All Paul Limited
CHARTERED CERTIFIED ACCOUNTANTS

March 2020

Helping smaller businesses and their owners manage their accounting, business and taxation

The Budget 2020

'Getting it done' for smaller businesses

The Chancellor leaving No.11 to deliver the Budget. Copyright HM Treasury

A short guide written by All Paul Limited for our smaller Owner-Managed Business clients on the taxation effects

Introduction

Newly appointed Chancellor, Rishi Sunak gave a polished performance in his 2020 Budget speech on 11 March, just four weeks into the top job. He made constant reference in his announcements to 'gets it done'. This was the first Budget since October 2018.

The speech was largely but not solely about coronavirus. He was candid about the short-term forecast of 20% of the workforce being unable to work at any one time and which would be expected to cause disruption to supply chains.

The Bank of England also announced an interest rate cut back to 0.25% earlier in the day.

Finding the cash to pay for higher spending is going to be one of the Chancellor's biggest challenges in this parliament and investors' attention was firmly focused on whether speculation about pension tax breaks would finally come to something.

He addressed the pension tax taper, the reduction in pension contribution allowance for higher earners. This is a hot topic because of the negative impact it has had on key NHS employees' willingness to put in more hours at a time of desperate need in the NHS.

Key points

The key announcements for small businesses and their owners were:

- Income tax rates, bands and allowances remain the same for another year.
- 10% increase in National Insurance limit to £9,500 before paid by employees and the self-employed with small band increase for employers.
- Statutory Sick Pay from day one for those ill or self-isolating with Coronavirus.
- No sick pay provision for the self-employed.
- Corporation Tax stays the same at 19%.
- Cut in business rates and £3,000 grant.
- Entrepreneurs' Relief cut but not abolished.
- Capital gains tax to pay and file within 30 days on residential property sales.

Personal tax

Income tax allowances, rates and bands the same

The income tax personal allowance of £12,500 and the higher rate limit of £50,000 will remain the same in 2020-21. This had previously been announced in the Budget of 2018. The rates of income tax will remain the same at 20%, 40% and 45%.

Company car and van taxable benefits

The government plans to reduce most company car benefit in kind tax rates by 2% for cars registered from 6 April 2020 in 2020-21. The percentage rates will then return to the planned levels over the next two tax years, increasing by 1% in 2021-22 and 1% in 2022-23. Rates are then frozen until 2024-25.

The car fuel benefit charge multiplier will increase from £24,100 to £24,500.

The flat-rate van benefit charge will increase from £3,430 to £3,490 with the flat-rate van fuel benefit charge increasing from £655 to £666.

The change will affect individuals who use their company car or van for private motoring or claim or use fuel for private use paid by their employer.

The Government also plans to reduce the van benefit charge to zero from 6 April 2021 for vans that produce zero carbon emissions.

National Living Wage

The National Living Wage will increase by 6.2%, from £8.21 to £8.72 an hour, from April 2020, for the over 25 age group. More details for other age groups can be found here.

National Insurance

National Insurance for the employed

The lower earnings limit (LEL) will increase from £118 pw to £120 for 2020/21. This is the level when state benefits e.g. SSP and pensions start to accrue.

For the first time in many years, the primary threshold (when employees start to pay National Insurance) and secondary threshold (when employers start to pay National Insurance) will not be aligned and not increase by the same amount.

The level at which employees start to pay National Insurance will increase by more than 10%, from £8,632 pa to £9,500 pa i.e. £166 pw to £183 pw.

The secondary threshold, for employer's National Insurance, will increase from £8,632 pa to £8,788 pa i.e. from £166 pw to £169 pw.

For owner-managed businesses, this will mean more money can be drawn personally from the company's profits before any national insurance is payable. For most owner managed limited company shareholder-directors, where we typically run their monthly payroll, their optimum monthly salary will increase from £719 pm to £732 pm from April 2020.

