Budget 2020

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This summary has been prepared very rapidly and is for general information only. You are recommended to seek competent professional advice before taking or refraining from taking action on the basis of the contents of this publication. In this article, we provide a summary of the Budget 2020 content that's of relevance to financial planning.

Pensions

Tapered annual allowance

This measure increases the income limits used in calculating the tapered annual allowance and decreases the minimum tapered annual allowance.

Threshold income, which is broadly total income before tax (less employee/personal contributions), is increased from £110,000 to £200,000.

Adjusted income, which is broadly total income before tax plus employer contributions, is increased from £150,000 to £240,000.

The minimum tapered annual allowance is decreased from £10,000 to £4,000.

The measure will have effect for the tax year 2020/21 and will be effective for benefits accrued on or after 6 April 2020.

Proposals to offer greater pay in lieu of pensions for senior clinicians in the NHS pension scheme will not be taken forward.

Those with adjusted income over £300,000 will see a reduction in their annual allowance and will pay more tax as a consequence. Likewise, those with adjusted income below £300,000 are likely to see a reduction in the tax they pay because they are either no longer impacted by the taper and are entitled to the full £40,000 annual allowance, or they are still impacted by the taper, but their tapered annual allowance has increased.

Lifetime allowance

The lifetime allowance will increase in line with CPI for 2020/21, rising to £1,073,100 (from £1,055,000).

Pensions tax relief – net pay / relief at source anomaly

Those earning around or below the level of the personal allowance and saving into a pension operating tax relief under the 'relief at source' method will benefit from a top-up on their pension savings equivalent to the basic rate of tax, even if they pay no tax. This isn't the case for members of scheme using the 'net pay' method of tax relief. The government has committed to reviewing options for addressing these differences and will shortly publish a call for evidence on pensions tax relief administration.

Income tax

The majority of income tax bands, rates and allowances are remaining the same for 2020/21 as shown below. The personal allowance remains at £12,500 (with reductions applying once adjusted net income exceeds £100,000). The full rates and allowances can be accessed here.

	2019-20	2020-21
Basic rate	£1 – £37,500	£1 – £37,500
Higher rate	£37,501 - £150,000	£37,501 - £150,000
Additional rate	Over £150,000	Over £150,000

	2019-20	2020-21
Personal allowance	£12,500	£12,500
Income limit for personal allowance	£100,000	£100,000
Income limit for Married couple's allowance	£29,600	£30,200
Marriage allowance	**£1,250**	**£1,250**
Married couple's allowance for those born before 6 April 1935		
Maximum amount of married couple's allowance	£8,915	£9,075
Minimum amount of married couple's allowance	£3,450	£3,510
Blind person's allowance	£2,450	£2,500
Dividend allowance	£2000	£2000
Personal savings allowance		
Personal savings allowance for basic rate taxpayers	£1000	£1,000
Personal savings allowance for higher rate taxpayers	£500	£500

Capital Gains Tax

Annual exempt amount

This measure increases the Capital Gains Tax annual exempt amount to £12,300 (from £12,000) for individuals and personal representatives, and £6,150 (from £6,000) for trustees of settlements for the period 2020 to 2021.

Entrepreneurs' Relief – reduction in the lifetime limit

Legislation will be introduced in Finance Bill 2020 reducing the Entrepreneurs' Relief lifetime limit to a maximum of £1 million. The rules will also provide that the lifetime limit must take into account the value of Entrepreneurs' Relief claimed in respect of qualifying gains in the past.

Rules will also be introduced that apply to forestalling arrangements entered into before Budget day. In such cases the disposal will be subject to the £1 million lifetime cap unless:

1. The parties to the contract demonstrate that they did not enter into the contract with a purpose of obtaining a tax advantage by reason of the timing rule in section 28 of the Taxation of Chargeable Gains Act 1992, and
2. Where the parties to the contract are connected, that the contract was entered into for wholly commercial reasons.

In addition, where shares have been exchanged for those in another company on or after 6 April 2019 but before 11 March 2020, and

- Both companies are owned or controlled by substantially the same persons, or
- Persons who held shares in company A hold a greater percentage of shares in company B than they did in company A and, on 11 March 2020, the personal company test, the trading company and the employee/officer test are met in respect of company B,

Then if an election is made under section 169Q of the Taxation of Chargeable Gains Act 1992 on or after 11 March 2020, the share disposal is to be treated as taking place at the time of the election for Entrepreneurs' Relief purposes, meaning that the new lifetime limit of £1 million will apply.

