OCTOBER 2018 BUDGET

MAIN TAX ANNOUNCEMENTS

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1. Introduction

The Chancellor Philip Hammond joked that he had avoided giving his speech on Halloween night because it would have been simply too tempting for the caption writers and had avoided Christmas because he did not want to appear in cartoons disguised as Santa Claus. Even so, he was determined to honour the Prime Minister's recent declaration that austerity was over. He repeated again and again that 'the British people's hard work has paid off' and the fiscal rigour of the past eight years has allowed him at last to share out some of the benefits.

The PM had already committed £20bn of spending to the NHS, but Mr Hammond still managed to raise tax allowances to the level promised for 2020 in the election manifesto a year early, amounting to a tax 'giveaway' of nearly £3bn next year. Other big figures include the freeze on fuel duty for the ninth successive year, help for the transition to Universal Credit, a temporary increase for tax allowances on plant and machinery, and extra relief from business rates for small retailers. Very few tax raising measures were announced although the Budget detail, of course, is hidden away in the mass of documentation released on the HMT website the moment the Chancellor sits down. As usual, some measures come into effect straight away, some take effect next year, and some are advance warning of changes coming in 2020.

The great unknown, possibly the elephant in the room, is the outcome of the negotiations with the EU on the terms of our leaving. If we get a good trade deal, as the Chancellor confidently expects, there will be a 'double dividend' including an end to uncertainty and no more need for the reserves he has been holding back in case we do not reach agreement. If a 'no deal' is the outcome, he hinted that the outlook would then be so different that it might be necessary to upgrade the Spring Statement to a full 'fiscal event' i.e another Budget with a different plan.

An opposition MP shouted that Mr Hammond 'won't be here next year'. He affably responded that she had made the same interjection during his previous two Budgets as well. He clearly expects to implement the plans that are summarised in this summary.

The more significant tax announcements yesterday include the following:

Manifesto pledge to raise Personal Allowance to £12,500 and higher rate threshold to £50,000 fulfilled a year early, in 2019/20.

Off payroll working reforms to be extended to private sector engagers from April 2020.

The introduction of a UK digital services tax, with effect from April 2020 to be levied on 'tech giants' with global revenues of at least £500m.

No changes to pension relief apart from inflation uplift to Lifetime Allowance.

Tightening of CGT rules on Entrepreneurs' Relief and Main Residence Exemption.

Annual Investment Allowance for plant and machinery increased from £200,000 to £1m for two years from 1 January 2019.

New capital allowance for construction of commercial buildings introduced for expenditure from 29 October 2018.

First-time buyers' relief from Stamp Duty Land Tax extended to shared ownership schemes.

The following pages summarise the main announcements from the Chancellor's speech and the documents released by HMT and HMRC afterwards.

2. **Income Tax**

2.1 Income Tax Rates And Allowances

The Chancellor's most dramatic 'rabbit out of the hat' was the announcement of increases in the Personal Allowance and higher rate threshold to meet a manifesto commitment a year early. For the tax year 2019/20, the main tax free personal allowance rises to £12,500 (up from £11,850), and the basic rate of tax applies [in England, Wales and Northern Ireland] to the next £37,500 of income (up from £34,500). This means that the threshold for 40% tax will be £50,000 for 2019/20 (up from £46,350). These figures will remain the same for 2020/21, after which the intention is to increase them in line with inflation.

The level of income at which the personal allowance is withdrawn remains at £100,000 with the withdrawal of £1 for every £2 of income above that level means there is an effective marginal rate of tax of 60% in the band of income £100,000 to £125,000 in 2019/20, above which the taxpayer will have no entitlement to the personal allowance.

The Scottish Parliament has set different tax rates and thresholds for Scottish taxpayers since 2017/18, and the details are yet to be confirmed for 2019/20. From April 2019 the Welsh Government has the power to set a Welsh rate of income tax for non-savings, non-dividend income for Welsh taxpayers, but has announced that it will not vary the UK rates.

