



2020 Budget Review

Chancellor Rishi Sunak presented his first Budget to the House of Commons on 11 March. This newsletter reports on the key announcements and recent measures most likely to affect your business and personal finances. For further advice, please contact us.



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Sunak delivers Budget to meet 'challenging times'

Chancellor Rishi Sunak delivered his first Budget, and the first since the UK's departure from the European Union, against the backdrop of the coronavirus outbreak.

The Chancellor announced a £30 billion stimulus package to support the economy through coronavirus contagion and pledged to give the NHS whatever extra resources are needed to cope.

Following the news that the Bank of England had reduced interest rates to 0.25%, in an emergency response to the coronavirus, Mr Sunak put further measures in place.

These include Statutory Sick Pay (SSP) for employees who are advised to self-isolate, even if they are displaying no symptoms. The government will also meet some SSP costs for businesses.

In addition, business rates for shops, cinemas, restaurants and music venues in England with a rateable value below £51,000 have been suspended for a year. This tax holiday will be worth up to £25,000 to thousands of businesses across the retail, leisure and hospitality sectors.

Citing the latest economic forecasts from the Office for Budget Responsibility, Mr Sunak said the economy is predicted to grow by 1.1% this year. However, the GDP forecast does not fully account for the impact of coronavirus.



Turning to duties, tax on beer, wine, cider and spirits have been frozen while tobacco duty will continue to rise by inflation plus 2%. Fuel duty will also remain frozen, for a tenth consecutive year, despite widespread speculation that it would rise. However, Mr Sunak introduced other green measures including a new tax on plastic packaging and freezing the climate change levy on electricity while raising it on gas. The Chancellor also promised to spend £500 million to support the rollout of new rapid charging hubs for electric cars.

In addition, Mr Sunak resisted calls to end Entrepreneurs' Relief, although the lifetime allowance will be reduced from £10 million to £1 million. The Chancellor will abolish the so-called 'tampon tax', reducing the VAT rate on sanitary products to zero from 1 January 2021, as well as scrapping VAT on digital e-publications, including e-books, e-newspapers, e-magazines and academic e-journals, from 1 December 2020.

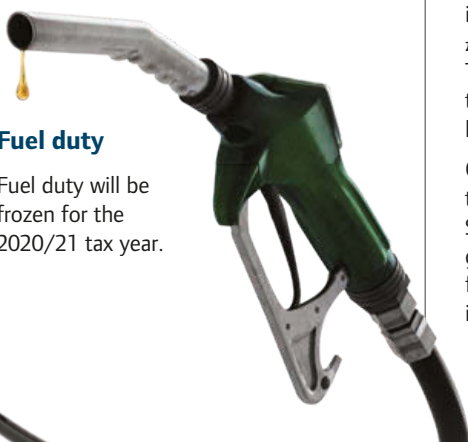
The Budget confirmed increased spending on infrastructure projects including broadband, railway and roads. £5 billion was promised to get gigabit-capable broadband into the hardest to reach places and £510 million of new investment into the shared rural mobile phone network.

Duties

Alcohol and tobacco duties

The duty rates remain frozen for beer, spirits, wine and made-wine, still and sparkling cider and perry.

The duty rate on all tobacco products will continue to increase by 2% above RPI inflation. The duty rate on hand-rolling tobacco will increase by a further 4%. These rates will have effect from 11 March 2020.



Fuel duty

Fuel duty will be frozen for the 2020/21 tax year.

Business tax

Corporation tax

Corporation tax rates are as follows:

| Financial year from | 1 April 2019 | 1 April 2020 |
|----------------------|--------------|--------------|
| Corporation tax rate | 19% | 19% |

Capital Allowances: Structures and Buildings Allowance



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

Enhanced Capital Allowances in Enterprise Zones

The government has announced the 100% first year allowance for investment in new plant and machinery within designated assisted areas within Enterprise Zones will remain available for expenditure incurred in relation to all areas, whenever designated, until at least 31 March 2021.

First year allowances for business cars from April 2021

The government has announced an extension to 100% first year allowances for zero-emission cars, zero-emission goods vehicles and equipment for gas refuelling stations by four years from April 2021. CO₂ emission thresholds will also be amended from April 2021. These determine the rate of capital allowances available through which the capital expenditure for business cars can be written down. The thresholds will be reduced from 50g/km to 0g/km for the purpose of the first year allowances for low CO₂ emission cars and from 110g/km to 50g/km for the purpose of WDAs for business cars.

Research and Development (R&D) tax relief

The rate of tax credit for companies falling within the Research and Development Expenditure Credit (RDEC) scheme will rise by 1% to 13% from 1 April 2020. This relief is given as an above the line credit for companies undertaking qualifying R&D.

Budget 2018 announced that, from 1 April 2020, the amount of payable R&D tax credit that a qualifying 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. The government has now announced the implementation of the restriction will be delayed to 1 April 2021.

