12 March 2020

Budget
March 2020

People and taxes

Highlights from the Budget announcements and documents released on 11 March

The Chancellor presented the new Government's first Budget on 11 March as seeking to provide ‘security today’ and ‘prosperity tomorrow’.

He addressed the nature of the economic challenge posed by the COVID-19 outbreak and set out his overall strategy for what he recognised was likely to be a temporary disruption that will nonetheless have a significant impact on the UK economy. He announced extraordinary measures representing £7bn to support the self-employed, businesses and vulnerable people which is on top of a £5bn emergency response fund. Those measures are on top of plans to provide an additional fiscal loosening of £18bn to support the economy this year.

The March Budget will be followed by a Spending Review (to be concluded in July) and another Budget, probably in November.

The Finance Bill 2020 is due to be published on 19 March 2020 and is expected to receive Royal Assent in the summer of 2020.

Personal taxes

Rates and allowances

The income tax personal allowance remains at £12,500 from 6 April 2020, with the rate at which higher rate tax becomes payable in 2020-21 also remaining at £50,000. It was previously announced that these thresholds would be frozen for 2020-21 and will then increase in line with inflation (CPI) in future years.

Please note that these thresholds will apply to all types of income for taxpayers in England and Northern Ireland. The Scottish Parliament currently sets income tax rates and thresholds on non-savings and non-dividend income for Scottish taxpayers. The Welsh Government also sets a Welsh rate of income tax for Welsh taxpayers for non-savings and non-dividend income.

The starting rate for savings income is unchanged at 0% and the starting rate limit for savings will remain at its current level of £5,000 for 2020-21.

The dividend allowance for 2020-2021 will remain at its current level of £2,000. The dividend tax rates have remained unchanged.

The capital gains tax annual exempt amount for individuals has increased to £12,300 for 2020-21. There are no changes to personal income tax and capital gains tax rates for 2020-21.

The total amount that individuals can save each year into all ISAs from 6 April 2020 will remain at £20,000. The annual subscription limits for Junior ISAs and Child Trust Funds for the tax year 2020-21 have been increased significantly to £9,000.

Changes to entrepreneurs' relief

As widely anticipated the Chancellor announced changes to entrepreneurs' relief. Entrepreneurs' relief reduces the capital gains tax rate from 20% to 10% for qualifying gains up to the lifetime limit. The lifetime limit of qualifying gains will be reduced to £1m (from £10 million) for disposals made on or after 11 March.

There are a number of anti-forestalling provisions which apply to disposals made before 11 March. In particular, these provisions may apply to individuals who have undertaken planning to trigger Entrepreneurs' relief before 11 March or who have not yet made elections to disapply the tax-free share reorganisation provisions for share reorganisations which have taken place in 2019-20 in order to claim Entrepreneurs' Relief.

Pensions

Against a background of pension issues affecting the availability of NHS staff, the Chancellor announced changes to the tapering of the annual allowance for pension savings from 6 April 2020.

The annual allowance restricts the amount of tax-relieved pension savings that can be accrued in a tax year. Since 2016-17, the annual allowance has been tapered for individuals with both "threshold income" and "adjusted income" above the applicable limits (currently £110,000 and £150,000) in a tax year. From the 2020-21 tax year onwards, both limits will be increased by £90,000 each, to £200,000 and £240,000 respectively.

The minimum tapered annual allowance available will be reduced from £10,000 to £4,000 with effect from 6 April 2020. The annual allowance will be reduced by £1 for every £2 that an individual's income exceeds the adjusted income (i.e. £240,000). This means that the lower annual allowance will only affect individuals with adjusted income of over £300,000. For those with incomes between £110,000 and £300,000 it may be possible to make increased pension contributions.

The lifetime allowance for pension savings will increase in line with CPI, as set out in legislation, rising to £1,073,100 for the 2020-21 tax year.

Changes to ancillary reliefs in capital gains tax private residence relief

The Government has confirmed measures will be included in the Finance Bill to make changes to a number of reliefs that are ancillary to the main capital gains tax private residence relief (PRR). These changes include reducing the final period exemption from 18 months to 9 months (whilst retaining the existing the 36 months that are available to disabled persons or those in a care home), reforming lettings relief so that it only applies in those cases where the owner of the property shares occupancy with a tenant and some minor technical changes to the PRR rules.

Top-slicing relief

The policy objective behind top-slicing relief was to ensure that those realising an insurance policy gain in a year were taxed at their marginal rate and treated fairly. However, the changes to the reduced personal allowance has meant that some of those individuals have had their personal allowance removed due to an insurance policy gain arising in a particular year. The changes included in the Budget 2020 ensure that personal allowances are included in top-slicing relief calculations.

Employment taxes

NIC changes

It had already been announced that the Employment Allowance under which employers are entitled to a reduction in their secondary Class 1 NIC bill would be restricted to employers whose total secondary Class 1 NIC bill in the last tax year was less than £100,000. In this Budget the Chancellor increased the amount of the Employment Allowance from £3,000 to £4,000.

The Chancellor also announced a rise in the primary threshold, the point at which employees pay NIC, to £9,500 from April 2020, increasing it from the current level of £8,632. It is this Government's stated ambition to match the primary threshold to the same level as the current personal allowance of £12,500.

To support the employment of veterans, employers will be entitled to a Class 1 NIC holiday for the first year of the veterans' civilian employment. The holiday will exempt employers from any Class 1 NIC liability on the veterans' salary up to the Upper Earnings Limit. Whilst this arrangement is to apply from April 2022, transitional arrangements will be in place for 2021-22 which will enable employers to claim the holiday from April 2021.