Savings and investments

Top Slicing Relief on life insurance policy gains from 11 March 2020

This measure allows the personal allowance to be reinstated within the calculation for TSR. This provides additional relief for taxpayers whose entitlement to the personal allowance has been reduced because a gain is included as part of their income.

The measure also clarifies the treatment of allowances and reliefs within the TSR calculation by confirming that they must be set as far as possible against other income in preference to the gain. This will ensure that the relief is calculated in a fair and consistent way.

The measure will have effect for all relevant gains occurring on or after 11 March 2020.

The amendments will:

- Permit the personal allowance to be reinstated within the taxpayer's TSR calculation where it has been reduced by reason of including a gain in their income for the year. For this purpose, the personal allowance will be calculated by reference to the taxpayer's other income and a proportion of the gain, and
- Confirm that, in the TSR calculation, allowances and reliefs have to be set as far as possible against other income in preference to the gain

Starting rate band for savings

The band of savings income that is subject to the 0% starting tax rate will remain at its current level of £5,000 for 2020/21.

Individual Savings Account (ISA) annual subscription limit

The adult ISA annual subscription limit for 2020/21 will remain unchanged at £20,000.

Junior ISA and Child Trust Fund annual subscription limit

The annual subscription limit for Junior ISAs and Child Trust Funds will be increased, quite substantially, from £4,368 to £9,000 (meaning that 16/17 year olds can have £29,000 in total (including £20,000 to a cash ISA) added to these tax efficient shelters in 2020/21.

Property tax

Non-UK resident Stamp Duty Land Tax (SDLT) surcharge

The government will introduce a 2% SDLT surcharge on non-UK residents purchasing residential property in England and Northern Ireland from 1 April 2021. This will help to control house price inflation and to support UK residents to get onto and move up the housing ladder. The money raised from the surcharge will be used to help address rough sleeping.

Housing co-operatives: Annual Tax on Enveloped Dwellings (ATED) and Stamp Duty Land Tax (SDLT)

To make the taxation of housing co-operatives fairer, the government will introduce a relief for qualifying housing co-operatives from the ATED and the 15% flat rates of SDLT on purchases of dwellings over £500,000. The SDLT relief in England and Northern Ireland will take effect from Autumn Budget 2020 and the UK-wide ATED relief from 1 April 2021 with a refund available for 2020/21.

Business

Corporation tax (CT) rate

To provide support for vital public services while maintaining the UK's competitive rate of CT, the government will legislate to retain the current 19% rate in April 2020. Legislation will also be introduced in Finance Bill 2020 to set the main rate at 19% for the financial year beginning 1 April 2021 also.

Employment Allowance

This measure increases the maximum Employment Allowance by £1,000 to £4,000 from April 2020. This means eligible businesses and charities will be able to claim a greater reduction on their employer (Secondary Class 1) National Insurance Contributions liability.

The Employment Allowance was introduced in 2014 in the National Insurance Contributions Act 2014 and when it was first introduced was a relief of up to £2,000.

In April 2015, it was reformed to exclude employers of personal or domestic staff (except care or support workers) and from April 2016, the value of the relief was increased to £3,000 and single director companies were excluded.

It is being reformed from April 2020 to restrict access to employers whose National Insurance Contributions liability in the previous tax year was under £100,000.

Income Tax changes to the van benefit charge and fuel benefit charges for cars and vans

Relevant to employers and employees, where employers provide employees with company vans available for private use, or provide fuel for private mileage in company cars and vans.

This measure increases the van benefit charge and the car and van fuel benefit charges by the Consumer Price Index from 6 April 2020. The flat-rate van benefit charge will increase to £3,490, the multiplier for the car fuel benefit multiplier will increase to £24,500, and the flat-rate van fuel benefit charge will increase to £666.

Taxable benefits and regime for measuring CO_2 emissions

This measure affects individuals and employers who provide company cars for employees that are made available for private use.

As announced at autumn Budget 2017, the measure confirms that the carbon dioxide (CO_2) emissions figure for the purposes of the company car tax regime and related charges will be based on the Worldwide harmonised Light Vehicle Test Procedure (WLTP) for all new cars registered from 6 April 2020.

More details are available here.

Capital Allowances: Structures and buildings allowance (SBA) rate

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.

