

# Budget March 2020



## A Budget for investment

Highlights from the Budget announcements and documents released on 11 March

The Chancellor has been facing a unique set of circumstances and we saw a Budget speech split between measures to address the immediate but hopefully temporary issues caused by the COVID-19 outbreak and measures delivering on manifesto commitments for the longer-term. The Chancellor sought to give some good news to all, whether through freezing duties on all alcohol and fuel or by delivering on promises on research and development tax credits and capital allowances. Of the possible tax rises that were the subject of rumours before the Budget, only the cut in the entrepreneurs' relief lifetime limit to £1mn was delivered. The biggest tax rise, the cancellation of the 2% point cut in corporation tax to 17%, was announced last year.

There were new measures announced, such as the amendment to the corporate intangible fixed asset regime and the increase in the thresholds for the tapering of the pensions annual allowance. However, many measures covered were either included in the draft Finance Bill clauses published in July 2019 or had been announced separately (such as the amendments to the loan charge rules or the increase in the National Insurance primary and secondary thresholds to £9,500). There was confirmation of the digital services tax but no deferral of the commencement date as some respondents to our Budget survey had called for.

Some of the bigger questions have been deferred, including the wider reform of business rates and funding of social care. There was no particular focus on tax incentives to address Brexit as respondents to our survey had called for (though there was confirmation of postponed import VAT accounting from 1 January 2021 and there will be another Budget before the transition period ends). There is the promise of consultations to come, including those on disclosure by large businesses of uncertain tax positions to HMRC, whether expenditure on data and cloud computing should qualify for research and development tax credits and the detailed implementation of the plastic packaging tax.

## Business taxes

### Corporation tax rates

The Chancellor confirmed that the rate of corporation tax will remain at 19% from 1 April 2020. This measure (cancelling the enacted cut to 17%) will be made under a Budget resolution which has statutory effect under the provisions of the Provisional Collection of Taxes Act 1968. As such, it is substantively enacted for UK GAAP and IFRS on the passing of the resolution, though it will not be enacted for US GAAP purposes until Royal Assent.

### Digital services tax (DST)

The Budget confirmed that the DST will be implemented as a 2% tax on the revenues earned from 1 April 2020 that a group derives from providing a social media platform, search engine or an online marketplace to UK users, if the group exceeds designated thresholds. An exemption for financial and payment services from the definition of an online marketplace will also be included. A group's first £25mn of revenues derived from UK users will not be subject to DST.

We will need to see the Finance Bill to determine if there are any changes to the detailed legislation from the draft clauses published on 11 July 2019. In those draft clauses, a 'UK user' is a user that is normally located in the UK and there are rules to determine when, and by how much, revenues are derived from UK users. In respect of online marketplaces, there is a provision to reduce the revenues charged when the other user in respect of the transaction is normally located in a country that operates a similar tax to the DST. The draft clauses provided an option for loss-making businesses and those with very low profits to use an alternative 'safe harbour' election.

The total DST liability will be calculated at the group level but the tax will be charged on the individual entities in the group that realise the revenues that contribute to this total. The group consists of all entities which are included in the group consolidated accounts, provided these are prepared under an acceptable accounting standard. Revenues will consequently be counted towards the thresholds even if they are recognised in entities which do not have a UK taxable presence for corporation tax purposes. A single entity in the

group will be responsible for reporting the DST to HMRC.

DST will be payable annually, nine months after year-end. This means that the first payments (for a group with an April year-end with one month within the rules) will be due in January 2021, at which point progress will hopefully have been made on a globally agreed solution on changes to the international tax framework, under the auspices of the OECD. The Government has reiterated that the UK will no longer need its own DST if a global solution is reached.

### Corporate capital loss restriction

The Government confirmed that it will go ahead with introducing the new corporate capital loss restriction that was first announced at Budget 2018, and which will restrict the use of carried-forward capital losses to 50% of the amount of annual capital gains. This will have effect from 1 April 2020.