Motor vehicle benefits-in-kind

Employer provided cars

The scale of charges for calculating the taxable benefit for an employee who has use of an employer provided car is computed by reference to bands of CO₂ emissions multiplied by the original list price of the vehicle. The maximum charge is capped at 37% of the list price of the car.

For 2019/20 the rates increased by 3% from the rates applying for 2018/19.

The government announced in Budget 2017 that CO₂ emissions for cars registered from April 2020 will be taxed based on the Worldwide harmonised Light vehicles Test Procedure (WLTP). Draft legislation has been issued to amend the previously planned benefit percentages for 2020/21 through to 2022/23:

- All zero emission cars will attract a reduced percentage of 0% in 2020/21 and 1% in 2021/22, before returning to the planned 2% rate in 2022/23.
- For cars registered before 6 April 2020, the current test procedure will continue to apply and there are no further changes to percentages previously set for 2020/21. These rates will be frozen at the 2020/21 level for 2021/22 and 2022/23.
- For cars first registered from 6 April 2020 most rates will reduce by 2% in 2020/21 before returning to planned rates over the following two years, increasing by 1% in 2021/22 and 1% in 2022/23.

A separate charge applies where private fuel is provided by the employer for a company car. The charge is calculated by applying the same percentage figure used to calculate the company car benefit to a fixed figure which for 2020/21 is set at £24,500. No fuel benefit applies to an electric car.

Company vans

The taxable benefit for the unrestricted private use of vans is £3,490 for 2020/21. There is a further £666 taxable benefit if the employer provides fuel for private travel.

| 2020/21 | Cars registered pre 6/4/20 | Cars registered after 5/4/20 |
|--|----------------------------|------------------------------|
| CO₂ emissions (g/km) | % of list price taxed | % of list price taxed |
| 0 | 0 | 0 |
| 1-50 Electric range | | |
| >130 | 2 | 0 |
| 70-129 | 5 | 3 |
| 40-69 | 8 | 6 |
| 30-39 | 12 | 10 |
| <30 | 14 | 12 |
| 51-54 | 15 | 13 |
| For every extra 5 | +1 | +1 |
| 160 and above | 37 | n/a |
| 170 and above | n/a | 37 |

For fully diesel cars generally add a 4% supplement (unless the car is registered on or after 1 September 2017 and meets the Euro 6d emissions standard) but the maximum is still 37%. For emissions over 75g/km if the CO₂ figure does not end in a 5 or a 0 round down to the nearest 5 or 0.

National Insurance

2020/21 Class 1 (employed) rates

| Employee | | Employer | |
|-------------------|----|-------------------|------|
| Earnings per week | % | Earnings per week | % |
| Up to £183 | 0 | Up to £169 | 0 |
| £183.01 - £962 | 12 | Over £169 | 13.8 |
| Over £962 | 2 | | |

Entitlement to contribution-based benefits for employees retained for earnings between £120 and £183 per week. The employer rate is 0% for employees under 21 and apprentices under 25 on earnings up to £962 per week.

| | | |
|--------------------------------|-------------------------------------|------------------|
| Class 1A (employers) | On employee taxable benefits | 13.8% |
| Class 1B (employers) | On PAYE Settlement Agreements | 13.8% |
| Class 2 (self-employed) | Flat rate per week | £3.05 |
| | Small profits threshold | £6,475 per annum |
| Class 3 (voluntary) | Flat rate per week | £15.30 |
| Class 4 (self-employed) | On profits between £9,500 - £50,000 | 9% |
| | Excess over £50,000 | 2% |

National Insurance thresholds

The government has recently announced National Insurance thresholds for 2020/21. Most thresholds will rise with inflation. Two thresholds, however, will rise by 10% from £8,632 to £9,500:

- the primary threshold - which sets the level at which employees start to pay Class 1 National Insurance contributions (NICs)
- the lower profits limit - which sets the level at which the self-employed start to pay Class 4 NICs.

The upper thresholds which apply to these two classes of NICs remain at £50,000.

The secondary threshold, which sets the level at which employers pay the main rate of NICs, only rises in line with inflation.



Employment measures

Statutory Sick Pay

The government will support small and medium-sized businesses and employers to cope with the extra costs of paying COVID-19 related SSP by refunding eligible SSP costs. The eligibility criteria for the scheme include:

- the refund will be limited to two weeks per employee
- 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
- employers will be able to reclaim expenditure for any employee who has claimed SSP (according to the new eligibility criteria) as a result of COVID-19
- employers should maintain records of staff absences, but should not require employees to provide a GP fit note
- the eligible period for the scheme will commence from the day on which the regulations extending SSP to self-isolators come into force.

Employment Allowance

The Employment Allowance provides businesses and charities with relief from their employer NICs bill. Regulations have been issued to restrict the Employment Allowance, from 6 April 2020, to those employers whose employer NICs bill was below £100,000 in the previous tax year. Employers who are connected to other employers (such as companies within a group) will need to add together all of their employer Class 1 NICs liabilities incurred in the tax year prior to the year of claim to determine eligibility.