There were no other significant changes to income tax rates and allowances, which are now extremely complicated (see the Table below). An individual's total tax liability on any given amount of income will vary considerably depending on the components of that income (for example, salary, profits, rent, interest, dividends). On a simple salary of £50,000, the income tax payable will be £860 less in 2019/20 than in 2018/19. However, the upper limit for 12% National Insurance also increases, so there will be an extra employee's NIC bill of approximately £340 to offset the tax reduction.

2.2 Company Cars And Fuel

The basis for taxing company cars and fuel provided for private use is set out in Table C. The rates and thresholds continue to change each year as the Government acts to encourage people to make 'greener choices'.

2.3 'Off Payroll' And Disguised Remuneration

HMRC has been concerned about individuals working through personal service companies (PSCs) and similar arrangements for two decades. They regard this as a way of avoiding PAYE and Class 1 NIC where 'in reality' and in HMRC's view, the individual is acting as an employee. HMRC estimates that the cost to the Exchequer could reach £1.3 bn a year by 2023/24.

The 'IR35' rules required PSCs to pay PAYE and NIC on income from engagements that were effectively employments. From 6 April 2017, where the individual behind the PSC works in the public sector, the responsibility for paying this tax was transferred to the person making the payment to the PSC, and the responsibility for deciding 'what is effectively employment' was imposed on the public sector engager.

HMRC is convinced that this has reduced non-compliance, and has been consulting about extending the same rules to the private sector. Representative and professional bodies have protested that the rules are unclear and complicated, and increase cost and uncertainty for all parts of the professional flexible labour market.

The Chancellor announced that the rules will be extended to the private sector, but he has taken account of representations made. The change will not apply until April 2020, and only ‘large and medium-sized’ engagers will be affected, excluding the smallest 1.5 m businesses. A further consultation will be carried out during 2019 to clarify how the rules should be introduced in detail.

This is the largest single revenue-raising measure in the Budget, expected to bring in well over £1bn in 2020/21 when the public sector rules are extended to contracts undertaken in the private sector.

2.4 ISA Limits

The ISA investment limits for 2019/20 remain £20,000 for a standard ISA and £4,000 for a Lifetime ISA. The limit for Junior ISAs and Child Trust Funds increases from £4,260 to £4,368. The Government will consult on regulations to deal with what happens when the very first Child Trust Funds mature in the near future.

2.5 Pension Contributions

There has been some speculation that the Chancellor would take steps to reduce pension tax relief, which he himself recently described as ‘eyewateringly expensive’. In the event, he did not mention the subject in his speech, and no changes were hidden in the documents, apart from the second annual inflation-linked increase in the Lifetime Allowance (LA).

The LA is the maximum amount that a person can save in tax-advantaged pension schemes. The value of benefits is measured against the LA when benefits are first taken from a pension, and also on some other occasions, including the individual’s 75th birthday. The LA will increase in line with inflation from £1.03m to £1.055m from 6 April 2019.

The limit on contributions to tax-advantaged pension schemes remains £40,000 per year for those with income up to £150,000 (£110,000 if the pension contribution is paid directly into the scheme by an employer). The limit is tapered away as income increases above £150,000, until it is only £10,000 when income reaches £210,000. The limit is also reduced to £4,000 for anyone who has drawn more than the tax-free lump sum from an existing money-purchase pension fund.

2.6 Income Tax Allowances, Rates And Reliefs

Income Tax Rates and Allowances (Table A)

Main allowances	**2019/20**	**2018/19**
Personal Allowance (PA)*†	£12,500	£11,850
Blind Person's Allowance	2,450	2,390
Rent a room relief §	7,500	7,500
Trading income §	1,000	1,000
Property income §	1,000	1,000

*PA will be withdrawn at £1 for every £2 by which 'adjusted income' exceeds £100,000. There will therefore be no allowance given if adjusted income is £125,000 or more (2018/19: £123,700).

