TAX BRIEFING

BUDGET 2020

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SURCHARGE ON HOME PURCHASES

Stamp duty land tax (SDLT) is payable on the purchase of property in England and Northern Ireland; Scotland and Wales levy their own taxes for property purchases in those countries.

The UK government wants to tackle the perceived problem of overseas buyers acquiring homes in the UK which are rented out or barely used. It is thought that these purchasers are less price-sensitive than UK buyers and exacerbate house price inflation.

To discourage such buyers a 2% SDLT surcharge will be imposed on non-UK residents purchasing residential property. This will apply from 1 April 2021 in addition to the 3% surcharge where the buyer is either not going to use the property as their main home or is a company. At the high end of the market a purchaser buying a property for over £1.5m would pay 17% of the price as SDLT. The government says the money raised by this SDLT surcharge will be used to address the problem of rough sleeping.

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However UK residents trying to purchase a home could be caught by this surcharge. Where one or more of the purchasers is non-resident the 2% surcharge will apply. This could catch UK citizens returning to live in the UK or couples where one person works abroad.

HELP WITH STATUTORY SICK PAY

This Budget was dominated by Covid-19 as the Chancellor announced several measures to help businesses cope with the challenges presented by the new virus.

The first was to make statutory sick pay (SSP) available for employees who are self-isolating from day one of their absence from work. Currently there is no requirement for employers to pay SSP for the first three days of absence and it is only payable for periods of sickness lasting four days or more.

Emergency legislation will make SSP payable to employees who are advised to self-isolate

Emergency legislation will make SSP payable to employees who are advised to self-isolate at home and those caring for others who have self-isolated. The employee will be able to obtain a fit note from NHS111 online or by phone so will not have to visit their GP to obtain proof for the SSP payment.

Employers currently foot the bill for all sick pay whether under a voluntary company scheme or SSP. As a temporary measure the government will reimburse the costs of SSP paid for up to 14 days per employee if the absence from work is due to the coronavirus and not for any other reason. However this reimbursement can only be claimed by employers who had fewer than 250 employees on 28 February 2020.

NIC ALLOWANCE AND HOLIDAY

There were two measures in the Budget to help employers with the cost of paying Class 1 national insurance contributions (NIC) also known as the payroll tax.

The employment allowance is currently worth £3,000 per year and can be claimed by almost all employers in the private sector, although not by one-person companies. This allowance is set against the employer's Class 1 NIC payable for the year.

We can help you check how much your business has paid in NIC for 2019-20

From 6 April 2020 the employment allowance will increase to £4,000 but its scope will be further restricted to employers whose employer's Class 1 NIC bill for the previous tax year was less than £100,000. We can help you check how much your business has paid in NIC for 2019-20 and whether you need to adjust any last minute bonuses to keep within the £100,000 cap.

To encourage businesses to employ ex-service personnel the government is proposing that no employer's NIC would be payable on such an individual's pay in their first year of civilian employment. This NIC 'holiday' would apply to the individual's pay below the upper earnings limit which is currently £50,000 per year. However the veteran's NIC relief will not come into effect until 6 April 2021 by which time the upper earnings limit may have changed.

ENTREPRENEURS' RELIEF CAPPED

Capital gains qualifying for entrepreneurs' relief (ER) are taxed at 10% rather than the standard 20% for higher rate taxpayers.

This has been a generous relief covering up to £10m of gains made by a taxpayer during their lifetime. It is up to the taxpayer to record the total value of claims they have made for ER since it was introduced in 2008.

For gains made on and after 11 March 2020 ER will only cover up to £1m of gains per taxpayer. This will be an adequate cap for most taxpayers but those who are planning to sell their business for many millions will have to pay tax at 20% on the bulk of the gains instead of at 10%.

If you had already signed contracts to sell your business or shares before 11 March you should be able to take advantage of the higher £10m cap, even if the sale is completed on or after that date.

However where the sale was artificially constructed between connected parties, such as companies controlled by the same person, the date of the transaction will be taken to be the completion date of the sale, not when contracts were exchanged.

EASING THE PENSION CHARGES

Doctors have been retiring early and turning down extra shifts because their higher earnings generate pension contributions in excess of the permitted level of their annual allowance, leading to a penal tax charge.

This charge can apply to any high-earning taxpayer but members of final salary pension schemes are particularly hit because of the complex way in which the value added to the pension pot is calculated.

Most people have a pensions annual allowance of £40,000 per year but for high earners the annual allowance is tapered down to a minimum of £10,000 per year if their total income exceeds two thresholds:

- adjusted net income over £150,000 (all income plus pension contributions)
- threshold income over £110,000 (net income excluding pension contributions)

These thresholds will increase to £240,000 and £200,000 respectively from 6 April 2020 meaning that many taxpayers caught out by the taper rules - and who suffer the annual allowance tax charge as a result - will not have to pay that tax charge for 2020-21.

The minimum level of the annual allowance is also being reduced to £4,000 where the taxpayer's adjusted net income exceeds £312,000.

