specify how allowances and reliefs must be set against life insurance policy gains. This measure will apply to all relevant gains occurring on or after 11 March 2020.

REVIEW OF THE UK FUNDS REGIME

A review of the UK funds regime will be undertaken during 2020, covering direct and indirect tax, as well as relevant areas of regulation. A consultation paper will examine whether there are "targeted and merited" tax changes that could help to make the UK a more attractive location for companies used by funds to hold assets. The review will also consider the VAT treatment of fund management fees and other aspects of the UK funds regime.

CALL FOR EVIDENCE ON PENSION TAX ADMINISTRATION

Depending on how their pension scheme administers tax relief, people earning around or below the level of the personal allowance may or may not benefit from a top-up on their pension savings equivalent to the basic rate of tax. A review of the options for addressing the differences will begin shortly with a call for evidence on pensions tax relief administration.

VENTURE CAPITAL TRUSTS (VCT) AND ENTERPRISE INVESTMENT SCHEMES (EIS)

The venture capital limits and reliefs remain unchanged, as detailed on the following page.

Venture capital allowances and reliefs	2020/21	2019/20
Venture capital trust at 30%	£200,000	£200,000
Enterprise investment scheme at 30%[1]	£2,000,000	£2,000,000
– EIS eligible for capital gains tax deferral relief	No limit	No limit
Seed EIS (SEIS) at 50%	£100,000	£100,000
– SEIS capital gains tax reinvestment relief	50%	50%

[1] Investment above £1,000,000 must be in knowledge-intensive companies

THINK AHEAD

THE PENSION LIFETIME ALLOWANCE WILL RISE BY £18,100 FROM 6 APRIL 2020. IF YOU PLAN TO DRAW FROM YOUR PENSIONS AND ALREADY HAVE FUNDS EXCEEDING THE CURRENT £1,055,000 LIFETIME ALLOWANCE LIMIT, SPEAK TO YOUR FINANCIAL ADVISER BEFORE TAKING YOUR PENSION BENEFITS.

THINK AHEAD

THE DIVIDEND ALLOWANCE AND PERSONAL SAVINGS ALLOWANCE HAS BEEN FROZEN SINCE 2018/19. YOUR ISA ALLOWANCE IS £20,000 IN 2019/20 AND 2020/21 AND YOU CANNOT CARRY IT FORWARD – USE IT OR LOSE IT.

Capital taxes

CAPITAL GAINS TAX (CGT): ANNUAL EXEMPT AMOUNT

The annual exempt amount for individuals and personal representatives will rise to £12,300 for 2020/21, while the amount for most trustees will increase to £6,150 (minimum £1,230).

ENTREPRENEURS' RELIEF

For disposals on or after 11 March 2020, the lifetime limit on gains eligible for Entrepreneurs' Relief, which offers a reduced 10% rate of CGT on qualifying disposals, will be reduced from £10 million to £1 million. There will be rules that apply to forestalling arrangements entered into before Budget day.

PRIVATE RESIDENCE RELIEF

From 6 April 2020, lettings relief of up to £40,000 will only apply where the owner of the property shares occupancy with the tenant. The final period exemption for CGT will be reduced from 18 months to 9 months. There will be no changes to the 36-month final period exemption available to disabled individuals or people in a care home.

INHERITANCE TAX (IHT)

The IHT nil rate band will remain at £325,000 for 2020/21.

The residence nil rate band (RNRB) will increase to £175,000 from 6 April 2020, as set out in existing legislation.

NON-UK RESIDENT STAMP DUTY LAND TAX (SDLT) SURCHARGE

A 2% SDLT surcharge will be introduced from 1 April 2021 for non-UK residents purchasing residential property in England and Northern Ireland.

ANNUAL TAX ON ENVELOPED DWELLINGS (ATED)

The ATED for 2020/21 will be increased in line with inflation.

Property value	Charge for tax year 2020/21	Charge for tax year 2019/20
More than £500,000 but not more than £1m	£3,700	£3,650
More than £1m but not more than £2m	£7,500	£7,400
More than £2m but not more than £5m	£25,200	£24,800
More than £5m but not more than £10m	£58,850	£57,900
More than £10m but not more than £20m	£118,050	£116,100
More than £20m	£236,250	£232,350

THINK AHEAD

IHT SIMPLIFICATION REMAINS ON THE AGENDA. NOW WOULD BE A GOOD TIME TO SPEAK TO YOUR FINANCIAL ADVISER BEFORE THE TAX RULES ARE 'SIMPLIFIED' INTO SOMETHING LESS GENEROUS.