All the other employee/employer related National Insurance thresholds for 2020/21 will rise with inflation, except for the upper NICs thresholds, which will remain frozen at £50,000, as previously announced at Budget 2018.

The primary rate of Class 1 National Insurance stays at 12% with the additional rate at 2% and the employer's and Class 1A National Insurance rate remaining at 13.8%.

National Insurance for the self employed

Class 2 contributions will increase from £3.00 pw to £3.05 pw when business profits exceed £6,475 pa.

For 2019/20, Class 4 contributions will be paid at 9% on business profits between £8,632 and £50,000 with an additional 2% of profits over £50,000. In 2020-21, the lower limit will increase by around 10% from £8,632 to £9,500 with all rates and the £50,000 limit remaining the same.

Class 2 National Insurance, which costs a self-employed trader around £160 pa, entitles them to a qualifying year towards their state pension. Each qualifying year can be worth around £250 of state pension for every year from state retirement age.

This can be a very cheap method of accruing a state pension for the self-employed. The self-employed with profits below £6,365, including loss making businesses, can voluntarily elect to pay Class 2 National Insurance.

Business tax

Corporation tax rate unchanged

Since 2010 the government has cut the headline rate of CT from 28% to 19%, giving the UK the lowest headline rate in the G20.

Several years ago it was announced that the rate of Corporation Tax would reduce from 19% to 17% on 1 April 2020. The expected cut to Corporation Tax will now not take place so as to 'provide support for vital public services while maintaining the UK's competitive rate of Corporation Tax'.

The rate of Corporation Tax will also be set at 19% for the financial year beginning 1 April 2021.

Employment allowance to increase by £1,000

The Chancellor announced an increase in the Employment Allowance from £3,000 to £4,000 to help small businesses with the rise in the minimum wage. From April 2020, businesses will not have to pay Employer's National Insurance Contributions on the first £4,000 of their annual liability.

Employment allowance restriction

The Employment Allowance cannot be claimed by company directors if they are the only employee of the company or if no one else is paid above the secondary (employer's NI) threshold of £169 pw.

Restrictions also apply for persons employed in household or domestic work (like a nanny or gardener). Similarly, a personal service company under the 'IR35 rules' with no other company income cannot claim the allowance.

The Employment Allowance is now only available from 6 April 2020 where the business's total Class 1 NI liability is below £100,000. The £100,000 threshold applies to all connected businesses.

Retail rates relief to double

In a boost for smaller retailers, the Budget included measures to increase the 50% Retail Rates Relief announced earlier this year to 100% from April 2020.

This relief will be extended to include retail, leisure and hospitality sectors, meaning a full relief from Business Rates for those with a rateable value under £51,000 in these sectors.

Small businesses that qualify for the 100% Small Business Rate Relief will be eligible for a Small Business Grant of £3,000 from their local authorities.

Despite considerable reading and research, including reviewing lots of accounting and taxation blogs we have not found any clear answers as to how to make a claim for the £3,000 grant.

The best that we can find was a comment from another accountant who spoke to their local council's business rates department.

It appears that the announcement in the Budget was as much as a surprise to local councils as it was to the rest of us. Since the Budget there has been no specific advice or policy issued to councils when and how the grant will be implemented.

Reduction in Entrepreneurs' Relief lifetime limit

For many months, business owners had been anticipating the abolition of Entrepreneurs' Relief.

The lifetime limit on gains eligible for Entrepreneurs' Relief (which offers a reduced 10% rate of CGT on qualifying disposals) will be reduced from £10m to £1 million. The rate of CGT on gain over £1 million will be the 'normal rate' of 20%.

The Chancellor effectively turned the clock back to 2008, another time of great economic uncertainty just after the financial crash, when Entrepreneurs' Relief was also then at a £1 million allowance. The reduction is effective immediately (from 11 March 2020).

This is a significant reduction that was anticipated in some form, and comes in response to evidence that it has done little to incentivise entrepreneurial activity and that most of the benefit accrues to a small number of very affluent taxpayers.