Business rates

Business rates retail discount – The government has already announced that, for one year from 1 April 2020, the business rates retail discount for properties with a rateable value below £51,000 in England will increase from one third to 50% and will be expanded to include cinemas and music venues. To support small businesses in response to Covid-19 the retail discount will be increased to 100% and expanded to include hospitality and leisure businesses for 2021.

Local authorities will be fully compensated for the loss of income as a result of these business rates measures.

Business rates review – The government is launching a fundamental review of business rates to report in the autumn. The Terms of Reference for this review are published alongside the Budget and a call for evidence will be published in the spring.

Valuation Office Agency (VOA) business systems transformation programme – The government will invest an additional £11.5 million in the VOA in 2020-21 to support the modernisation of VOA systems and processes, to increase efficiency and improve customer service in the future.

Review of Enterprise Management Incentives (EMI) scheme

The government will review the EMI scheme to ensure it provides support for high-growth companies to recruit and retain the best talent so they can scale up effectively, and examine whether more companies should be able to access the scheme.

Research & Development Expenditure Credit (RDEC) rate

The rate of RDEC will increase from 12% to 13% from 1 April 2020, supporting businesses investing in R&D and helping to drive innovation in the economy.

Consultation on R&D tax credit qualifying costs

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

Preventing abuse of the R&D relief for small and medium-sized enterprises: Summary of responses and consultation

Following consultation last year, the introduction of the PAYE cap on the payable tax credit in the SME R&D schemes will be delayed until 1 April 2021. The government has listened to industry and will also consult on changes to the cap's design, to ensure it targets abusive behaviour as intended while ensuring that eligible businesses are able to access the relief.

Digital services tax (DST)

As announced at Budget 2018, the government will introduce a new 2% tax on the revenues certain digital businesses earn from 1 April 2020. This will ensure the amount of tax paid in the UK reflects the value these businesses derive from their interactions with, and the contributions of, an active user base.

Intangibles reform

The government will legislate in Finance Bill 2020 to remove the pre-2002 exclusion from the Intangible Fixed Assets (IFA) regime to support UK investment in intellectual property and other intangible assets. This means tax relief for the cost of acquiring corporate intangible assets on or after 1 July 2020 will be provided under a single regime, subject to restrictions to prevent tax avoidance.

Corporate capital loss restriction

As announced at Budget 2018, from 1 April 2020, the government will restrict the proportion of annual capital gains that can be relieved by brought-forward capital losses to 50%. This measure includes an allowance that gives companies unrestricted use of up to £5 million capital or income losses each year, meaning that 99% of companies will be unaffected. Following consultation on the detailed design of the rules, the government will also exclude certain companies in liquidation from the scope of the restriction.

Review of the UK funds regime

The government will undertake a review of the UK's funds regime during 2020. This will cover direct and indirect tax, as well as relevant areas of regulation, with a view to considering the case for policy changes. The review will begin with a consultation, to be published at the Budget, on 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's funds regime.

Transfer of unlisted securities to connected companies for Stamp Duty and Stamp Duty Reserve Tax

In Finance Act 2018/19, the government introduced a targeted market value rule to prevent artificial reduction of the tax due on share acquisitions when listed shares are transferred to a connected company. This rule is being extended to unlisted shares in Finance Bill 2020 to prevent further tax avoidance. As part of this change, the government will amend legislation to prevent a double tax charge arising on certain company reorganisations.

Consultation on the tax impact of the withdrawal of the London Inter-Bank Offered Rate (LIBOR)

The government will consult to ensure that where tax legislation makes reference to LIBOR it continues to operate effectively. The consultation will also enable the government to ensure it is aware of all the significant tax issues that arise from the reform of LIBOR and other benchmarks.

Consultation on aspects of the hybrid mismatch rules

The government will publish a consultation on the corporation tax rules that apply to hybrid mismatch arrangements that seek to exploit the differences in tax treatment between two jurisdictions. The consultation seeks to ensure that the hybrid mismatch rules work proportionately and as intended.

Response to the Loan Charge Review

Response to the independent Loan Charge Review

The Budget confirms the government's response to Sir Amyas Morse's Independent Loan Charge Review and sets out the Exchequer costs of accepting the recommendations. These will be legislated for in the forthcoming Finance Bill. To implement the changes, the government will also provide HMRC with additional operational funding. However, disguised remuneration schemes continue to be used. Therefore, the government will shortly issue a call for evidence on further action to stamp out these schemes.

