Technical Connection

CONTENTS

Published by Technical Connection Ltd,
7 Staple Inn, London, WC1V 7QH.
Tel: 020 7405 1600 Fax: 020 7405 1601
E-mail: enquiries@technicalconnection.co.uk
www.techlink.co.uk

INCOME TAX

In this bulletin we focus on changes and consultations announced in the Spring 2020 Budget speech and supporting papers of relevance to financial advisers.

Rates of tax 2020/21

(i) The limit for the starting rate for savings income remains at £5,000 and the rate of tax on income in this band is held at zero.

(ii) The basic rate limit remains at £37,500 so that the higher rate tax threshold [i.e. the basic rate limit (£37,500) plus the basic personal allowance (£12,500)] remains at £50,000.

(iii) The basic rate of tax remains at 20% and will apply to taxable income in the band £1 to £37,500. Dividends in excess of the £2,000 dividend allowance will be taxed at 7.5% if they fall within the basic rate tax band. Taxable income in excess of £37,500 will be taxed at 40% (32.5% for dividends) up to the threshold of £150,000 when the additional rate of tax applies – see (iv) below.

(iv) The additional rate of tax (which applies to taxable income in excess of £150,000) remains at 45% (38.1% for dividends).

(v) Trustees of discretionary trusts are subject to income tax at 45% (38.1% on dividend income) on income above their standard rate band (normally £1,000).

(vi) For Scotland the 2020/21 higher rate tax threshold, which covers only non-dividend and non-savings income, is £43,430. Other income is subject to the UK-wide rates shown above.

(vii) Wales adhered to the UK bands for 2019/20 and the Welsh government has indicated that it will not introduce different bands in 2020/21.

Personal allowances 2020/21

(i) The personal allowance remains at £12,500. Where an individual's adjusted net income exceeds £100,000, the level of the basic personal allowance will be reduced by £1 for each £2 over £100,000 until it reaches zero. This means that in 2020/21 the basic personal allowance will reduce to zero where adjusted net income is £125,000 or more.

(ii) The married couple's allowance (MCA), which is only available provided at least one spouse was born before 6 April 1935, is increased to £9,075. There is a reduction in the MCA of £1 for every £2 additional income in excess of the total income threshold which is increased to £30,200. The MCA will not reduce below £3,510 (the "minimum amount").

(iii) Relief in respect of the MCA and maintenance payments continues to be given as a tax reduction at the rate of 10%.

(iv) Spouses and registered civil partners will be entitled to transfer £1,250 of their personal allowance (called the "marriage allowance") to their spouse or registered civil partner provided that after the transfer neither spouse pays tax at above the basic rate.

The Personal Savings Allowance

This allowance is unchanged for 2020/21. Broadly speaking, this means that if an individual is a:

– basic rate taxpayer, the first £1,000 of savings income will be untaxed;

– higher rate taxpayer, the first £500 of savings income will be untaxed;

– additional rate taxpayer, they will not receive any personal savings allowance.

The Dividend Allowance

This allowance will remain at £2,000 for 2020/21 for all individual taxpayers. No tax is paid on dividend income that falls within the personal allowance. In addition, tax is only paid on dividend income above the dividend allowance.

From 6 April 2020 the dividend tax rates will remain at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

There is no £2,000 dividend allowance for trusts. The dividend rate for trusts matches the individual additional rate of 38.1%. Dividend income that falls within the trust's £1,000 standard rate band is taxed at 7.5%.

NATIONAL INSURANCE CONTRIBUTIONS

Rates and thresholds

The Upper Earnings and Upper Profits Limits (beyond which employee/self-employed NICs are charged at 2%) for 2020/21 remains at £50,000, in line with the higher rate tax threshold.

The main rates for 2020/21 are as follows: -

- The Employee's Primary Class 1 National Insurance rate is 12% on earnings between the Primary Threshold (£183 per week - £9,500 pa) and Upper Earnings Limit (£962 per week - £50,000 pa).

- Employees, in addition, pay 2% Primary Class 1 National Insurance on all earnings above the Upper Earnings Limit (£50,000 pa).

- The Employer's Secondary Class 1 contribution rate on earnings above the Secondary Threshold (£169 per week - £8,788 pa) is 13.8%. This rate applies also to Class 1A and Class 1B contributions.

- The self-employed Class 4 rate on profits between the Lower Profits Limit (£9,500 pa) and Upper Profits Limit (£50,000 pa) is 9% and 2% above £50,000 pa.

- The self-employed Class 2 flat rate contribution is £3.05 per week when profits are above £6,475 pa.

Employment Allowance

The Employment Allowance will increase from £3,000 pa to £4,000 pa for 2020/21 but will be restricted to employers with an employer NIC bill for 2019/20 below £100,000.

CAPITAL GAINS TAX

The annual exemption

The capital gains tax annual exemption will increase from £12,000 in 2019/20 to £12,300 in 2020/21.

The annual exemption available to trustees will increase from £6,000 in 2019/20 to £6,150 in 2020/21 – although this "per trust" limit is diluted where the settlor has created more than one trust subject to a minimum of £1,230 per trust.