†£1,250 of the PA (2018/19: £1,190) can be transferred to a spouse or civil partner who is no more than a basic rate taxpayer, where both spouses were born after 5 April 1935.

§ If gross income exceeds it, the limit may be deducted instead of actual expenses.

Rate Bands	**2019/20**	**2018/19**
Basic Rate Band (BRB)	£37,500	£34,500
Higher Rate Band (HRB)	37,501-150,000	34,501-150,000
Additional rate	over 150,000	over 150,000
Personal Savings Allowance (PSA)		
– Basic rate taxpayer	1,000	1,000
– Higher rate taxpayer	500	500
Dividend Allowance (DA)	2,000	2,000

BRB and additional rate threshold are increased by personal pension contributions (up to permitted limit) and Gift Aid donations.

Tax Rates **2019/20 and 2018/19**

Rates differ for General, Savings and Dividend income within each band:

	G	**S**	**D**
Basic	20%	20%	7.5%
Higher	40%	40%	32.5%
Additional	45%	45%	38.1%

General income (salary, pensions, business profits, rent) usually uses personal allowance, basic rate and higher rate bands before savings income (interest). To the extent that savings income falls in the first £5,000 of the basic rate band, it is taxed at nil rather than 20%.

The PSA will tax interest at nil, where it would otherwise be taxable at 20% or 40%.

Dividends are normally taxed as the 'top slice' of income. The DA taxes the first £2,000 of dividend income at nil, rather than the rate that would otherwise apply.

High Income Child Benefit Charge (HICBC)

1% of child benefit for each £100 of adjusted net income between £50,000 and £60,000.

Income Tax – Scotland 2018/19	**Band**	**Rate**
The 2019/20 tax rates and bands for Scottish Taxpayers have not yet been announced.		
Starter Rate	£2,000	19%
Basic Rate	2,001 – 12,150	20%
Intermediate Rate	12,151 – 31,580	21%
Higher Rate	31,581 – 150,000	41%
Top Rate	over 150,000	46%

The Scottish rates and bands do not apply for savings and dividend income, which are taxed at normal UK rates.

The 2019/20 tax rates and bands for Scottish Taxpayers have not yet been announced.

Remittance basis charge	**2019/20**	**2018/19**
For non-UK domiciled individuals who have been UK resident in at least:		
7 of the preceding 9 tax years	£30,000	£30,000
12 of the preceding 14 tax years	£60,000	£60,000
15 of the preceding 20 tax years	Deemed to be UK domiciled for tax purposes	

Registered Pensions (Table B)

	2019/20	**2018/19**
Lifetime allowance (LA)	£1,055,000	£1,030,000
Annual allowance (AA)	40,000	40,000

Annual relievable pension inputs are the higher of earnings (capped at AA) or £3,600.

The AA is usually reduced by £1 for every £2 by which relevant income exceeds £150,000, down to a minimum AA of £10,000. The AA can be reduced to £4,000, where certain pension drawings have been made.

Car and Fuel Benefits (Table C)

Cars

Taxable benefit: Chargeable value multiplied by chargeable percentage.

Chargeable value: Initial list price of car (including most accessories), reduced by any capital contribution (maximum £5,000) by employee when the car is first made available.

Chargeable percentage:

CO2 emissions (g/km)	Petrol	Diesel
0-50	16%	20%
51-75	19%	23%
76-94	22%	26%
Above 94	Add 1% for every 5g/km	
Above 164 (petrol)/144 (diesel)	37% maximum	

Car Fuel

Where employer provides fuel for private motoring in an employer-owned car, CO2-based percentage from above table multiplied by £24,100 (2018/19 £23,400).

Employee contributions for fuel do not reduce taxable figure unless all private fuel is paid for by the employee (in which case there is no benefit charge).

3. **Capital Taxes**

3.1 Capital Gains Tax

The annual exempt amount rises from £11,700 to £12,000 for 2019/20.