Tackling promoters of tax avoidance

As announced in the government's response to the independent Loan Charge Review, the government will legislate in Finance Bill 2020/21 to take further action against those who promote and market tax avoidance schemes. The legislation, which will take effect following Royal Assent, will:

- Allow HMRC to obtain information about the enabling of abusive schemes as soon as they are identified by strengthening information powers for HMRC's existing regime to tackle enablers of tax avoidance schemes
- Ensure enabler penalties are felt without delay for multi-user schemes, meaning anyone enabling tax avoidance arrangements that are later defeated will face a penalty of 100% of the fees they earn
- Enable HMRC to act promptly where promoters fail to provide information on their avoidance schemes. In particular, these changes will help HMRC obtain the information needed to bring a scheme into the Disclosure of Tax Avoidance Schemes regime and empower HMRC to act faster where avoidance schemes are being promoted
- Equip HMRC to more effectively stop promoters from marketing and selling avoidance schemes as early as possible
- Ensure promoters fulfil their obligations under the Promoters of Tax Avoidance Scheme (POTAS) regime, including where they have tried to abuse corporate structures to get around the rules

- Make further technical amendments to the POTAS regime, including preventing spurious legal challenges from disrupting the process of scrutinising promoters, so the regime can continue to operate effectively
- Make additional changes to the General Anti-Abuse Rule (GAAR) so it can be used as intended to tackle avoidance using partnership structures

HMRC's promoter strategy

On top of the legislative changes the government will introduce in Finance Bill 2020/21, HMRC will publish a new ambitious strategy for tackling the promoters of tax avoidance schemes. This will outline the range of policy, operational and communications interventions both underway and in development to drive those who promote tax avoidance schemes out of the market, disrupt the supply chain to stop the spread of marketed tax avoidance, and deter taxpayers from taking up the schemes.

Raising standards in the market for tax advice

The government will publish a call for evidence in the spring on raising standards for tax advice. 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.

Tax administration

Future of Making Tax Digital

The government will publish an evaluation of the introduction of Making Tax Digital for VAT, along with related research.

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 which many large businesses already follow. The government will consult shortly on the detail of the notification process.

Protecting your taxes in insolvency

As announced at Budget 2018, the government will change the rules so that when a business enters insolvency, more of the taxes paid in good faith by its employees and customers and temporarily held in trust by the business go as intended to fund public services, rather than being distributed to other creditors. The Budget delays the commencement date of this measure from 6 April to 1 December 2020 and extends this measure to Northern Ireland. This reform will only apply to taxes collected and held by businesses on behalf of other taxpayers (VAT, PAYE income tax, employee NICs and CIS deductions). The rules will remain unchanged for taxes owed by businesses themselves, such as corporation tax and employer NICs. The legislation will be introduced in Finance Bill 2020.

Clarifying the treatment of Limited Liability Partnership (LLP) returns

The government will legislate prospectively and retrospectively in Finance Bill 2020 to put beyond doubt that LLPs should be treated as general partnerships under income tax rules. This will ensure HMRC can continue to amend LLP members' tax returns where the LLP operates without a view to profit. This measure does not create any new or additional obligations or liabilities for taxpayers. It clarifies the legislation to ensure the rules work as designed and intended.

HMRC automation

As announced on 31 October 2019, the government will legislate to confirm that HMRC may use automated processes to issue taxpayers with notices to file tax returns and penalty notices. This measure will apply prospectively and retrospectively to put beyond doubt that the rules work as designed and intended. This does not create any new or additional obligations or liabilities for taxpayers.

Insurance Premium Tax (IPT) call for evidence

The government will shortly publish a summary of responses to the recent call for evidence on the operation of IPT, along with information on a forthcoming consultation setting out the next stage in reforming how IPT operates.

Funding HMRC to prepare for breathing space

The government will invest an additional £12.5 million in HMRC in 2020/21 to begin work immediately on the implementation of breathing space. From early 2021 this will mean that those in problem debt can access a 60-day breathing space, including for debts to HMRC, while they engage with debt advice and work towards a sustainable debt solution.

Important information

This summary has been prepared very rapidly and is for general information only. 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 guide represents our understanding of the law and HM Revenue & Customs practice as at 11 March 2020, which are subject to change.

It is important to note that VCT and EIS can be very high risk investments. There may be no market for the underlying shares at the time you wish to dispose of them, and there is a strong possibility of significant or complete capital loss. The tax reliefs available will depend on your personal situation, and are subject to change.

The Financial Conduct Authority does not regulate tax advice.