The rates of capital gains tax remain unchanged.

Entrepreneurs' relief

Entrepreneurs' relief (ER) provides for a lower rate of capital gains tax (10%) to be paid on a gain arising as a result of disposing of all or part of a business where certain criteria are met, subject to a lifetime limit of £10,000,000 of qualifying gains. The Chancellor announced that this lifetime limit will reduce from £10,000,000 to £1,000,000 for ER-qualifying disposals made on or after 11 March 2020. The new rules will also provide that the lifetime limit must take into account the value of ER claimed in respect of qualifying gains in the past.

There are special provisions for disposals entered into before 11 March 2020 that have not been completed. Under section 28 of TCGA 1992, the time at which the disposal is made is the time the contract is made and not, if different, the time at which the asset is conveyed or transferred. Rules will be introduced that apply to forestalling arrangements entered into before Budget day. In such cases the disposal will be subject to the £1,000,000 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 TCGA 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 test and the employee/officer test are met in respect of company B,

then, if an election is made under section 169Q TCGA 1992 (which prevents the original shares and the new holding being treated as the same asset and allows a claim for ER to be made as if the reorganisation involved a disposal of the original shares) on or after 11 March 2020, the share disposal is to be treated as taking place at the time of the election for ER purposes, meaning that the new lifetime limit of £1,000,000 will apply.

INHERITANCE TAX

There were no new announcements in relation to the rates of inheritance tax payable.

The inheritance tax nil rate band will remain at £325,000 and the residence nil rate band will, as previously announced, increase to £175,000 from 6 April 2020 for those with estates below £2 million.

SAVINGS AND INVESTMENTS

Individual Savings Accounts (ISAs)

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

Junior ISA and Child Trust Funds

The annual subscription limit for 2020/21 will be increased significantly from £4,368 to £9,000.

Regulation of pre-paid funeral plans

Following a consultation in 2018, and call for evidence in 2019, it was announced that the Government will introduce a number of measures intended to regulate funeral plan providers including bringing them within the remit of the FCA. This will require changes to secondary legislation and the new regulatory framework is likely to be in place within two years.

PENSIONS

• Lifetime allowance

The lifetime allowance will be £1,073,100 from 6th April 2020.

• Tapered annual allowance changes

As expected, the Chancellor announced that the threshold income level for the tapered annual allowance will be increasing in 2020/21. However, the increase was more significant than expected, increasing by £90,000. The threshold income level will now be set at £200,000 and the adjusted income level will be set at £240,000.

In addition, the minimum the taper can take the annual allowance down to will now be £4,000, a reduction from £10,000 previously. The minimum will be reached when adjusted income is £312,000 or more.

One small comment made in the Red Book was that proposals to offer greater pay in lieu of pension contributions for senior clinicians in the NHS Pension Scheme will not be taken forward. This may impact plans already in place for some senior clinicians for the next tax year.

• Call for evidence on pension tax administration

The Government has again committed to reviewing options for addressing the tax relief for low earners. This issue occurs for those in ‘net pay’ pension schemes who don’t pay any tax so receive no relief, in comparison to those in ‘relief at source’ schemes who will get basic rate relief by default. The publication of a call for evidence on pension tax relief administration is awaited.

LIFE POLICY TAXATION

The Government will legislate to put beyond doubt the calculation of top-slicing relief by specifying how income tax allowances and reliefs can be set against chargeable event gains arising under life assurance policies. These new rules will apply to all relevant gains occurring on or after 11 March 2020.

In more detail, legislation will be introduced in Finance Bill 2020 to amend sections 535 to 537 in Chapter 9, Part 4 of the Income Tax (Trading and Other Income) Act 2005 to permit the personal allowance to be reinstated within the taxpayer's top-slicing relief calculation where it has been reduced by reason of including a chargeable event gain in their other income for the year.

This broadly means that in a situation where an individual can benefit from top-slicing relief, it would be the 'slice' of the chargeable event gain that would be added to their other income to determine the loss of any personal allowance.

The personal allowance reduces by £1 for every £2 for those with adjusted net income in excess of £100,000. This means that there will be no personal allowance available once adjusted net income exceeds £125,000.

So, for example, if a client had adjusted net income of £40,000 and incurred a chargeable event gain of £90,000 by encashing an investment bond on 1 April 2020 that had been owned for 10 years, in calculating the tax on the top-sliced gain £9,000 would be added to £40,000 to determine any loss of personal allowance as opposed to £90,000. In this example, if the whole gain were added to other income this would amount to £130,000 so the client would have lost full entitlement to their personal allowance. However, by adding the top-slice of £9,000 to other income of £40,000 in calculating the tax on the top-slice (and thus top-slicing relief) they actually benefit from their full personal allowance.

This change follows the decision reached in the recent First-tier Tribunal case of Marina Silver v HMRC. Here HMRC argued that it should be the full gain that should be added to other income to determine loss of any personal allowance in calculating the tax on the top-sliced gain but lost the case. HMRC has appealed and the appeal is expected to be heard as and when possible.