The legislation to be included in the Finance Bill will maintain the fundamental design features that were included in the draft legislation published in 2019, including the amount of annual deductions allowance (£5mn), and the particular provisions governing the interaction with the life assurance 'BLAGAB' rules as well as the oil and gas ring-fence and the REIT (real estate investment trust) property rental business ring-fence.

The July draft of the legislation will be amended such that companies which are insolvent and are being liquidated will be able to offset carried-forward capital losses against chargeable gains without restriction during the period of official liquidation.

### Consultation on hybrid mismatches

We understand that a consultation on the corporation tax rules that apply to hybrid mismatch arrangements will be published on 19 March, alongside the Finance Bill.

The consultation is expected to consider the 'double deduction' rules, the 'acting together' definition and whether it is appropriate in all cases for hybrid counteractions to arise in respect of tax-exempt entities holding interests in hybrid payees which they see as opaque, but which the UK sees as transparent.

## Intangible fixed assets (IFA)

Legislation will be introduced in Finance Bill 2020 to amend the IFA tax regime. The default rule will now be that all acquisitions on or after 1 July 2020 will prima facie be within Part 8 CTA 2009.

The general rule in Chapter 16 of Part 8 CTA 2009 that prevents 'pre-FA 2002 assets' acquired from related parties from coming within Part 8 CTA 2009 will be amended. For intangible assets which are not within the charge to corporation tax prior to acquisition, there will be no need to consider either when the intangible asset was created or whether an intangible asset acquired from a related party was a pre-FA 2002 asset in the related party's hands.

However, it seems that this will be subject to a carve out in respect of acquisitions of an IFA that is already within the charge to UK corporation tax - in that case the existing pre and post April 2002 rules will be preserved. The wording of the policy paper published alongside the Budget is not clear and we will need to see the legislation to see precisely how this change will work.

The measure follows on from the consultation reviewing the IFA regime which ran between February and May 2018.

Transitional rules will be introduced and may apply from 11 March 2020 in some cases. Rules will be introduced to prevent avoidance between related parties where a pre-Finance Act 2002 asset is acquired from a related party on or after 1 July 2020 (including a licence in respect of a pre-Finance Act 2002 asset). There will also be rules to address related party acquisitions of assets from a person who is not a company in relation to assets created before 1 April 2002.

## Research and development tax changes

As promised in the Conservative election manifesto, the Government will increase the rate of research and development expenditure credit (RDEC) from 12% to 13% from 1 April 2020 and will consult on whether qualifying R&D costs should include investments in data and cloud computing.

The new RDEC rate will increase the net RDEC benefit from the current 9.7% to 10.5% from 1 April 2020. This is the highest benefit rate for large

companies since the introduction of the R&D large company regime and is designed to encourage more investment in UK innovation.

The consultation on the potential inclusion of data and cloud computing as qualifying R&D tax credit costs will also be welcomed by businesses. These costs for many businesses are substantial and keeping the rules of the R&D regime current to reflect how businesses operate is vital to the success of the credit.

Following the consultation last year on the introduction of the PAYE cap on the payable tax credit for the SME R&D scheme, this has now been delayed, and further consultation will be undertaken on the cap's design.

## Large business notification of uncertain tax positions

The Government will launch a consultation on a new requirement, effective from April 2021, for large businesses to notify HMRC when they take a tax position which HMRC is likely to challenge. This policy, concerning uncertain tax positions, will draw on the principles outlined in international accounting standards (IFRIC 23). Similar notification requirements are already in place in other jurisdictions, including the US, Australia and Israel. It is possible that the Government may consider using those regimes as a template for the notification procedure.

## Capital allowances

- **Structures and buildings allowances (SBA):**  
The Autumn Budget 2018 introduced a new regime providing tax relief for non-residential structures and buildings for building contracts entered into on or after 29 October 2018. It was confirmed that, as had been promised in the Conservative's election manifesto, from April 2020 the rate of relief will increase from 2% to 3%, on a straight-line basis, providing an acceleration in the tax relief received for such expenditure. The relief obtained through SBA will continue to be clawed back through the chargeable gains calculation upon disposal of the asset. Further technical clarifications and adjustments to the SBA legislation will take effect from 11 March 2020 and will be contained in Finance Bill 2020.