The maximum Employment Allowance will be increased from £3,000 to £4,000 with effect from 6 April 2020.

From 6 April 2020 the Employment Allowance will operate as de minimis State aid. This means it will contribute to the total aid a business is entitled to under the relevant de minimis State aid cap.

What They Said...

'This is the Budget of a government that gets things done.'

Rishi Sunak, Chancellor of the Exchequer

'The reality is that this is a Budget that is an admission of failure - an admission that austerity has been a failed experiment.'

Jeremy Corbyn, Leader of the Labour Party

'In deeply challenging times, the Chancellor has worked against the clock to deliver two Budgets in one: a first for national resilience today and a second for economic ambition tomorrow.'

Dame Carolyn Fairbairn, Director General of the Confederation of British Industry

'This is a pro-small business Budget, which has delivered a high streets bonus, a series of Conservative manifesto promises to small businesses, and emergency steps to support small firms through the coronavirus outbreak.'

Mike Cherry, National Chairman of the Federation of Small Businesses

Income tax

Income tax rates and bands

Other than savings and dividend income.

| 2020/21 | | 2019/20 | |
|------------------|--------|------------------|--------|
| Band £ | Rate % | Band £ | Rate % |
| 0 - 37,500 | 20 | 0 - 37,500 | 20 |
| 37,501 - 150,000 | 40 | 37,501 - 150,000 | 40 |
| Over 150,000 | 45 | Over 150,000 | 45 |

Income tax rates in Scotland and Wales on income other than savings and dividend income have been devolved.

Savings income

| | 2020/21 | 2019/20 |
|-------------------------------|---------|---------|
| Savings allowance basic rate | £1,000 | £1,000 |
| Savings allowance higher rate | £500 | £500 |

A starting rate for savings band of £5,000 at 0% may be available unless taxable non-savings income exceeds the starting rate band.

Dividend income

| | 2020/21 | 2019/20 |
|--------------------------|---------|---------|
| Dividend allowance | £2,000 | £2,000 |
| Dividend ordinary rate | 7.5% | 7.5% |
| Dividend upper rate | 32.5% | 32.5% |
| Dividend additional rate | 38.1% | 38.1% |

Personal allowances

| | 2020/21 | 2019/20 |
|--|----------|----------|
| Personal allowance | £12,500 | £12,500 |
| Personal allowance income limit | £100,000 | £100,000 |
| Marriage allowance Transferable between certain spouses where neither pay tax above the basic rate | £1,250 | £1,250 |
| Married couple's allowance Either partner born before 6 April 1935 | £9,075 | £8,915 |
| - minimum amount | £3,510 | £3,450 |
| - income limit | £30,200 | £29,600 |
| Blind person's allowance | £2,500 | £2,450 |

Devolved Scottish income tax rates and bands

| 2020/21 | | 2019/20 | |
|------------------|--------|------------------|--------|
| Band £ | Rate % | Band £ | Rate % |
| 0 - 2,085 | 19 | 0 - 2,049 | 19 |
| 2,086 - 12,658 | 20 | 2,050 - 12,444 | 20 |
| 12,659 - 30,930 | 21 | 12,445 - 30,930 | 21 |
| 30,931 - 150,000 | 41 | 30,931 - 150,000 | 41 |
| Over 150,000 | 46 | Over 150,000 | 46 |

Welsh income tax rates

Although income tax for Wales has been devolved, Welsh resident taxpayers continue to pay the same overall rates as taxpayers in England and Northern Ireland.

Capital gains tax (CGT)

Capital gains tax (CGT) rates

The current rates of CGT are 10%, to the extent that any income tax basic rate band is available, and 20% thereafter. Higher rates of 18% and 28% apply for certain gains; mainly chargeable gains on residential properties with the exception of any element that qualifies for Private Residence Relief.



There are two specific types of disposal which potentially qualify for a 10% rate up to a lifetime limit for each individual:

- **Entrepreneurs' Relief (ER).** This is targeted at directors and employees of companies who own at least 5% of the ordinary share capital in the company, provided other minimum criteria are also met, and the owners of unincorporated businesses.
- **Investors' Relief.** The main beneficiaries of this relief are external investors in unquoted trading companies who have newly-subscribed shares.

Investors' Relief has a lifetime limit of £10 million, however the lifetime limit position for ER has been changed in the Budget and is considered further below.

CGT annual exemption

The CGT annual exemption is £12,000 for 2019/20 and £12,300 for 2020/21.

Entrepreneurs' Relief (ER)

The lifetime limit is reduced from £10 million to £1 million for ER 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.

Comment

The government's manifesto stated clearly that there would be a reform and review of this relief, so a reduction in the limit was not unexpected, though the magnitude of the reduction and the immediate implementation will be a surprise. No other consultations to reform the relief were announced.