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2018 AUTUMN BUDGET REVIEW

Chancellor Philip Hammond presented the 2018 Autumn Budget to the House of Commons on 29 October. 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.

Inside...

Hammond delivers pre-Brexit Budget for a ‘brighter future’

Chancellor Philip Hammond has delivered his second Autumn Budget, exactly five months before Britain is due to leave the European Union.

The Chancellor was in bullish mood, asserting that the era of austerity is ‘finally coming to an end’ after a ‘long, hard journey’. However, he maintained that UK debt remains too high and highlighted the importance of continuing to reduce debt and borrowing.

Citing the latest economic forecasts from the Office for Budget Responsibility, Mr Hammond revealed that the UK growth forecast has been upgraded from 1.3% to 1.6% for 2019, while public borrowing in 2018/19 is set to be £11.6bn lower than previously forecast at the time of the Spring Statement.

With the Brexit negotiations ongoing, the Chancellor announced an additional £500m of departmental funding for Brexit preparations. He also raised the possibility of upgrading the 2019 Spring Statement to a ‘full fiscal event’ if no deal was agreed.

Key announcements for businesses include a two-year cut in business rates for small retail properties in England from April 2019, worth £900m, together with a £675m fund to help rejuvenate high streets. The Annual Investment Allowance will also increase from £200,000 to £1m for a period of two years.

Meanwhile, individual taxpayers are set to benefit from a bringing forward of the planned increase in the income tax personal allowance, which will rise by a further £650 in April 2019 to £12,500. The higher rate threshold will also increase from £46,350 to £50,000. However, from 2021, both thresholds will rise in line with CPI inflation.

As widely anticipated, the Chancellor confirmed plans to introduce a new tax on the UK revenues of digital services companies from 2020, applying to those with global sales of more than £500m per annum. However, plans for a tax on takeaway coffee cups were overruled in favour of a new tax on plastic packaging containing less than 30% recycled material.

Other announcements include confirmation of an extra £20.5bn for the NHS over the coming five years, together with additional funding to help welfare claimants transfer to Universal Credit.

An additional £950m will be made available for the Scottish government, with £550m for the Welsh government and £320m for the Northern Ireland Executive for the period to 2020/21.

Duties

Alcohol and tobacco duties

The duty rates will be frozen for:

- duty rates on beer
- duty rates on spirits and other drinks above 22% alcohol by volume (abv)
- duty rates on still cider and perry, and lower strength sparkling cider and perry.

The duty rates on wine and made-wine at or below 22% abv, and high strength sparkling cider above 5.5% abv will rise by RPI inflation from 1 February 2019.

The duty rate on all tobacco products will continue to increase by 2% above RPI inflation. It was also announced that hand-rolling tobacco will rise by an additional 1%, to 3% above RPI inflation this year. The new tobacco duty rates will have effect from 6pm on 29 October 2018.

Fuel duty

Fuel duty will be frozen for the 2019/20 tax year.

Business tax

Corporation tax

Corporation tax rates are as follows:

Financial year from	1 April 2018	1 April 2019	1 April 2020
Corporation tax rate	19%	19%	17%

Annual Investment Allowance (AIA)

The AIA will be temporarily increased from £200,000 to £1m. This change will have effect in relation to qualifying expenditure incurred from 1 January 2019 to 31 December 2020.

Capital allowances - special rate pool

The rate of writing down allowance on the special rate pool of plant and machinery will be reduced from 8% to 6%. The new rate will be effective from 1 April 2019 for businesses within the charge to corporation tax and 6 April 2019 for businesses within the charge to income tax.

Structures and Buildings Allowance (SBA)

The government will introduce a new SBA to provide relief for qualifying expenditure on new non-residential structures and buildings. Relief will be available for eligible expenditure incurred where all contracts for the physical construction works are entered into on or after 29 October 2018. Relief will not be available for the costs of land or dwellings. The SBA will be available at an annual rate of 2%. This will be at a flat rate, calculated on the amount of original construction expenditure. There will not be a system of balancing charges or balancing allowances on a subsequent disposal of the asset. Instead, a purchaser will continue to claim the annual allowance of 2% of the original cost.