The legislation will also be amended to confirm that when carrying out the top-slicing relief tax calculations, allowances and reliefs (in section 25(2) of the Income Tax Act 2007) have to be set as far as possible against other income in preference to the chargeable event gain.

This change is effective for chargeable events that occur on or after 11 March 2020. Earlier chargeable events will be dealt with under the previous rules. Special rules may apply when two or more chargeable events occur in tax year 2019/20 or 2020/21.

TRUST TAXATION

There were no announcements in the Budget in relation to trusts.

The annual CGT exemption available to trustees will increase from £6,000 to £6,150 from 6 April 2020 – although this limit will be diluted according to the number of trusts created by the same settlor but will not be less than £1,230 per trust.

EMPLOYEE BENEFITS

- **Tax treatment of welfare counselling provided by employers**

The Government will extend from April 2020 the scope of non-taxable counselling services to include related medical treatment, such as cognitive behavioural therapy, when provided to an employee as part of an employer's welfare counselling services.

- ### Neonatal Leave and Pay

The Government is to create an entitlement to Neonatal Leave and Pay for employees whose babies spend an extended period of time in neonatal care providing up to 12 weeks paid leave so that parents do not have to choose between returning to work and taking care of their vulnerable new-born. The implementation date for this change has not yet been set.

CORPORATION AND BUSINESS TAX

- ### Corporation tax rate

The rate of corporation tax will remain at 19% despite an earlier announcement it would reduce to 17%.

- ### Digital services tax

As announced in the 2018 Budget, the Chancellor confirmed the commencement of the digital services tax from 1 April 2020. The 2% tax on certain digital revenue streams is designed to ensure the tax paid in the UK reflects the value of the business' interaction with and business revenue generated in the UK.

- ### Business Rates

Business rates have been removed for the vast majority of businesses for the next financial year.

The Government has already announced the Business Rates retail discount will be increased to 50% in 2020/21. To support small businesses affected by COVID-19 the Government is increasing it further to 100% for 2020/21. The relief will also be expanded to the leisure and hospitality sectors. The change will come into effect from April 2020.

- ### Coronavirus measures and support for businesses

In an attempt to mitigate the financial impact of the Coronavirus, the Chancellor announced a number of measures to help small businesses which are now being implemented.

- ### Support for the self-employed

The Government has committed to improve the access to finance and credit for self-employed individuals by extending funding for the start up loan program and improving the guidance for self-employed people applying for mortgages.

The Government will make it easier for self-employed people to find the information and guidance that is relevant to them and their business. The Budget announced that HMRC will launch new interactive guidance in Summer 2020 which will make it easier for self-employed taxpayers to navigate the tax system.

Additionally, the Government will consider how to provide appropriate support to self-employed parents so that they can continue to run their businesses, as part of its wider review of Parental Pay and Leave.

PROPERTY TAX

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

Following a consultation last Spring, it has been confirmed that the Government will introduce a 2% SDLT surcharge on non-UK residents purchasing residential property in England and Northern Ireland. The non-resident surcharge will be in addition to the 3% surcharge for second homes – taking the possible top rate of SDLT for overseas buyers to 17%. Legislation will be included in Finance Bill 2020/21.

The surcharge will apply from 1 April 2021. Where contracts are exchanged before 11 March 2020 but complete or are substantially performed after 1 April 2021, transitional rules may apply subject to conditions.

- ### Annual Tax on Enveloped Dwellings (ATED)

The ATED charges will rise by 1.7% in line with the September 2019 Consumer Prices Index. The new rates will apply from 1 April 2020.

TAX AVOIDANCE

- ### General Measures

The Government has acted to restrict the benefits of certain tax reliefs/exemptions, most notably CGT entrepreneurs' relief where the lifetime limit for the 10% reduced rate will reduce from £10m to £1m (see pages 3 and 4 above). Measures are included to prevent non-genuine transactions completed before 11 March 2020 from benefiting from the old higher limit.

- ### The Loan Charge

There has been much press coverage of the Loan Charge. Basically, this is an income tax charge payable on moneys lent (rather than paid as employment income) to individuals working within the UK. Because of the severity of the provisions – including the proposed penalties – and the resulting outcry, the Government agreed to an independent review of the Loan Charge. As a result of this review, the proposed charges have been lightened in a number of areas – in particular, it will only now apply to outstanding loans that were granted between 9 December 2010 and 5 April 2019. Originally it was proposed that it would apply to loans granted after 5 April 1999. However, HMRC acknowledges 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.

This will be legislated for in the Finance Bill 2020.

- **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 and

- make additional changes to the General Anti-Abuse Rule (GAAR) so it can be used as intended to tackle avoidance using partnership structures.

INCOME WITHDRAWAL RATE FOR APRIL 2020

The appropriate gilt yield, used to determine the 'relevant annuity rate' from HMRC's tables for an adult member commencing income withdrawals (or reaching an income withdrawal review date), in April 2020 is 0.5%.

The contents of this Budget bulletin are based on the proposals put forward by the Chancellor in his Budget speech on 11 March 2020. These need to be approached with caution as the details may change during the passage of the Finance Bill through Parliament.