Businesses will welcome the increase in the SBA rate to encourage investment. However, consideration should first be given to ensure that other forms of capital allowances are optimised, as these continue to provide tax relief faster than SBAs.

- **Business cars:** The Budget extends the availability of first year allowances for business vehicles with zero emissions (0g/km) until 31 March 2025. This enhanced relief was initially due to end on 31 March 2021. Thresholds on the rate of relief provided through the capital allowances regime on business vehicles will also change from 1 April 2021. From this date, cars with CO<sub>2</sub> emissions of up to 50g/km will qualify for the main rate plant and machinery pool (18% WDA), with cars with emissions larger than 50g/km qualifying for the special rate pool (6% WDA).

### **Bank surcharge changes for transferred-in losses**

The current corporate tax surcharge rules for banking groups and building societies (which apply a 8% surcharge on profits) disregard the effect of elections to transfer allowable losses from a non-banking company to a bank where they are used to reduce future chargeable gains. The new measure announced in the Budget extends this disregard to transfers of allowable losses used to reduce in-year chargeable gains. The new measure applies to losses that are deducted from chargeable gains accruing on disposals made on or after 11 March 2020.

### **Consultation on use of intermediate holding companies in alternative fund structures**

The Government has published a consultation into the use of UK intermediate entities within alternative fund structures - referred to as asset holding companies (AHCs). The consultation will seek to understand why AHCs are used in fund structures, why certain jurisdictions are selected more than others, and whether there are any specific barriers in the UK corporation tax system to UK AHCs being used more frequently.

This is particularly relevant given the increased international tax focus on principal purpose and substance, as many asset management firms have

extensive operations within the UK but may have historically chosen to establish their funds or AHCs outside the UK.

The consultation specifically discusses factors relevant to credit, real estate and private equity funds. For real estate funds, the Government has specifically identified possible extension of the substantial shareholding exemption regime and relaxation of the UK REIT regime as being under consideration. The former may provide a UK regime that is closer to European participation regimes on disposals and the latter would provide an alternative quasi tax transparent structure attractive to exempt investors.

The consultation runs from 11 March until 19 May 2020 and is part of the opening steps of a Government review of the UK funds regime. This review will consider taxation and relevant areas of regulation to ensure the ongoing competitiveness and sustainability of the UK regime as it applies to this fundamental area of the financial services sector.

### **The tax impact of the withdrawal of the London Interbank 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 of the significant tax issues that arise from the reform of LIBOR and other benchmark rates.

### **Coronavirus-related measures: time to pay**

The Government's package of measure to support individuals and businesses affected by the COVID-19 outbreak included confirmation that all businesses and self-employed people in financial distress, and with outstanding tax liabilities, may be eligible to receive support with their tax affairs through HMRC's 'time to pay' service. These arrangements are agreed on a case-by-case basis and are tailored to individual circumstances and liabilities. There is now a dedicated HMRC COVID-19 helpline for advice and support.



## Property taxes

### Business rates

The Government has announced a number of business rate measures to assist businesses experiencing disruption to their cashflow as a result of the COVID-19 outbreak. The main focus of these is on small and medium enterprises (SMEs) in the retail, leisure and hospitality sectors occupying smaller property. The measures include:

- ▶ **Business rates reliefs:** The Government had 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 would be expanded to include cinemas and music venues. This discount will now be increased to 100% and expanded to include hospitality and leisure businesses for 2020-21. In addition, from 1 April 2020, a further discount will be applied to pubs in England, increasing the previously introduced £1,000 business rates discount to £5,000 for one year for those with a rateable value below £100,000. There will also be some additional reliefs granted to local newspaper offices and public lavatories.
- ▶ **Small business grant funding:** For those businesses already benefitting from small business rate relief and rural rates relief, the Government will provide a cash grant of £3,000 to help meet their ongoing business costs.