The rates of tax are unchanged at 10% (total income and gains within the taxpayer's basic rate limit) or 20% (gains above the basic rate limit) on assets in general, but 18% or 28% on residential property that is not eligible for the main residence exemption, and also on 'carried interest' of investment fund managers.

Most trusts will continue enjoy half the annual exempt amount (£6,000) and pay tax at 20% or 28% on chargeable gains.

The exemption of gains on a taxpayer's only or main residence is one of the most generous tax reliefs of all. For disposals from April 2020, there will be two changes to restrict what the Chancellor considers to be unintended effects. First, the 'final period exemption', which allows exemption to continue after a person has moved somewhere else, will be reduced from 18 months to 9 months. The final 36 months of ownership remain exempt where a disabled owner is living in a care home. Second, 'letting relief', which can exempt up to an additional £40,000 of gain where a property has been let during the period of ownership, will be restricted to periods during which an owner was in 'shared occupancy' with a tenant. At present, this relief is very favourable for someone who moves and lets out the former main residence. The Government will consult on both these measures.

Entrepreneurs' Relief [ER] reduces the tax on disposals of qualifying assets to 10%. The Chancellor commented that he has noted recommendations that he should abolish it. However, he considers it an important incentive to encourage economic growth. To prevent 'misuse' of the relief, the definition of a 'personal company' will change, for disposals on or after 29 October 2018, to require the claimant to have a 5% interest in both the distributable profits and the net assets of the company.

The minimum period for which the various conditions must be met will be increased from one year to two years for disposals on or after 6 April 2019. Where the business ceased before 29 October 2018 but the disposal falls on or after 6 April 2019, the one-year qualifying ownership period will still apply.

ER has, in the past, been lost where an individual's shareholding in a company was 'diluted' below the 5% qualifying level by a new share issue. New rules will allow ER to apply to gains accruing up to the time of the share issue, where the new shares are issued on or after 6 April 2019.

Non-UK residents used to pay no tax on gains on UK property. This was changed for gains arising on residential property situated in the UK with effect from 6 April 2015. As announced a year ago, the scope of tax on gains will be extended to non-residential UK property with effect from 1 April 2019 (companies) or 6 April 2019 (individuals and trusts). Only the gain accruing after that date will be chargeable.

Foreign companies will become liable to Corporation Tax rather than CGT on such gains. Foreign companies will also be brought within the scope of Corporation Tax (rather than Income Tax) in respect of rental income from UK property from April 2020.

At present, foreign residents disposing of UK residential property are required to pay CGT within 30 days of completion of the sale unless already within Self Assessment. The rules are being revised for non-residents making disposals on or after 6 April 2019, in particular recognising the need to allow reasonable estimates of valuations and apportionments in calculating the tax where accurate figures are not available within the very tight deadline.

From 6 April 2020, all CGT due on UK residences will become payable within 30 days of completion, whether the disposer is UK or foreign resident and whether or not they are already within Self Assessment. This ‘payment on account of CGT’ will only apply if a chargeable gain arises, so it will not affect the sale of an exempt main residence. However, it will affect the tax payable on the sale of a buy-to-let or furnished holiday letting property, and it will significantly advance the payment of the tax. For example, the CGT on a sale exchanged and completed on 6 April 2019 will be due on 31 January 2021; the tax due on a sale completed on 6 April 2020 will be payable on 6 May 2020.

3.2 Inheritance Tax

Rates of tax remain unchanged at 40% on death transfers and 20% on lifetime chargeable transfers.

As previously announced, the nil rate band remains frozen at £325,000 until the end of 2020/21. The ‘residential enhancement’, announced in the Summer 2015 Budget, began to take effect for death transfers from 6 April 2017. This applies an additional nil rate band (initially £100,000; £125,000 from 6 April 2018; £150,000 from 6 April 2019; and rising to £175,000 by 2020/21 where a taxpayer’s residence is left to direct descendants.

A married couple will potentially then be able to leave £1m free of IHT to their descendants (£325,000 plus £175,000 from each parent), but the rules are complicated and their operation is as yet unfamiliar.