Many taxpayers previously caught by the taper rules will not be caught in future

It is worth remembering that taxpayers with a tapered annual allowance can use up any unused annual allowance brought forward from the three immediately preceding tax years (ie 2016/17, 2017/18 and 2018/19). The unused allowance from 2016/17 will drop out of the calculation for contributions made on and after 6 April 2020.

CAR AND VAN BENEFITS

To encourage companies to use electric cars the method of calculating the taxable benefit of company cars is changing for those with zero or low CO2 emissions.

In 2020-21 pure electric cars will attract no taxable benefit for employees, down from the current rate of 16% of the list price. However this free use of a company-owned electric car will not last. The employee will be taxed on 1% of the list price in 2021-22 and 2% in 2022-23.

Hybrid cars with an electric-only range of 130 miles or more will also attract no taxable benefit

Hybrid cars with an electric-only range of 130 miles or more will also attract no taxable benefit for 2020-21 if the car is first registered on or after 6 April 2020. Hybrid cars registered before that date with an electric only range of 130 miles or more will attract a taxable benefit of 2% of the list price.

This difference between older cars and new cars registered from 6 April 2020 is due to a change in the way the CO2 emissions are recorded.

From 2020-21 employers will need to know whether each company car was first registered before or after 6 April 2020 and for hybrid vehicles the range it can be driven on purely electric power before recharging.

The benefit of driving an electric commercial vehicle for private journeys is currently taxed at 80% of that for a petrol or diesel commercial vehicle, so £2,792 for 2020-21. This will be changed from April 2021 so there will be no taxable benefit for driving a commercial vehicle with zero CO2 emissions. If there is no private use of the commercial vehicle there is no taxable benefit regardless of how the vehicle is powered.

RELIEF FROM BUSINESS RATES

Some businesses struggle to pay business rates because the tax is payable whether or not they have made a profit.

Small retail businesses that occupy properties with a rateable value of less than £51,000 can apply to their local authority to get one third off their business rates bill. From April 2020 this discount will be increased to 100% of the business rates bill. This retail relief will also be extended to the leisure and hospitality sectors.

Pubs are particularly hard hit by business rates as they tend to have a relatively large floor area. Where the rateable value of the pub is less than £100,000 the management will be able to apply for a £5,000 discount on their rates bill for 2020-21.

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Local authorities will be fully compensated for all business rates discounts claimed by small businesses in their area.

CLARITY ON LIFE ASSURANCE GAINS

When a life insurance policy is cashed in the profit from that policy (known as a chargeable events gain) is taxed in one year but will have built up over a number of years.

This can result in the profits being taxed at a higher tax rate and the taxpayer losing their personal allowance as their total income for that year exceeds £125,000.

Top slicing relief should adjust the tax due to the amount that would have been payable had the profit been paid in equal slices over the life of the policy, instead of all in one year. However the HMRC computer does not reinstate the lost personal allowance when calculating the tax on each year's slice of the profit.

The law will be changed to put beyond doubt that the personal allowance should be reinstated, as decided by a recent tax tribunal. However this clarification to the law will only take effect for life insurance policies cashed in on and after 11 March 2020.

If you have paid tax on a large life insurance gain since 2010 you may have grounds to submit an overpayment relief claim to HMRC. We can help you calculate how much tax may have been overpaid.

NEW VAT ZERO RATES

Two new groups of product will qualify for the zero rate of VAT as a result of this Budget.

From 1 December 2020 all e-publications such as books, newspapers, magazines and journals supplied in electronic form will carry the zero rate of VAT. Where these products are supplied in paper form the VAT rate is already zero.

The government expects publishers to pass on the VAT saving to their customers, which is perhaps why the change will be made before Christmas when many books and magazine subscriptions are given as presents.

From 1 January 2021 the so-called 'tampon tax' will be abolished

From 1 January 2021 the so-called 'tampon tax' will be abolished. Women's sanitary products are already subject to VAT at 5% but this rate will be cut to zero. It will save the average woman about £40 over her lifetime.

This may go a small way to ease 'period poverty' for girls who cannot afford to buy sanitary products, but only if the retailers pass the VAT saving on to customers.

INCOME TAX RATES AND ALLOWANCES

As the Conservative Party manifesto had promised no increase in the rate of income tax it was not surprising that all income tax rates for 2020-21 have been frozen at those in place for the last five years.

The main rates are:

- 20%, 40% and 45% on earned income and savings
- 7.5%, 32.5% and 38.1% on dividend income

Taxpayers resident in Scotland pay tax on earned income and rental profits at rates between 19% and 46% but at the same rates as other UK residents on savings, dividends and gains.

The personal allowance is fixed at £12,500 but is reduced to nil if the taxpayer's income exceeds £125,000.

The first £1,000 of savings income is free of tax, reduced to £500 where the taxpayer pays tax at 40% and removed entirely for taxpayers in the 45% bracket.

There is good news for home workers as their employer will be able to pay them a tax-free allowance of £6 per week from 6 April 2020 to cover the additional costs of working from home. This is an increase from £4 per week which has applied for some years.