The Government has confirmed that local authorities will be fully compensated for the loss of income as a result of these measures.

- ▶ **Business rates review:** The Government has confirmed that it will launch a fundamental review of business rates to report in autumn 2020. This review will have the objective of reducing the overall burden on businesses; improving the current business rates system; and considering more fundamental changes in the medium-to-long term. A call for evidence will be published in the spring.

The Government will also invest an additional £11.5mn in the Valuation Office Agency (VOA) in 2020-21 to support the modernisation of VOA systems and processes, to increase efficiency and improve customer service in the future.

The measures announced will provide significant benefit to SMEs but will have little to no application to companies occupying larger properties such as those high street retailers who have been lobbying for a reduction in business rates. The fundamental review into the system is a welcome one, however the application of the findings and the timescale for implementation will not provide any assistance to those larger businesses struggling with the current level of the tax. Any benefit from the review is unlikely to be seen until April 2021 at the earliest.

### Corporation tax on non-resident property companies

The Government has confirmed it will introduce technical changes to ensure that the legislation which brings non-UK resident companies that carry on a UK property business, or have other UK property income within the scope of corporation tax from 6 April 2020, work as intended.

Amendments will make provision so that when non-UK resident company landlords move into corporation tax from income tax they are entitled to the same reliefs for pre-trading financing costs and are subject to the same time limits for making elections as UK resident companies are.

### SDLT: foreign buyers additional 2% rate applicable

A further 2% charge to SDLT will apply to purchases of residential property by non-UK residents.

Although the additional charge will be introduced from 1 April 2021, the Government may provide for transitional provisions where contracts are exchanged before 11 March 2020 but complete or are substantially performed after 1 April 2021. The Government has confirmed that refunds of the additional 2% will be available for those who become resident after their purchase and that they will also publish a summary of responses to their earlier consultation shortly.

The money raised from this tax will be used to help rough sleepers.

It seems that the foreign buyers additional 2% rate will be in addition to the 3% additional supplement which is broadly payable by non-natural persons and individuals who hold additional residential properties. It is likely that a complex set of rules will apply to determine whether the purchaser is a non-resident particularly where the individual is coming to live in the UK or where the acquisition is via an entity (including a UK entity).

### **ATED relief for housing co-operatives**

The Government will introduce a new relief from the 15% slab rate of SDLT and the corresponding relief from ATED for certain housing co-operatives.

The Government will consult on this measure during the summer of 2020 and the relief will take effect for SDLT from the next Budget in autumn 2020. For ATED this will be from 1 April 2021 with a refund (of ATED) available for the ATED year 2020-21.

### **ATED Increases in annual chargeable amounts for the 2020-21 chargeable period**

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

## **Employment taxes**

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

The Government has confirmed that, having recently concluded a review of the planned reform to the off-payroll working rules 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 and 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 and NIC underpayments on the error itself.

### **National Insurance contribution (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 (SSP)**

Following recent announcements that 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 themselves 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 stated 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 (CPI). 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.

## **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 the arrangements 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 (LPC)'s 2020 remit

Following its remit to the 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 (referred 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.



## 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 CPI inflation in future years.

It should be noted 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 was 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, which is currently £10mn, will be reduced to £1mn 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 addressing pension issues affecting the availability of senior NHS staff, the Chancellor announced changes to the tapering of the annual allowance for pension savings with effect 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 (PRR)

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 PRR. These changes include reducing the final period exemption from 18 months to 9 months (whilst retaining the existing 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.

## **Indirect Tax**

### **VAT thresholds**

As in recent Budgets, the VAT registration and deregistration thresholds, and VAT rates, have remained the same.

### **Postponed accounting of import VAT**

The Government has confirmed the introduction of postponed accounting of import VAT on EU and non-EU imports from 1 January 2021, i.e. following the end of the Brexit transitional period. This will result in a cash flow advantage for businesses involved in international supply chains.

