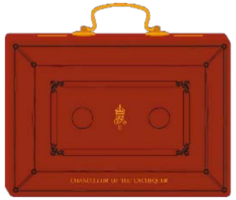
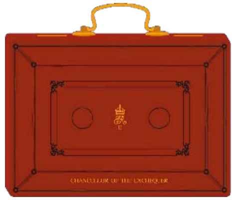
The
Budget 2018

Lincoln



Welcome

James Pinchbeck – Streets Chartered Accountants

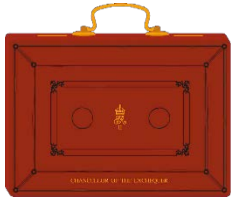


Agenda

Personal and Property Tax
Michael Ball, Director

Business Tax
Chris Connor, Tax Partner

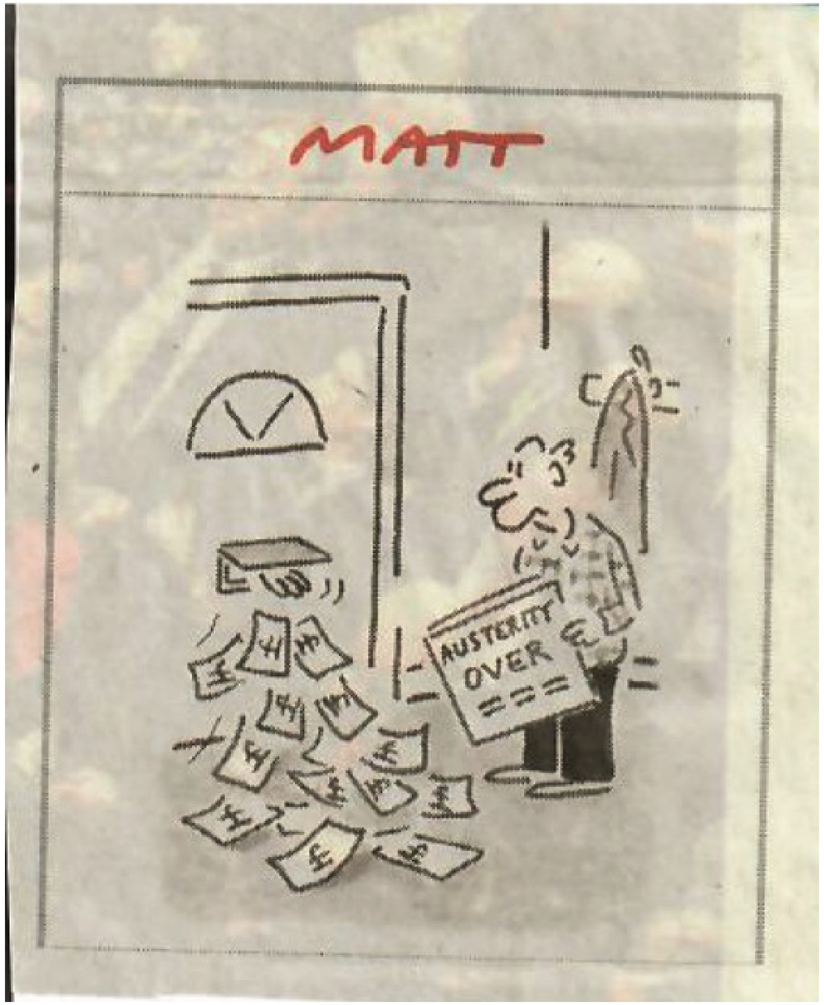
Brexit – VAT and Customs Implications

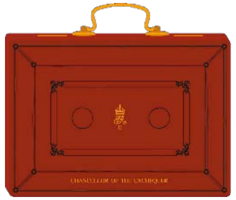


Personal and Property Tax

Michael Ball

Director



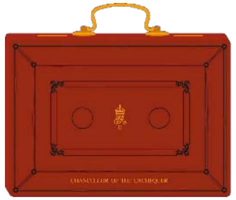


Personal Tax Rates and Bands – from April 2019

The personal allowance for all increases to £12,500

Basic rate tax band increased to £37,500

	Non-dividend income	Dividend income
Starting rate (0-£5,000)	0%	N/A
Basic rate (0-£37,500)	20%	7.5%
Higher rate (£37,501-£150,000)	40%	32.5%
Additional rate (over £150,000)	45%	38.1%



Personal Savings and Dividend Allowances

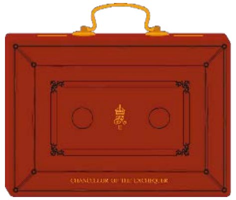
Personal Savings Allowance

Exempts from tax for 2019/20

- first £1,000 of interest income for basic rate taxpayers
- first £500 of interest income for higher rate taxpayers
- no exemption for additional rate taxpayers