Statutory Sick Pay

Following recent announcements that Statutory Sick Pay (SSP) will temporarily be paid from the first day of sickness absence rather than the fourth day for people who have COVID-19 or have to self-isolate, the Chancellor has announced that the Government will temporarily extend SSP to include individuals who are unable to work because they have been advised to self-isolate and to people caring for those within the same household who display COVID-19 symptoms and have been told to self-isolate.

The Government also recognises that employees below the Lower Earnings Limit (and self-employed people) are not entitled to SSP and has commented that the best system of financial support for these people is the welfare system. The Chancellor has announced further support by making it quicker and easier for these groups to receive benefits.

The Chancellor also announced support for eligible employers to enable them to cope with the extra costs of paying COVID-19 related SSP by refunding eligible SSP costs. The eligibility criteria for the scheme are that:

- The refund will be limited to two weeks per employee
- Only employers with fewer than 250 employees will be eligible, based on the number of employees they employed as of 28 February 2020
- Employers will be able to reclaim expenditure for any employee who has claimed SSP 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 period of eligibility for the scheme will commence from the day on which the regulations extending SSP to self-isolators come into force

The Government will work with employers over the coming months to set up a repayment mechanism for employers as soon as possible.

Changes to company car and van benefit charges

From April 2021, employers will be charged a nil rate benefit tax charge on zero-emission vans caught within the van benefit charge.

As expected, fuel and van benefit charges will increase in line with the Consumer Price Index. As announced by the Government last summer, most company cars registered from 6 April 2020 will

benefit from a reduction of two percent in the appropriate percentage before increasing by one percent in both 2021-22 and 2022-23.

Homeworking deduction

The flat rate tax deduction available to employees who work from home under homeworking arrangements with their employer, which are designed to cover the additional household expenses incurred, will increase from £4 per week to £6 per week from 6 April 2020.

Review of changes to off-payroll working rules (IR35)

The Government has confirmed that, having recently concluded a review of the planned reform and having made a number of changes to support its smooth implementation, it intends to push ahead with the changes coming into effect on 6 April 2020.

Unless covered by the 'small company' exemption, businesses engaging off-payroll workers will therefore need to finalise their plans ahead of 6 April and ensure that they deduct PAYE/NIC where required from all payments for work undertaken from 6 April.

Whilst HMRC has announced a 'soft landing' where it will not seek to charge penalties on errors made for the first 12 months, engagers and/or their suppliers will still be liable for any PAYE/NIC underpayments on the error itself.

Employer provided welfare counselling

The current rules regarding the provision of non-taxable counselling services will be extended from 6 April 2020 to include related medical treatment, such as cognitive behavioural therapy, where that treatment is provided as part of an employer's counselling service.

Upcoming employment-related reviews and consultations

The Government has announced it will be launching reviews into:

- Enterprise Management Incentives (EMI) scheme – The arrangements whereby employees of qualifying SMEs can obtain entrepreneurs' relief on certain share option gains will be examined to ensure they are effective in supporting high-growth companies, and in particular it will be determined whether more companies should be able to access the scheme
- Carers' Leave – This will provide a proposed new in-work entitlement for employees with unpaid caring responsibilities. The intention is to help employees balance their caring responsibilities with work
- Apprenticeship Levy – The Government will look at improving the way the Apprenticeship Levy operates in practice, to ensure the effective use of the funds generated.

Immigration Health Surcharge

The Chancellor has also announced an (expected) increase in the Immigration Health Surcharge to:

- £624 per person per year (from £400)
- £470 for children (from £400)
- For students and those entering on the youth mobility scheme, the surcharge will rise to £470 (from £300)

This will take effect in October 2020 for non-EEA/Swiss citizens, and January 2021 for EEA and Swiss citizens.

Neonatal Leave and Pay

The Government has announced a new entitlement for up to 12 weeks of neonatal leave and pay in respect of employees whose babies spend an extended period of time in neonatal care.

Low Pay Commission's 2020 Remit

Following its remit to the Low Pay Commission (LPC), the Government has asked the LPC to advise on recommendations on how to achieve the Government's target of the National Living Wage (NLW) reaching two thirds of median earnings by 2024. The Government has confirmed that the NLW will apply to workers aged 23 and over in April 2021, with a view to reduce the age limit to 21 and over by 2024.

Tackling Construction Industry Scheme (CIS) abuse

The Government will introduce legislation in the subsequent Finance Bill, which if refers to as Finance Bill 2020-21, to prevent non-compliant businesses from using the CIS to claim tax refunds to which they are not entitled. The measure will allow HMRC to reduce or deny the CIS credit claimed on employer returns where the sub-contractor cannot evidence the deductions and does not correct their return when asked. It will also simplify the rules covering deemed contractors, clarify the rules on allowable deductions for expenditure on materials, and expand the scope of the penalty for supplying false information when registering for the CIS. The Government will also publish a consultation on how to promote supply chain due diligence, including ideas for tackling fraud in supply chains.

Further information

For further information, please get in touch with your usual contact or one of the following:

Ian Hopkinson	ihopkinson@uk.ey.com	+ 44 20 7951 0849
Giles Capon	gcapon@uk.ey.com	+ 44 20 7951 8082
Stephanie Phizackerley	sphizackerley@uk.ey.com	+ 44 20 7951 0616
Nick Yassukovich	nyassukovich@uk.ey.com	+ 44 20 7951 9517
Sue Robinson	srobinson4@uk.ey.com	+ 44 20 7951 8194