### **Zero rate of VAT on e-publications**

The Government will introduce legislation to apply a zero rate of VAT to e-publications from 1 December 2020. The legislation is expected to make clear that e-books, e-newspapers, e-magazines and academic e-journals are entitled to the same VAT treatment as their physical counterparts. The details of this legislation will be consulted on ahead of its implementation.

There is a Government expectation that any benefit from the change in VAT liability will be passed on to the consumer.

It will be interesting to see the impact this announcement has on ongoing litigation in this area. A number of businesses with e-publications have submitted protective claims to HMRC following the Upper Tribunal decision in the *Newscorp* case.

### **Plastic packaging tax**

As announced in 2018, the plastic packaging tax will be introduced from April 2022. The tax will be levied at £200 per tonne of plastic packaging that contains less than 30% recycled plastic, with a minimum threshold of 10 tonnes. The tax applies to both manufacturers and importers of plastic packaging. As a result of feedback from a public consultation in 2019, the tax at import will be extended to include filled packaging.

Further details of the design and implementation will be subject to another consultation. A potential exemption for certain medical packaging is among the points for which feedback is sought.

## Air passenger duty (APD)

The long-haul rates of APD for tax year 2021- 2022 will increase in line with the Retail Price Index (RPI), however short-haul APD rates will not rise.

A consultation will be carried out on aviation tax reform in spring 2020.

## Other indirect tax measures

- ▶ Legislation will be laid implementing changes to the VAT treatment of call-off stock arrangements between the UK and EU Member States, which will apply retrospectively from 1 January 2020, as required by EU law.
- ▶ An evaluation of the introduction of Making Tax Digital for VAT will be published.
- ▶ Changes in law have been put in place to extend the fund management exemption for special investment funds (SIFs) to cover certain pension funds and funds investing in alternative asset classes, e.g. property.
- ▶ An industry working group will be set up to review how financial services are treated for VAT purposes.
- ▶ As anticipated, the VAT rate on women's sanitary items will be reduced to the zero rate of VAT from 1 January 2021.
- ▶ It was confirmed that the VAT domestic reverse charge for qualifying building and construction services will be implemented from 1 October 2020.
- ▶ The Government will legislate in Finance Bill 2020 to increase the gross gaming yield bandings for gaming duty in line with inflation.
- ▶ Fuel duty and alcohol duty have been frozen.
- ▶ Aggregates levy will be frozen and a summary of responses published following last year's review.
- ▶ The standard and lower rates of landfill tax will increase in line with RPI.

## Environmental taxes

- ▶ A call for evidence will be launched which seeks views on how the Government can use vehicle excise duty to support the take-up of zero and ultra-low emission vehicles and reduce overall emissions from road vehicles.
- ▶ Red diesel relief will be abolished for most sectors from April 2022, however it will remain for agriculture, railways, domestic heating and fishing. A consultation on a wider reform will be launched later this year.
- ▶ With respect to the climate change levy (CCL), the electricity rate will be decreased and the gas rate will increase, so that the gas rate reaches 60% of the electricity rate from April 2021.
- ▶ The Climate Change Agreement Scheme, which enables businesses to reduce their CCL bill, will be re-opened for two years.
- ▶ The Government will maintain the carbon emissions tax as a fall back carbon pricing policy (once the UK leaves the EU) and legislate in Finance Bill 2020. In addition, HM Treasury will have the power to establish a UK Emissions Trading System (ETS) linked to the EU ETS, or a standalone UK ETS.
- ▶ The Carbon Price Support rate will be frozen.

## Indirect tax consultations

- ▶ Following the recent call for evidence on the simplification of the VAT rules on partial exemption and the capital goods scheme, the Government will continue to engage with stakeholders in relation to their responses and will publish a response in due course.
- ▶ The Government will shortly publish a response to the call for evidence on the operation of insurance premium tax (IPT), along with information on a forthcoming consultation setting out the next stage in reforming how IPT operates.
- ▶ A consultation will open on 12 March 2020 to gather views on the potential approach to duty free and tax-free goods policy after the end of the Brexit transition period.
- ▶ There will be an informal consultation on the VAT treatment of goods from overseas sellers, including low value imports and goods located in the UK when sold to UK customers.
- ▶ A consultation will take place concerning the duty treatment of alcohol after the end of the Brexit transition period.
- ▶ The Government will consult on the introduction of a levy-funded support (the so-called 'Green Gas Levy') for biomethane production with the aim of increasing the proportion of green gas in the grid.
- ▶ The Government will target the illicit tobacco trade by increasing resources and creating an HMRC intelligence sharing hub. The Government will publish a consultation on proposals for penalties to tackle evasion of tax on tobacco products.