Corporate capital loss restriction

The government will legislate to restrict companies' use of carried forward capital losses to 50% of capital gains from 1 April 2020. The measure will include an allowance that provides companies unrestricted use of up to £5m capital or income losses each year. An anti-forestalling measure to support this change will have effect on and after 29 October 2018.

Research and Development (R&D) tax relief

A limit will be introduced on the amount of payable tax credit that can be claimed by a company under the R&D SME tax relief. The limit will be set at three times the company's total PAYE and NICs payment for the period. The change will have effect for accounting periods beginning on or after 1 April 2020. Any loss that a company cannot surrender for a payable credit can be carried forward and used against future profits.

Motor vehicle benefits-in-kind

Car and fuel benefits

The taxable petrol and diesel car benefit is based on the car's CO_2 emissions. It is calculated using the car's UK list price and applying the 'appropriate percentage', as shown in the table below.

The diesel supplement increased to 4% from 6 April 2018. It is removed altogether for diesel cars which are certified to the Real Driving Emissions 2 (RDE2) standard. The car fuel benefit is calculated by applying the same percentages to the fuel benefit charge multiplier, which for 2019/20 is £24,100.

2020/21 sees the introduction of a new range of bands with appropriate percentages ranging from 2%-19% for ultra-low emission vehicles (ULEVs) emitting less than 75 g/km of CO_2. Cars with emissions over this amount would see the appropriate percentage set at the lesser of: 20%, plus 1% for each 5 g/km by which emissions exceed 75 g/km; and 37%.

Company vans

The taxable benefit for the unrestricted private use of vans is £3,430 for 2019/20. There is a further £655 taxable benefit if the employer provides fuel for private travel.

CO_2 emissions (g/km)	Appropriate percentage	
	Petrol %	Diesel %
0 - 50	16	20
51 - 75	19	23
76 - 94	22	26
95 - 99	23	27
100 - 104	24	28
105 - 109	25	29
110 - 114	26	30
115 - 119	27	31
120 - 124	28	32
125 - 129	29	33
130 - 134	30	34
135 - 139	31	35
140 - 144	32	36
145 - 149	33	
150 - 154	34	
155 - 159	35	37
160 - 164	36	
165 and above	37	

National insurance contributions (NICs)

2019/20 Class 1 (employed) rates

Employee		Employer	
Earnings per week	**%**	**Earnings per week**	**%**
Up to £166	0	Up to £166	0
£166.01 - £962	12	Over £166	13.8
Over £962	2		

Entitlement to contribution-based benefits for employees retained for earnings between £118.01 and £166 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	£3.00
	Small profits threshold	£6,365 per annum
Class 3 (voluntary)	Flat rate per week	£15.00
Class 4 (self-employed)	On profits between £8,632 - £50,000	9%
	Excess over £50,000	2%

In a change to the government's previous plans, Class 2 NICs are no longer set to be abolished from April 2019.

VAT: treatment of vouchers

The government will implement an EU Directive on the VAT treatment of vouchers to ensure that the correct amount of VAT is charged on what the customer pays, irrespective of whether payment is with a voucher or other means of payment.

This measure introduces legislation providing for the VAT treatment of vouchers issued on or after 1 January 2019.

It affects only vouchers for which a payment has been made and which will be used to buy something.

The measure does not apply to vouchers issued before 1 January 2019, for which existing rules will continue to apply.

Value Added Tax

The rates for 2019/20 are as follows:

From	1 April 2019
Standard rate	20%
VAT fraction	1/6
Reduced rate	5%

Turnover limits

Registration - last 12 months or next 30 days over	£85,000
Deregistration - next 12 months under	£83,000

What they said...