4 **Business Tax**

4.1 Corporation Tax Rates

There are no changes to corporation tax rates previously announced, being 19% for three years from 1 April 2017, and 17% from 1 April 2020.

4.2 Capital Allowances On Plant

The Annual Investment Allowance, on which a business can claim 100% relief on the cost of purchasing plant and machinery, will increase to £1m from its current £200,000 for two years from 1 January 2019 to 31 December 2020. There are complex rules where a period of account straddles the change of AIA rate, so those planning to spend more than £200,000 per year on plant should take advice to make sure that they qualify for the best relief.

The rate of writing down allowance on the 'special rate pool' (mainly 'long life assets', integral fixtures in buildings and cars with emissions ratings over 110g/km purchased since April 2018) will be reduced from 8% to 6% from April 2019. The main rate of writing down allowance remains 18%.

Enhanced Capital Allowances (currently 100% First Year Allowances) were introduced in 2001 for expenditure on qualifying plant which uses energy efficiently or is environmentally beneficial. As is common, the list of qualifying technologies is being updated for 2019/20; however, the scheme is being abolished with effect from 1 April 2020 for companies and 6 April 2020 for unincorporated businesses.

It will clearly be beneficial to consider advancing planned expenditure before those dates, if total expenditure on plant would otherwise exceed the Annual Investment Allowance for the period. However, Enhanced Capital Allowances for electric vehicle charge points will continue to 31 March 2023.

4.3 Capital Allowances On Buildings

A new Structures and Buildings Allowance is to be introduced for expenditure on new non-residential structures and buildings where the contracts for the construction works are entered into on or after 29 October 2018. Relief will not be available for the cost of land or dwellings. The allowance will be 2% on a flat rate basis to write off the cost of construction (including demolition and land alterations necessary for construction) over 50 years. There will be no balancing adjustment on a sale and the purchaser will take over the remainder of the allowances and the writing down period.

Expenditure on integral features and fittings of a building that currently qualify for allowances on plant and machinery will continue to qualify in the same way, including being eligible for the Annual Investment Allowance up to its annual limit.

4.4 Capital Losses

New rules will apply from April 2020 to restrict the offset of companies' brought forward capital losses in a similar way to the recently-introduced treatment of trading (and some other) losses. Only 50% of gains will be eligible to be relieved by brought forward losses, but there will be unrestricted use of the first £5m of income or capital losses each year, which means that 99% of companies will not be affected.

4.5 Intangible Assets

The Government intends to introduce a targeted relief for the cost of goodwill in the acquisition of businesses with eligible intellectual property from April 2019.

With effect from 7 November 2018, the Government will also reform the de-grouping charge rules which apply when a group sells a company that owns intangibles, so that if the share sale is exempt the de-grouping gain on the intangibles will also be exempt.

To address the avoidance of UK tax by multinational groups paying royalties on UK sales [a deductible expense for UK corporation tax purposes] to group companies based in low-tax jurisdictions, a new tax charge will be introduced. Following consultation, the original proposal has been considerably amended, in particular imposing a direct charge on the recipient rather than a withholding tax on the payer.

The introduction of the measure has been confirmed with a threshold for UK sales of £10m, an exemption for income that is taxed at appropriate levels, and an exemption for income relating to intangible property that is supported by sufficient local substance. It will apply from 6 April 2019, with anti-avoidance provisions operating from 29 October 2018.

4.6 Digital Services Tax

To address the perceived avoidance of profit taxes by multinational technology companies, the Government proposes to introduce a 2% tax on the revenues of certain digital businesses that derive value from their UK users. The tax will target search engines, social media platforms and online marketplaces. It will only apply to revenue above £25m per year in businesses with global revenues above £500m, and there will be rules to protect businesses with very low profit margins or losses.

4.7 Business Rates

The Chancellor announced a number of measures to extend further the relief from business rates for struggling retailers. The most significant of these is that, for the two years until the next revaluation in April 2021, retailers who operate from premises with a rateable value of up to £51,000 will be entitled to a one-third cut in their rates.

