IDH ACCOUNTANCY.

Autumn Budget 2018

Your Guide to the Budget

Your Guide To The Budget 2018

How will the changes this year affect you?

Introduction

The Chancellor of the Exchequer, Philip Hammond delivered the first Budget on a Monday since 1962. During the most crucial Budget speech in recent memory, Fiscal Phil pulled rabbits from top hats, worried about pot holes and as the opposition cried “off with his head” we had the makings of a real Mad Hatters Tea Party.

Here are some of the 2018 Budget announcements which will effect individuals and small business owners.

IDH ACCOUNTANCY.

Personal Tax

Personal Tax Allowance to Rise to £12,500 One Year Earlier than Originally Announced

The Personal Tax Allowance is set for all individuals in the UK and was due to increase to £12,500 in April 2020, however the Chancellor announced that the increase would apply one year earlier from 6th April 2019.

The increase in the threshold after which higher rates of tax are paid was also brought forward by one year and is increased to £50,000 from next April. This increase applies to non-savings and non-dividend income in England, Wales and Northern Ireland and to Savings and Dividend income throughout the UK.

The power to set the rates of tax in Scotland was devolved to the Scottish Parliament and the corresponding Scottish's rates will be announced in the Scottish Budget on Wednesday 12th December.

Tax Status of 6 New Devolved Benefits

The Scottish Government is introducing some new social security benefits and have defined these as tax exempt benefits. They are:

- Young Carer Grant
- Best Start Grant
- Funeral Expense Assistance
- Discretionary Housing Payments
- Carer's Allowance Supplement

While the Northern Ireland Executive is overseeing a new tax exempt benefit:

- Discretionary Support Scheme

Tax Alert!

Gift Aid Small Donations Scheme limit increased to £30 in line with the contactless payments limits

Tax Alert!

The Annual Subscription limit for Junior ISA's and Child Trust Funds for 2019/20 will be £4,368

Capital Gains Tax

Selling your company after budget day will add a few new hoops to jump through

Shareholders of small companies may have different rights depending on the type of shares they hold. Sometimes they have rights to a lesser or greater proportion of the profits, likewise the distribution of the assets should the company be wound up.

However, when selling a business or retiring, the shareholder wants to be certain they can benefit from a low tax rate on the money they receive, after all they have built up the business and the profits of the company have already been subject to corporation tax.

The low rate of tax is called Entrepreneur's Relief (ER). ER reduces the Capital Gains Tax (CGT) due to a rate of 10% on a maximum of £10 million of lifetime gains and was designed to encourage those with a business mind to build businesses, retaining funds in the business to make them grow rather than stripping all of the profits from the business.

From budget day 29th October 2018 the shareholders who can claim this lower tax rate are restricted to those who have rights to a minimum of:

- 5% of the company's distributable profits
- 5% of its assets available for distribution on a winding up

From budget day the timeframe for which the shares must be held has also increased from one year to two years.

Budget Buster Tip

Developing a tax efficient plan to exit a business takes time, it is recommended that the fledgling plan is in place at least 12 months before the planned sale or retirement. If you would like help in looking at succession planning please speak to us.

Budget Busting Tip

The PPR relief changes will affect any individual looking to sell a former residence which has been let and will potentially increase the CGT payable. If you are considering selling a former home which has been let, speak to us prior to the sale so that the best tax outcomes can be considered.

Tax Alert!

Capital Gains Tax Annual Exemption Increased to £12,000 from April 2019

Capital Gains Tax – Principle Private Residence (PPR) and Letting Relief

Capital Gains Tax (CGT) is due when an asset is sold at a profit. However, it is generally the case when an individual sells a property which, throughout their period of ownership, has been their only or main residence the gain in value is exempt from CGT.

Sometimes for personal or investment reasons a property, which has been an only or main residence is retained and not sold, possibly let to tenants. In these circumstances CGT is due on the proportion of the profit or gain which relates to the period when the property was a let property but it is not due on the period of time the property was the only or main residence.

The final period of ownership is always deemed to be part of the PPR calculation to allow for a period of time when the property might be empty, for example, whilst arranging for a sale.

This period has been falling from its original 36 months, down to 18 months and Budget 2018 announced that from April 2020 the period will be further reduced to 9 months.

The 2018 Budget has also drastically reformed a long standing relief known as Letting Relief.

Letting Relief is used to reduce the gain chargeable when a property had been both an individual's main residence and also a let property during the period of ownership. Budget 2018 announced that from April 2020 Lettings Relief will no longer be available except in the exceptional circumstances where the owner is in shared occupancy with a tenant.

Business Tax

Private Sector Contractors

Since 2016 many contractors working on contracts within the public sector have found it increasingly difficult to be paid for work done on an invoice basis. The public sector body has been required under the IR35 rules to assess if the contractor was in fact an employee and, often with little or no understanding of these complex employment status rules, HR departments have been regularly assessing the contractor to be an employee and as such deducting PAYE tax and employees NIC.

Sadly this employment classification does not give the contractor the same rights as an actual employee to, for example sick, holiday or maternity/paternity pay, making the legislation unpopular with contractors.

In the 2018 budget the Chancellor has extended this rule to the contracts between contractors and large and medium sized private sector businesses and it will come into play from April 2020.