'I present to the House a Budget for Britain's future; a Budget that shows the perseverance of the British people finally paying off.'

Philip Hammond, Chancellor of the Exchequer

'What we've heard... are half measures and quick fixes while austerity grinds on.'

Jeremy Corbyn, leader of the Labour Party

'In an atmosphere of unprecedented uncertainty and heightened political noise, the Chancellor has demonstrated that he is listening to business concerns by delivering a Budget that supports investment and growth.'

Dr Adam Marshall, Director General of the British Chambers of Commerce

Employment measures

Off-payroll working rules

Responsibility for operating the existing off-payroll working rules, and deducting any tax and NICs due, will move from individuals to the organisation, agency or other third party paying an individual's personal service company. Small organisations will be exempt. This change will come into effect from 6 April 2020.

Employment Allowance

The government will legislate to restrict access to the 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. This will take effect from 2020.

Income tax

Income tax rates and bands

2019/20		2018/19	
Band £	**Rate %**	**Band £**	**Rate %**
0 - 37,500	20	0 - 34,500	20
37,501- 150,000	40	34,501 - 150,000	40
Over 150,000	45	Over 150,000	45

Savings income

	2019/20	2018/19
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

	2019/20	2018/19
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

	2019/20	2018/19
Personal allowance	£12,500	£11,850
Personal allowance income limit	£100,000	£100,000
Marriage allowance Transferable between certain spouses where neither pay tax above the basic rate	£1,250	£1,190
Married couple's allowance (relief given at 10%) Either partner born before 6 April 1935	£8,950	£8,695
- minimum amount	£3,450	£3,360
- income limit	£29,600	£28,900
Blind person's allowance	£2,450	£2,390

Devolved income taxes

The Scottish income tax rates and bands for 2019/20 will be announced in the Scottish Budget.

From 6 April 2019, the UK government will reduce the basic, higher and additional rates of income tax paid by Welsh taxpayers by 10%, and three Welsh rates of income tax will then be added to the reduced UK rates. The Welsh government proposes to set the first Welsh rates at 10%.

"The era of austerity is finally coming to an end."

Chancellor Philip Hammond

Capital gains tax (CGT)

Entrepreneurs' Relief: minimum qualifying period extension

A new measure increases the minimum period throughout which certain conditions must be met to be eligible for Entrepreneurs' Relief from one year to two years.

This measure affects individuals who dispose of all or part of their business, individuals who dispose of shares in their personal company on or after 6 April 2019, and trustees who dispose of trust business assets.

It will have effect for disposals on or after 6 April 2019, except where a business ceased before 29 October 2018. Where the claimant's business ceased, or their personal company ceased to be a trading company (or the holding company of a trading group), before 29 October 2018, the existing one year qualifying period will continue to apply.

Entrepreneurs' Relief: definition of a 'personal company'

A new measure adds two new tests to the definition of a 'personal company'.

Both conditions, as well as the existing 'share capital' and 'voting rights' conditions must be met throughout the specified period. The new conditions require the individual to be beneficially entitled to at least 5% of the company's distributable profits, and 5% of its assets available for distribution to equity holders in a winding up.

The measure has effect for disposals on or after 29 October 2018.

CGT payment window

UK residents will be required to make a payment on account of CGT following the completion of a residential property disposal. The new legislation will also replace and extend the existing reporting and payment on account rules for non-UK residents.

The above changes to the legislation will apply to disposals by non-UK residents on or after 6 April 2019. For UK residents the changes will have effect for disposals on or after 6 April 2020.

CGT private residence relief: reform of ancillary reliefs

From April 2020 the government will make two changes to private residence relief. The final period exemption will be reduced from 18 months to nine months. There will be no changes to the 36 months that are available to disabled persons or those in a care home.

Lettings relief will be reformed so that it only applies in circumstances where the owner of the property is in 'shared-occupancy' with a tenant.