4.8 Property

Income tax relief for interest against rental income is being restricted to the basic rate of tax, with the restriction phased in over four years. This began in 2017/18. In the third year of the new rules, 2019/20, only 25% of interest paid will be allowed as a deductible expense. The remainder will be eligible for a reduction in tax liability at 20%. The rules are complicated and can produce unexpected results.

The annual tax charges on residential properties worth more than £500,000 that are owned through companies and other ‘envelope’ arrangements will go up for 2019/20 in line with inflation.

The charge on a dwelling worth between £500,000 and £1m will be £3,650 (up from £3,600). The maximum charge on a dwelling worth over £20m will be £232,350 (up from £226,950).

5 Stamp Duty Land Tax

The Chancellor announced in the November 2017 Budget there would be no SDLT for first-time buyers on the purchase of a home costing up to £300,000. The SDLT for other purchasers on a property of this value is £5,000.

In addition, there was relief from SDLT for a first-time buyer on the first £300,000 of a more expensive property up to a maximum of £500,000. On the band between £300,000 and £500,000 the SDLT rate is 5%, so on a £500,000 house a first-time buyer would pay £10,000 rather than £15,000.

These reliefs are being extended to shared ownership properties valued at up to £500,000. The exemption will apply to the initial share purchased up to £300,000 (any excess over that figure will be charged at 5%). Further shares will not qualify for the exemption. This relief is being backdated to the introduction of the original first-time buyers’ relief on 22 November 2017.

6 **National Insurance Contributions**

6.1 Introduction

From 6 April 2019, the National Insurance Contributions (NIC) thresholds for employers and employees rise from £162 to £166 per week (£8,632 per year). The Upper Earnings Limit will increase to £962 per week (£50,024 per year, or £50,000 where a single annual calculation is carried out) in line with the threshold for 40% income tax.

Two years ago it was announced that Class 2 NIC would be abolished in April 2018, and entitlement to the State Pension would be built up by paying Class 4 NIC. Increases in the rate of Class 4 NIC were proposed at the March 2017 Budget but were withdrawn following protests. As a result, the abolition of Class 2 NIC was deferred to April 2019 and in September it was announced that it will remain in force during the life of the current Parliament. Class 2 NIC rises from £2.95 to £3 per week for 2019/20.

6.2 National Insurance Contributions (Table D)

Class 1 (Employees)	Employee	Employer
Main NIC rate	12%	13.8%
No NIC on first	£166pw	£166pw
Main rate* charged up to	£962pw	no limit
2% rate on earnings above	£962pw	N/A
Employment allowance per qualifying business	N/A	£3,000

*Nil rate of employer NIC for employees under the age of 21 and apprentices under 25, up to £962pw.

Employer contributions (at 13.8%) are also due on most taxable benefits (Class 1A) and on tax paid on an employee's behalf under a PAYE settlement agreement (Class 1B).

Class 2 (Self-employed)

Flat rate per week	£3.00
Small profits threshold	£6,365

Class 3 (Voluntary)

Flat rate per week	£15.00

Class 4 (Self-employed)

On profits £8,632 – £50,000	9.0%
On profits over £50,000	2.0%

7 Value Added Tax

7.1 Registration And Deregistration Thresholds And Rates

Last year the Chancellor announced that the VAT registration threshold will remain frozen at £85,000 until 5 April 2020. He has now confirmed that it will stay unchanged for a further two years after that, until 5 April 2022. The deregistration limit (£83,000) will also stay unchanged.

The Budget releases note that the Office of Tax Simplification has recommended a reduction in the threshold because it distorts the behaviour of businesses as they may be restricted from growing by fear of exceeding the limit. The Government prefers to keep a large number of businesses out of VAT altogether by maintaining the threshold at its current level, but will look again at the question once the terms of the UK's exit from the EU have become clear.