Moving to Electric Vehicles for Business

In order to encourage the use of electric vehicles for businesses the Budget 2018 gives 100% allowances for the expenditure incurred by businesses on the installation of electric charge point equipment. Meaning a business can set all of the cost of the qualifying expenditure against its profits for the year in which the expenditure is incurred and reduce its tax bill.

> “The Budget 2018 gives 100% allowances for the expenditure incurred by businesses on the installation of electric charge point equipment.”

Budget Buster Tip

If you are a contractor engaged on either public or private sector contracts it is wise to undertake a contract review to assess vulnerability to the IR35 rules.

Budget Busting Tip

With any capital allowance it is important that the expenditure is timed to maximum effect. The 100% allowance for the installation of electric charge point equipment commences on 1st Aril 2019 for Corporation Tax and 6th April 2019 for Income Tax and ends on 31st March 2023 and 5th April 2023 respectively.

There may be an optimum time to make the purchase, depending on your accounts year end so please speak to us during the planning stage.

The Return of Allowances for Expenditure on Commercial Buildings.

A new Structures and Buildings Allowance (SBA) will be immediately available on the eligible construction costs of new commercial structures and buildings.

The allowance is intended to give tax relief over a period of time for the construction costs of buildings intended for commercial use, for the costs of improvement of existing structures and buildings including the cost of converting existing premises for use in a qualifying activity.
If the structure or building is of mixed use i.e. it has some residential element then the relief will be apportioned accordingly.

It is not available for workspaces within a domestic dwelling, for example a home office.

The relief will be limited to the original construction or renovation costs over a fixed period of 50 years at a rate of 2% per year. This will be granted regardless of changes of ownership.

Top Tip

The relief is available to businesses paying either corporation tax or income tax but because tax year end dates may not be the same as accounts year end dates it is important to discuss any purchase with us prior to completion. There may be an optimum purchase date to achieve maximum tax benefits.

Remember there remain options to claim tax relief for plant and machinery which forms part of the integral features of buildings, for example air conditioning. This is a separate but still an important allowance to be reviewed prior to completing and purchase.

Budget Buster Tip

If you are planning any expenditure on plant or machinery to be used in your business please speak to us before making the purchase.

Where your accounts year end falls within the increased rate period transitional rules will mean some expenditure may fall in the lower rate period and you may not receive all of the allowances expected. The timing of any purchase will be crucial to ensure the maximum allowance is available.

The Annual Investment Allowance (AIA)

The AIA is specifically for expenditure on plant and machinery with a few exceptions, the main one being cars. It's a beneficial allowance of 100% of the expenditure incurred, with a limit for the period. Budget 2018 announced that AIA limit will increase for one year from 1st January 2019 until 31st December 2020 from £200,000 to £1 million pounds.

Business Rates for the High Street

The Business Rates for Shops, Pubs, Restaurants and Cafes will be cut by one third if their rateable value is below £51,000. It is estimated that will be up to 90% of all High Street retail properties. This cut will be for 2 years from April 2019.

"The Business Rates for Shops, Pubs, Restaurants and Cafes will be cut by one third if their rateable value is below £51,000."

Employment Taxes

Employment Allowance Restricted

Employment Allowance has been a major boost for some small businesses, reducing the employer's National Insurance Contribution (NIC) payments down by a maximum of £3,000 where there is one employee or more working in the business and earning over the threshold.

In the budget 2018 the Chancellor restricted this allowance to employers with NIC payments due of less than £100,000 in the last tax year.

Top Tip

The Employment Allowance remains a fantastic way to keep employment cost down. Speak to us if you are a sole director and employee of your company as it is possible that by employing someone on a part time basis or fairly low income level could be very cost efficient for your company.

Tax Alert!

National Living Wage increased to £8.21 from April 2019

Land Taxes

Stamp Duty Land Tax (SDLT) – England and Northern Ireland

It is common that the purchase of a new home may complete before the sale of the old home completes and if that happens a 3% surcharge is applied to the SDLT charged on the purchase of the new home. On the subsequent sale of the old home that 3% could only be reclaimed within a short timeframe, however from Budget 2018 that timeframe has been extended by 9 months.

Top Tip

The 3% SDLT, along with the Scottish Land and Buildings Transaction Tax (LBTT) and the Welsh Land Transaction Tax (LTT) are payable under different circumstances but apply in general to the purchase of second or subsequent residential properties.

Don't pay this tax unnecessarily, it is reported that there remains over £3 billion in overpaid land taxes. If you plan to purchase a second or subsequent property, ask us for confirmation the tax is payable or if you sell a property let us check if the additional tax paid can be claimed back.

“Don't pay Stamp Duty Land Tax unnecessarily, it is reported that there remains over £3 billion in overpaid land taxes.”

Toodle-Loo

Business Rates for Public Toilets

Budget 2018 announced that there will be 100% business rates relief for all public lavatories to help keep these important local amenities open.

Questions? Get in touch

If you would like to discuss any of the topics we've outlined then please get in touch with us – we'd be more than happy to answer any questions that you may have.

IDH ACCOUNTANCY.

IDH Accountancy
1 Lingfield Road
Worcester Park
Surrey
KT4 8TG

t: 020 3411 4401
e: info@idhaccountancy.com
www.idhaccountancy.com