The good news is that it has not been completely abolished and will still be available for small to medium sized business disposals, subject to the usual criteria for eligibility.

It was announced that the Finance Bill 2020 will also provide that the lifetime limit must take into account the value of Entrepreneurs' Relief claimed in respect of qualifying gains in the past. Therefore, any entrepreneurs who have already claimed this relief on past business disposals on gains in excess of £1m will no longer have access to this relief.

Sick Pay and the coronavirus

Temporary return of Statutory Sick Pay (SSP) claims

Employees are entitled to SSP when they are off work and sick. However, employers have been unable to reclaim it from HM Revenue & Customs. Several years ago businesses were able to reclaim all or some of the SSP paid to their employees.

It had previously been announced that recent rules changes would allow SSP to be paid from day one of sickness, rather than from day four, if employees are off work sick or self-isolation due to coronavirus.

There will also be no need to go to the doctor for a sick note, which will be made available by the NHS 111 service. We have no details regarding this as yet.

In response to Covid-19 virus and to support SMEs businesses they will be able to reclaim SSP paid to employees, but only for sickness or self-isolation due to the coronavirus and not for other sickness.

There is currently no system for reclaiming SSP. This will be addressed by the government very shortly.

SSP will be refunded based on the following criteria:

- refund to be limited to two weeks per employee
- employers with fewer than 250 employees will be able to reclaim SSP for any employee who has claimed SSP (according to new Covid-19 criteria)
- The size of an employer will be determined by the number employed as of 28 February 2020
- employers should maintain records of staff absences, but should not insist that employees provide a GP fit note
- SSP will commence from the day on which the regulations extending SSP to self-isolators come into force.

Owner-manager business tax

No specific scheme has been introduced to pay sick pay to the self-employed. If you are self-employed and temporarily unable to work due to illness, you should check if you have made enough National Insurance contributions to qualify for the New Style Employment and Support Allowance (ESA).

No delay to IR35 changes (delayed to April 2021*)

Changes to IR35 administration, beyond those announced in the review published in February 2020, will be implemented without further modification.

Any large businesses contracting for provision of services will need to consider whether the Off Payroll Working Rules apply, in which case the large business will be responsible for assessing whether the engagement falls within the intermediaries rules (IR35) and if so, communicating that finding to the service provider and applying the appropriate payroll tax deductions to any payments made.

* Draft legislation was to be published on 19 March 2020, giving businesses just 11 working days to develop and implement. As this report was being finalised a one year delay was announced. *

Flat-rate deduction for homeworking increases

Employees who have to work from home on a regular basis can claim tax relief for their extra costs of certain bills, such as business telephone calls, gas and electricity. However, fixed costs such as rent, council tax and broadband where these costs represent both personal and business use cannot be included in a claim. This only applies where an employee does not have a place of work provided by their employer. This will be applicable for most directors with small owner-managed businesses.

A flat-rate deduction of £4 pw is available to employees to cover additional household expenses. From April 2020, this will be increased to £6 pw where they work at home under homeworking arrangements. No records of actual costs incurred need to be kept if claiming the flat-rate allowance.

An employee is at liberty to calculate their own additional costs of working from home and to claim these against their taxable employment income. Records and calculation would need to be kept. Employees do not have to use the £4 or the new £6 pw allowance. This is a measure to simplify a claim.

If the employee chooses to work from home (i.e. not as part of their employment contract and an office is provided) then this allowance cannot be claimed.

HMRC will usually accept that an employee is entitled to claim allowable expenses if all of the following conditions apply:

- the duties that the employee performs at home are the main / substantive duties of that employment
- those duties cannot be performed without the use of appropriate home office facilities
- no such appropriate facilities are available to the employee on the employer's premises (or the nature of the job requires the employee to live so far from the employer's premises that it is unreasonable to expect him or her to travel to those premises on a daily basis)
- at no time either before or after the employment contract is drawn up is the employee able to choose between working at the employer's premises or elsewhere.