Business taxes

CORPORATION TAX RATE

The rate of corporation tax will remain at 19% and will not fall to 17% in 2020, as had been planned.

STRUCTURES AND BUILDINGS ALLOWANCE

The annual rate of capital allowances for qualifying investments to construct new, or renovate old, non-residential structures and buildings will increase from 2% to 3%, from 1 April 2020 for corporation tax and 6 April 2020 for income tax.

RESEARCH AND DEVELOPMENT (R&D)

The rate of R&D expenditure credit will increase from 12% to 13% from 1 April 2020.

The government will consult on whether expenditure on data and cloud computing should qualify for R&D tax credits.

The introduction of the PAYE cap on the payable tax credit in the R&D schemes for SMEs will be delayed until 1 April 2021, following consultation last year. There will be further consultation on changes to the cap's design to ensure it targets abusive behaviour, while also ensuring that eligible businesses can access the relief.

FIRST YEAR ALLOWANCES FOR BUSINESS CARS

Only zero emission vehicles will qualify for first year allowances from April 2021. The main rate of writing down allowance (WDA) of 18% will be given for cars with emissions up to 50g/km. The 6% WDA rate will apply to cars with emissions above 50g/km. First year allowances for zero emission goods vehicles and natural gas and hydrogen refuelling equipment will be extended until 2025.

CORPORATE CAPITAL LOSS RESTRICTION

The proportion of annual capital gains that can be relieved by brought-forward capital losses will be restricted to 50% from 1 April 2020, on similar lines to the corporate income loss rules. An allowance will give companies unrestricted use of up to £5 million capital and/or income losses each year. Certain companies in liquidation will be excluded from the scope of the restriction.

NON-UK RESIDENT COMPANIES WITH UK PROPERTY INCOME

Non-UK resident companies will be charged corporation tax on their UK property income from 6 April 2020, under legislation enacted in Finance Act 2019. Further legislation will ensure these rules work as intended to provide a smooth transition of the taxation of UK property profits from income tax to corporation tax.

DIGITAL SERVICES TAX

A new 2% tax will be charged from April 2020 on the revenues of certain digital businesses that derive value from their UK users. The tax will apply to revenues generated from the provision of search engines, social media platforms and online marketplaces, where those activities are linked to the participation of UK users and will be subject to an annual allowance of £25 million.

The tax will only apply to groups that generate global revenues from in-scope business activities of more than £500 million a year. It will include a safe harbour provision that will exempt loss makers and reduce the effective rate of tax on businesses with very low profit margins.

PRIVATE USE OF COMPANY VEHICLES

The fuel multiplier for 2020/21 will be £24,500 for cars. For vans, the fuel chargeable amount will be £666.

For zero-emission vans, the van benefit charge will be nil from April 2021.

From 6 April 2020, fuel benefit charges and the van benefit charge will increase in line with the consumer prices index (CPI) rather than the retail price index (RPI).

INTANGIBLES

The pre-2002 exclusion from the Intangible Fixed Assets regime will be removed. This means that tax relief for the cost of acquiring corporate intangible assets from 1 July 2020 will be provided under a single regime subject to restrictions to prevent tax avoidance.

BUSINESS RATES

The Budget included several reliefs from business rates, some of them temporary in response to coronavirus.

- The retail discount for properties with a rateable value below £51,000 in England will be increased to 100% for 2020/21 and will be expanded to include hospitality and leisure businesses for 2021.
- There will be a discount of £5,000 for pubs in England with a rateable value below £100,000 for one year from 1 April 2020.
- The £1,500 discount for office space used by local newspapers in England will be extended until 31 March 2025.
- A fundamental review of business rates will call for evidence in the spring and report in the autumn.

TIME TO PAY

Tailored arrangements will be available to give a business the time it needs to pay HMRC. The aim is to support the business's recovery while operating through any temporary financial challenges that occur, for example as a result of the coronavirus pandemic. HMRC will also waive late payment penalties and interest where a business experiences administrative difficulties because of coronavirus in trying to contact HMRC or pay taxes.