## Tax management and administration

### Changes to loan charge rules

The Government has confirmed that it will go ahead with implementing the changes to the loan charge which were recommended by the recent Independent Loan Charge Review. The key changes are that the application of the provisions will be restricted to certain loans made after December 2010 and that a refund will be available of certain amounts paid as "voluntary restitution" under settlements with HMRC after March 2016.

### HMRC to increase staffing of tax compliance operations

An increase of around 1,300 HMRC staff in operational compliance teams has been announced, which it is estimated will raise an average of £774mn annual compliance yield over the next five years by tackling 'emerging tax risks' and by improving collection of overdue tax debt.

It is not clear whether the additional HMRC operational staff will come from redeployment within HMRC or represent additional headcount. If these are additional hires, they will represent an increase in HMRC staffing of some 2% and take overall HMRC full time equivalent payroll staff numbers back to December 2017 staffing levels of around 60,000. The projected additional compliance yield would represent a similar increase of some 2% on the total yield HMRC has reported from its compliance activities for 2018-19 of £34.1bn.

Although no detail has been given as to the areas to be covered by the additional compliance teams, HMRC has been clear that it sees international profit diversion as a continuing priority, and some further increase in HMRC's Transfer Pricing , Diverted Profits Tax and Profit Diversion Compliance Facility teams can therefore be expected as a result of this measure

## **Tax treatment of Limited Liability Partnerships (LLPs)**

The Government will introduce legislation with retrospective and prospective effect to clarify that LLPs should be treated as general partnerships under income tax rules and therefore be subject to the income tax administration provisions of Taxes Management Act (TMA) 1970, including where they are operating without a view to profit (and are therefore treated as subject to corporation tax, which has separate tax administration provisions).

The recent First-tier Tribunal decision in *Inverclyde Property Renovation LLP* had given rise to significant doubt over whether LLPs, operating with a view to profit or otherwise, are subject to the administrative provisions of TMA 1970. Although it is unclear at this stage precisely how this legislation will operate, the intention is that this will at least put beyond doubt that HMRC can amend LLP members' tax returns made under TMA 1970 provisions where the LLP operates without a view to profit.

## **HMRC automated processes and tax compliance**

As previously announced on 31 October 2019, the Government will introduce legislation to confirm that HMRC's automated processes to issue taxpayers with notices to file returns and penalty notices constitute valid notice. This measure has been introduced following a number of cases which had cast doubt over whether an identifiable HMRC officer must issue such notices in order for them to be valid. The legislation will have retrospective and prospective effect and means that the validity of a relevant notice could not be challenged on these grounds.

## **Economic crime levy**

As rumoured before the Budget, the Government has confirmed that it intends to introduce a levy to be paid by firms subject to the Money Laundering Regulations, a so-called 'economic crime levy', to fund actions to tackle money laundering and reforms committed to in the Government's 'economic crime plan'. A consultation will be published later this Spring.

## **Insolvency**

As announced in Budget 2018, when a business enters insolvency, HMRC will be a preferred creditor in respect of taxes collected and held by businesses on behalf of other taxpayers, ie VAT, PAYE income tax, employee NIC, student loan deductions and CIS deductions. Insolvency legislation will be amended to make HMRC a secondary preferential creditor in respect of these tax debts held by a business (including individuals and partnerships). The Budget on 11 March has delayed the commencement date to 1 December 2020 and extended the scope of the provision to apply in Northern Ireland.