The above rates and commentary only applies to employees, including directors of their own limited companies. They do not apply to the self-employed. The self-employed already have an existing system to claim £2.30, £4.15 or £6.00 pw, depending on the number of hours they work from home each month. See here.

Capital Allowances

Businesses will be able to claim £1m of Annual Investment Allowance for expenditure incurred on plant and machinery between 1 January 2019 and 31 December 2020.

The special lower rate of writing down allowances, on a reducing balance basis, on pool expenditure had already reduced from 8% to 6% on 6 April 2019. The main rate of 18% remains the same.

Capital allowances for business vehicles

The government previously announced that it is consulting on bringing forward to 2035 the ending of sales of new petrol, diesel and hybrid cars and vans.

To encourage businesses to purchase more environmentally friendly (lower CO_2 emission) vehicles, the availability of First Year Allowances (FYAs) has been extended to April 2025 (from April 2021).

100% FYAs will continue to apply for business cars acquired from April 2021 with CO_2 emissions of 0g/km (i.e. pure electric vehicles).

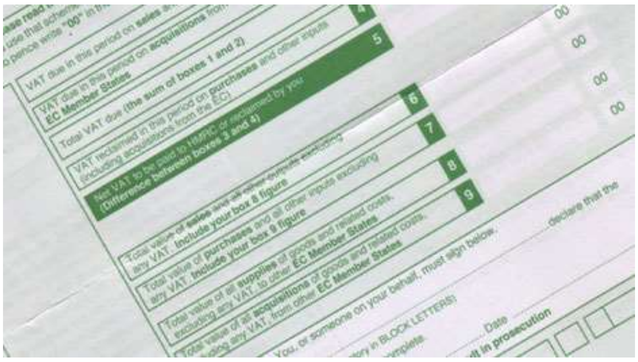
Business cars with CO_2 emissions up to 50g/km will be eligible for Writing Down Allowances (WDAs) at the main rate of 18% while cars with CO_2 emissions over 50g/km will be eligible for WDAs at 6%.

The new 50g/km threshold will also apply for determining the lease rental restriction of 50% for the lease and hiring of business cars.

Structures and buildings allowance

As previously announced the annual rate of capital allowances available for qualifying investments on or after 29 October 2018 to construct new, or renovate old, non-residential structures and buildings will increase from 2% to 3%. The change will take effect from 1 April 2020 for corporation tax and 6 April 2020 for income tax.

Value Added Tax



The future of Making Tax Digital (MTD)

The government made a statement that, 'the government will publish an evaluation of the introduction of MTD for VAT, along with related research'. No new specific measures were announced regarding MTD including no introduction of any compulsory scheme for businesses to account for income or corporation tax on a similar quarterly basis as MTD for VAT at present.

Postponed VAT accounting

From 1 January 2021, postponed accounting for VAT will apply to all imports of goods, including from the EU. This will allow businesses to account for VAT on imports through their regular VAT return as opposed to having to pay VAT at the UK border when the goods are bought and brought into the UK.

For a fully taxable business they will account for output sales VAT on their VAT return and at the same time reclaim the same amount as input purchase VAT on their VAT return. It will therefore not affect their VAT liability or cashflow. It would only affect partially exempt or VAT exempt businesses. VAT would then be charged as normal on the eventual sale of the goods to the customer.

VAT threshold frozen

The UK has one of the highest VAT thresholds in the EU. The threshold remains at £85,000 and should not be changed before at least 31 March 2022.

More businesses will gradually therefore be forced to register for VAT as their turnover increases.

Property Tax

New capital gains tax (CGT) requirements on sale of residential properties

UK residents must complete a 'return', calculate and pay capital gains tax within 30 days following the completion date of all UK residential property sales for disposals made after 5 April 2020 where there is a charge to CGT. This change may cause a substantial cashflow difficulty for landlords in the short term.

An individual already within self-assessment will need to ensure that the gain is also included on their self-assessment tax return.