ENTERPRISE MANAGEMENT INCENTIVES (EMI) SCHEME

The EMI scheme will be reviewed to ensure it provides support for high-growth companies to recruit and retain the best talent.

PLASTIC PACKAGING TAX

A new tax will be introduced from April 2022 to incentivise the use of recycled plastic in packaging. The rate will be £200 per tonne of plastic packaging that contains less than 30% recycled plastic. It will apply to the production and importation of plastic packaging.

RED DIESEL

The entitlement to use red diesel and rebated biofuels will be removed from April 2022 except for agriculture (including horticulture, pisciculture and forestry), rail and non-commercial heating.

TAX GUIDANCE FOR SELF-EMPLOYED PEOPLE

To make it easier for self-employed individuals to navigate the tax system, the government will this summer launch new interactive online guidance for taxpayers with non-PAYE income.

THINK AHEAD

YOUR BUSINESS MIGHT BE ENTITLED TO A VALUABLE RESEARCH AND DEVELOPMENT (R&D) TAX CREDIT – EVEN IF IT DOESN'T MAKE A TAXABLE PROFIT. CHECK OUT THE POSITION; YOU MIGHT BE SURPRISED WHAT EXPENDITURE CAN QUALIFY AND HOW MUCH IT COULD BE WORTH TO YOU.

THINK AHEAD

IF YOU WANT TO TAKE ADVANTAGE OF TIME TO PAY, MAKE SURE THAT YOU HAVE ADEQUATE RECORDS TO JUSTIFY YOUR CLAIM TO HMRC.

THINK AHEAD

COMPANY CAR TAX RULES CHANGE FROM 6 APRIL 2020. MAKE CERTAIN YOU – AND ANYONE YOU EMPLOY – ARE AWARE OF THE CONSEQUENCES.

Value added tax

REGISTRATION AND DEREGISTRATION THRESHOLDS

The taxable turnover threshold for registration for value added tax (VAT) will remain at £85,000 until April 2022. The deregistration threshold will stay at £83,000 for the same period.

E-PUBLICATIONS

The zero-rate of VAT on printed books, newspapers, magazines and academic journals will be extended to their electronic counterparts from 1 December 2020. The government will consult on the details of the legislation ahead of its implementation.

POSTPONED ACCOUNTING

Postponed accounting for VAT will apply from 1 January 2021 to all imports of goods, including from the EU. The measure is aimed at helping VAT-registered UK businesses that are integrated in international supply chains as they adapt to the UK's position outside the EU.

VAT ON CALL-OFF STOCK

Simplified rules will be introduced for the VAT treatment of intra-EU movements of call-off stock, allowing businesses to delay accounting for VAT until the goods are called off. The legislation will be backdated to goods removed from a Member State on or after 1 January 2020.

LONG-TERM CROSS-BORDER GOODS POLICY

The government will consult informally with stakeholders on the VAT treatment of goods crossing UK borders after the EU exit transition period.

WOMEN'S SANITARY PRODUCTS

The zero rate of VAT will be charged on tampons and other women's sanitary products from 1 January 2021.

AGRICULTURAL FLAT RATE SCHEME

New entry and exit rules for the agricultural flat rate scheme will be introduced from 1 January 2021. Businesses will be able to join the scheme when their annual turnover for farming-related activities is below £150,000.

They must deregister from it once such turnover exceeds £230,000 and register for VAT instead. Businesses with a turnover that exceeds £85,000 for non-farming activities will be ineligible for the scheme and will have to register for VAT.

SAVER

THE FLAT RATE VAT SCHEME FOR SMALL BUSINESSES CAN SAVE SOME TRADERS MONEY AND ADMINISTRATION COSTS. TAKE ADVICE ON WHETHER IT IS RIGHT FOR YOU, AS SOME BUSINESSES PAY MORE VAT UNDER THE SCHEME.

THINK AHEAD

VAT RULES ON CROSS-BORDER TRADING MAY CHANGE AFTER THE EU EXIT TRANSITION PERIOD. TAKE ADVICE PERIODICALLY ON HOW EXIT FROM THE EU MIGHT AFFECT YOUR BUSINESS.

Close Brothers
Asset Management

Close Brothers Asset Management
10 Exchange Square
Primrose Street
London EC2A 2BY
www.closebrothersam.com

CBAM5968. 12.03.2020.