## **Tax conditionality**

The Government will publish a discussion document seeking views on the wider application of tax conditionality in the spring. Tax conditionality refers to a principle whereby businesses are granted access to Government awards and authorisations (such as approvals, licences, grants) only if they are able to demonstrate good tax compliance.

## **Raising standards in the market for tax advice**

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



## EY Item Club report

The near-term support provided by the Government to businesses and households affected by the coronavirus occurs in tandem with the Bank of England cutting interest rates to 0.25% from 0.75% and announcing measures aimed to support bank lending, especially to small businesses. It is clear that the Treasury and the Bank of England want to present a united front to try and bolster business and consumer confidence by taking coordinated decisive action.

Looking forward, EY ITEM Club has cut its 2020 GDP growth forecast to 0.5% from 1.2%.

The Office for Budget Responsibility (OBR) has taken an underlying weaker view of the UK economy's growth potential. Consequently, the OBR has made overall reductions to its GDP growth forecasts for the UK for the next four years despite the support coming from increased government investment.

The OBR now sees UK potential output at 1.2% in 2020, rising to 1.4% in 2021 and 2022, 1.5% in 2023 and 1.6% in 2024. In its previous forecast made in March 2019, potential output was seen at 1.5% in 2020, edging up to 1.6% in 2021-23. Consequently, potential output growth is now seen averaging 1.4% a year between 2019 and 2023, down from 1.6% in the March 2019 forecast.

The OBR has cut its GDP growth forecast for 2020 to 1.1% from 1.4% (which does not allow for the potential Coronavirus impact) but raised it to 1.8% (from 1.6%) for 2021. The growth forecasts for 2022 (to 1.5% from 1.6%) and 2023 (to 1.3% from 1.6%) have both been trimmed while growth is seen at 1.4% in 2024.

These overall downgraded growth forecasts occur despite the boost to growth coming from "the large and sustained" fiscal loosening in the budget that raises output in the near term, with the effect peaking at around 0.5% in early 2022. Specifically, expected GDP growth of 1.8% in 2021 is buoyed by a forecast 10.9% increase in government investment. The previously expected growth of 1.6% in 2021 included a contribution of 2.2% from Government investment.

The OBR has sharply raised expected government borrowing. Public Sector Net Borrowing Excluding Banks (PSNBex) is now forecast to rise from £47.4bn (2.1% of GDP) in 2019-20 to £54.8bn (2.4% of GDP) in 2020-21 and £66.7bn (2.8% of GDP) in 2021-22 before coming down to £61.5bn (2.5% of GDP) in 2022-23, £60.2bn (2.4% of GDP) in 2023-24 and £57.8bn (2.2% of GDP) in 2024-25. Previously it had been seen coming down to £33.5bn (1.2% of GDP) in 2023-24.

Overall, PSNBex is forecast to be £96.3bn higher than before over the 4-year period 2020-21 to 2023-24.

The OBR has taken a more downbeat view of the UK's underlying growth capability over the next five years, reflecting a downgrading of its expectation for potential productivity growth (which it attributes to repeated weak outturns, subdued business investment and the incorporation of an effect from higher trade barriers). In the near term, this is partly offset by an upward revision to the expected labour participation rate. Further out, the OBR has revised down its forecast of net inward migration due to the new policy regime from 1 January which reduces the employment level.

It should be noted that the OBR's forecasts were made before the coronavirus concerns developed - which is likely to weigh down on near-term growth, although it should not have any longer-term repercussions.

Trying to forecast the near-term outlook for the UK economy is difficult at the moment. It is unclear how deep the impact of the coronavirus will become and how long it will last.

## What happens next?

The Budget debate is scheduled to conclude on 17 March with Finance Bill 2019-21 (as it is officially called) due to be published on 19 March.

We expect that the Finance Bill will receive Royal Assent over the summer of 2020.

We will then be due an Autumn Budget, presumably putting us back on the timetable of one fiscal event a year, in October or November, from 2021. It may be that we see draft legislation this year for the next Finance Bill (which HMRC refers to as Finance Bill 2020-21) but the timing is unclear.

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