The self-assessed calculation of the amount payable on the sale of properties will take into account unused losses brought forward and the person's annual exempt amount.

Any anticipated losses on future disposals cannot be taken into account. Individuals should therefore consider making loss-making disposals before sales that will generate a taxable profit. The rate of tax for individuals is determined after making a reasonable estimate of the amount of their taxable income for the tax year.

Once the provisional calculation has been submitted and the tax paid, it cannot be reduced until the client submits their self-assessment return. Failing to meet the deadlines for submission and payment will trigger penalties.

CGT is payable on residential property at 18% and 28% as opposed to the normal capital gain tax rate of 10% and 20% respectively for basic and higher rate taxpayers.

HMRC say 'to enable customers to report and pay any CGT liability arising from gains on the sale of a property, HMRC are developing a new digital service from GOV.UK, which will be available from April 2020 to make it easier for customers to report and pay their CGT property disposal liability.'

Finance cost restrictions

Since 6 April 2017, landlords are no longer able to deduct all of their finance costs from their property income in arriving at their property profits. Instead, they receive a basic rate reduction from their income tax liability for their finance costs. The year to 5 April 2020 will be the final year when 25% of finance cost is allowed in full, whereas 75% of the finance cost is used as a tax reducer. From 6 April 2020 no finance cost will be deductible when computing property income and losses, and 100% finance cost is used a tax reducer.

This rate restriction will push more landlords into the higher rates of tax, as their profits will be higher before interest is deducted, and then income tax on interest is only saved at 20%. This will therefore make renting properties a less profitable activity.

Finance costs include mortgage interest, interest on loans to buy furnishings and fees incurred when taking out or repaying mortgages or loans. No relief is available for the capital repayments of a mortgage.

UK companies and UK landlords with furnished holiday lettings will not be affected by the rules on finance cost restriction.

Savings

ISA allowances

The adult ISA annual subscription limit for 2020-21 will remain unchanged at £20,000. The annual subscription limit for Junior ISAs and Child Trust Funds will be increased from £4,368 in 2018-19 to £9,000 in 2020-21.

Other Budget provisions

Time to pay arrangement for outstanding tax

HMRC has a set up a phone helpline to support businesses and self-employed people concerned about not being able to pay their taxes on time due to the coronavirus (Covid-19).

The helpline allows any business or self-employed individual who is concerned about paying their tax due to coronavirus to get practical help and advice.

For those who are unable to pay due to coronavirus, HMRC will discuss your specific circumstances to explore agreeing an instalment arrangement, suspending debt collection proceedings or cancelling penalties and interest where you have cashflow or administrative difficulties contacting or paying HMRC immediately.

The helpline number is 0800 0159 559. The helpline is open from Monday to Friday 8am to 8pm, and Saturday 8am to 4pm (excluding bank holidays). Other HMRC business payment support contact details can be found here.

HMRC in £4.5bn compliance crackdown

HMRC has been given the budget to increase compliance and investigation team headcounts by 1,300, with an expectation that they will raise an additional £4.5bn in tax by 2025. This will include measures such as a crackdown on taxi firms and scrap metal dealers operating in the grey economy. New rules will go ahead from April 2022, giving time for affected businesses to prepare themselves.

HMRC has been given further funding to tackle non-compliance in a number of areas.

Abuses of the CIS scheme will be tackled by allowing HMRC to adjust unverified claims by offset against PAYE from 2022.

HMRC expects to raise an additional £4.5bn from a range of compliance measures to target high risk areas which will be staffed by an additional 1,300 personnel.

Pensions

It had been strongly suggested that higher rate tax relief on individual pension contributions and the amount that can be paid into money purchase pensions each year, currently £40,000, and which will attract tax relief would be reduced. No changes were in fact made for higher rate income tax relief.

Tapered annual allowance threshold raised by £90K

To support the public services, particularly in the NHS, the Chancellor has unveiled plans as of April 2020 to increase the point at which tapering of the annual allowance starts by £90,000.