7.2 International Trade

The Government has already published a number of statements about the possible VAT and customs consequences of a 'no-deal Brexit', while negotiations continue in the hope of a favourable agreement. There is nothing in the Budget about international trade at all, presumably because it is all too uncertain or sensitive for any meaningful statements to be made.

7.3 Vouchers

Significant changes will be made to the VAT treatment of 'face value vouchers' that are issued on or after 1 January 2019. 'Single purpose vouchers', which can only be used to buy a single category of goods or services (standard rated, lower rated, zero rated or exempt) will be treated as the underlying item when bought and sold.

'Multi-purpose vouchers', where the liability of the supply on redemption is uncertain, will be outside the scope of VAT until they are redeemed, when in most cases the face value will be used by the retailer to calculate the output tax.

This is a big change from the existing rules for anyone who issues and redeems vouchers, and also for intermediaries who market and distribute them.

7.4 VAT Grouping

The right of companies and Limited Liability Partnerships under common control to join in a single VAT registration will be extended to non-corporates including individuals, partnerships and trusts, under conditions set out in the Finance Bill. Grouping will remain optional.

7.5 Online Marketplaces

A new system of registration and regulation of online marketplaces has been put in place over the last year, and comes fully into force in April 2019. Anyone operating an online marketplace should be taking steps to comply with the new requirements.

7.6 Construction Industry Fraud

Measures to counter 'missing trader fraud' in the construction industry have also been developed over the last year, in consultation with stakeholders. A 'reverse charge mechanism' will apply to supplies of construction services to VAT-registered customers from 1 October 2019. The supplier will no longer charge VAT on 'specified supplies', but instead the customer will put the VAT on purchases as output tax on the VAT return (and recover it as input tax if eligible).

This will require a significant change of systems for those affected, both as suppliers and customers. The Budget included an announcement of further technical changes to these rules to make them work as intended.

8 Tax Administration

8.1 Making Tax Digital

The majority of businesses with VATable turnover above the £85,000 registration threshold will be required to maintain their VAT records using 'functional compatible software' from the first VAT return period starting on or after 1 April 2019.

HMRC announced in October that a limited range of 'more complex' businesses will not be required to comply with the new rules until 1 October 2019. Concern has been expressed by Parliamentary committees and professional bodies that full-scale testing of the system has only recently started and awareness of the requirement among businesses is still patchy, but the Chancellor has not made any further announcements on the subject. It must therefore be assumed that the rules will be implemented as planned and another significant change to VAT three days after the UK leaves the EU.

9 Tax Avoidance And Evasion

There are as usual measures in the Budget to try to close loopholes. These include legislation targeted at businesses attempting to avoid UK tax by arranging for their UK business profits to accrue to entities resident in lower-tax territories (‘profit fragmentation’). The UK profits will be increased to the commercial level for tax purposes.

From April 2020, the amount of payable Research & Development tax credit that a qualifying loss-making company can receive in any tax year will be restricted to three times the company’s total PAYE and NIC liability for that year. This is described as a measure to prevent abusive and fraudulent claims.

The time limit for assessing unpaid tax involving ‘offshore non-compliance’ (concealing undeclared income and gains, and amounts chargeable to Inheritance Tax, outside the UK) is to be increased to 12 years in cases not involving deliberate errors by the taxpayers. This is not retrospective in effect: the present four year time limit is not extended back to 2006. However, amounts undeclared from 2015 will be assessable until 2027.

Further anti avoidance measures are to be included in the Finance Bill 208-19 in relation to controlled foreign companies, hybrids mismatch rules, the anti fragmentation rule and permanent establishments, and the diverted profits tax.

ROBINSON RUSHEN
30 October 2018

Note

This summary has been prepared from the Chancellor’s speech and documents made available by HMT and HMRC. The proposals are subject to amendment before the Finance Act is passed. You are recommended to seek professional advice before taking or refraining from any action on the basis of the contents of this publication. If you would like further details on the Budget provisions, please contact Keith Rushen on 0044 (0)207 486 2378.