The move will remove anyone with an income below £200,000 from the 'pensions trap', and will take 98% of consultants and 96% of GPs out of the taper.

The tapered annual allowance for pensions has increased. The annual allowance is the maximum you can save in a pension schemes each year in order to receive the benefit of tax relief.
The government announced increases to the threshold income and adjusted income limits that you use to work out your tapered annual allowance. From 6 April 2020, the adjusted income limit will rise to £240,000 (increased from £150,000) and the threshold income limit will rise to £200,000 (increased from £110,000).

They will not be subject to the tapered annual allowance if their threshold income for a tax year is £200,000 or less, no matter what their adjusted taxable income is.

For those subject to the tapered annual allowance, for every £2 of adjusted income over £240,000, their annual allowance for that year reduces by £1.

From 6 April 2020, the minimum annual allowance that you can have under the tapering rules will be reduced from £10,000 to £4,000.

Under current rules

The standard annual allowance is currently £40,000. Unused annual allowance from the three previous tax years can be carried forward and added to the current annual allowance. If the individual's pension savings for the tax year exceed this total, the annual allowance charge is applied to the excess.

The tapered annual allowance applies to individuals with 'adjusted income' for a tax year over £150,000 subject to their threshold income exceeding £110,000. Both income limits have to be exceeded before a person is affected by the annual taper.

The annual allowance is reduced by £1 for every £2 of adjusted income above £150,000, subject to a minimum reduced annual allowance of £10,000.

Where the reduction would otherwise take an individual's tapered annual allowance below £10,000 for the tax year, their reduced annual allowance for that year is restricted to £10,000.

Proposed revisions

Legislation will be introduced in Finance Bill 2020 to amend the threshold income to £200,000 and the adjusted income to £240,000, whilst also reducing the minimum tapered annual allowance from £10,000 to £4,000.

Lifetime allowance

The lifetime allowance, the maximum amount someone can accrue in a registered pension scheme in a tax-efficient manner over their lifetime, was reduced from £1.25m to £1m for 2016/17 onwards and indexed for 2018/19 onwards so for 2020/21 the lifetime allowance is £1,073,100

All Paul Limited

About us

All Paul Limited is a modern, independent and proactive firm of Chartered Certified Accountants based in north Leeds.

We provide all the usual essential services that you'd expect e.g. annual accounts, self-assessment tax return preparation, recordkeeping and payroll. In addition, we offer tax planning, business set-up and limited company formation as well as Sage 50 software training and support.

Our objective is simple; to be viewed by our clients as the first point of contact for all their financial, advisory and compliance needs. We achieve this by providing sensible advice and tailored solutions to help clients achieve their commercial and personal goals.

The firm is run by Paul Clifton FCCA who offers a wide range of accounting and tax expertise to local businesses. Paul has worked with smaller owner-managed businesses, through firms of Chartered Accountants, for over three decades.

He works with business owners providing them with practical help and advice on a day-to-day basis.

Our clients are located mainly in north Leeds, but they also come from the surrounding towns and some from overseas. They mainly operate as smaller limited companies and sole traders. Alongside all of the services we offer to the business, we always recognise the importance of the personal circumstances of the business owner.

If you have any questions about the implications of the above, either for you or your business, and would like further advice then please do give us a call. We provide out-of-hours flexible appointments.

We are happy to meet you in the evening when you may have more time. So call **All Paul Limited** today on 0113 225 2232 or email us at **info@all-paul.co.uk**. More details about our services can be found by visiting our website at **www.all-paul.co.uk**.

What our clients say about us

"A highly professional service, quick to respond, attention to detail and knowledgeable. I just know I'm in safe hands with All Paul Limited".
Nick S. YorTours, Harrogate

"Solid advice from All Paul Limited. Appointing Paul as my company's accountant was the single best business decision I've ever made"
Ian S. IPTAC Limited

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