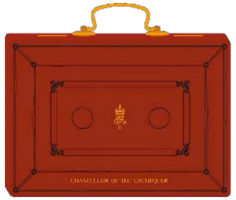
Dividend Allowance

- First £2,000 of dividends received tax free



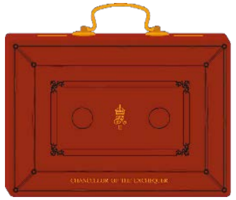
National Insurance Contribution Rates

Class 1 National Insurance				
	Employee		Employer	
	2018/2019	2019/2020	2018/2019	2019/2020
Primary/ secondary threshold	£8,424	£8,632	£8,424	£8,632
Below threshold	Nil	Nil	Nil	Nil
Above threshold	12%	12%	13.8%	13.8%
Upper earnings limit	£46,384	£50,000	£46,384	£50,000
Above upper earnings limit	2%	2%	13.8%	13.8%
£3,000 Employment Allowance to be restricted from April 2020 to businesses with an Employer's NI bill of under £100,000				



National Insurance Contribution Rates

Class 2/4 National Insurance		
Class 4	2018/19	2019/20
Lower profits limit	£8,424	£8,632
Upper profits limit	£46,350	£50,000
Lower profits limit to upper profits limit	9%	9%
Above upper profits limit	2%	2%
Class 2	£2.95 per week	£3.00 per week



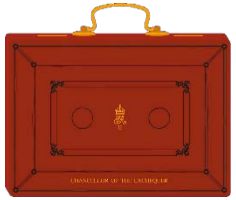
Dividend or Salary

The optimum strategy for extraction of profits from a company is usually a small salary topped up by dividends.

Plus qualifying year for State Pension

In most cases optimum salary will be £8,632

- Multiple £2,000 allowances?



Bonus vs Dividend
The cost of getting it wrong for 2019/20

Sole shareholder of a company is a higher rate taxpayer due to salary with no other dividend income

The company makes additional profits in the year of £50,000

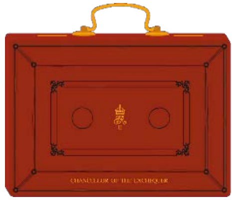
He can either pay

- A dividend of £40,500 (and CT of £9,500)
- A bonus of £43,937 (and employers NIC of £6,063)

Dividend after tax £27,987

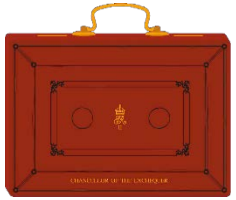
Bonus after tax and NIC £25,483

Cost of getting it wrong - £2,504



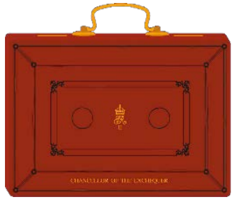
Taxation of Buy to Lets – Interest Restriction

- Relief formerly at marginal rate e.g. 20%, 40% or 45%
- New rules will eventually restrict to 20%
- Phased in over 4 years from 2017/18



Restriction of Interest - Example

- Higher rate taxpayer has rental income of £18,000, expenses of £2,000 and mortgage interest of £9,000
- In 2016/17 tax liability would have been £2,800
- In 2020/21 tax liability will be £4,600 – effective tax rate of over 65%



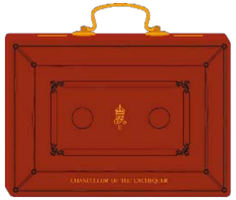
Restriction of Interest

Should I incorporate my rental business?

- Capital gains tax – incorporation relief?
- Stamp Duty Land Tax – partnership?
- New acquisitions?

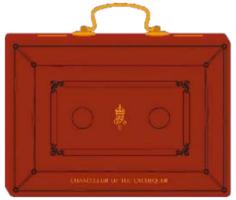
Transfer ownership to basic rate taxed spouse?

Review the position



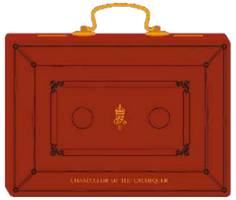
Off payroll working – "IR35"

- IR35 applied to services provided through intermediaries
- New public sector rules from 6 April 2018 – "engager decides"
- Consultation on "private sector non-compliance"
  Extended the "engager decides" treatment to the private section from April 2020
- "Small" organisations exempt
- "CEST" – online tool to help determine status



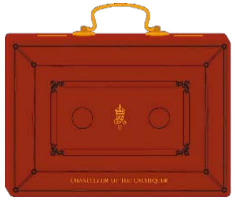
Enterprise Management Incentive Scheme

- Tax favoured share scheme for valued employees
- Provides key employees with an incentive to drive the business forward through share participation
- Very flexible as to time of exercise, performance criteria etc
- Income tax advantages for employees over an unapproved option scheme
- Likely to qualify for 10% Capital Gains Tax rate on sale due to Entrepreneurs’ relief
- Corporation tax deduction for the company too



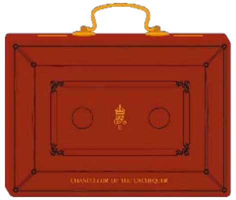
Capital Gains Tax Rates and Bands

	2018/19		2019/20	
	Non. Res	Res	Non. Res	Res
Annual exemption	£11,700		£12,000	
Gain within basic rate band	10%	18%	10%	18%
Gain within higher rate band	20%	28%	20%	28%
Gain qualifying for Entrepreneurs' Relief	10%	N/A	10%	N/A



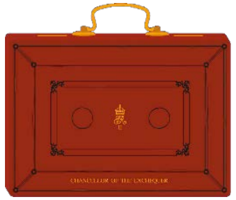
CGT – Entrepreneurs' Relief

- 10% tax rate means it is vital to ensure qualification if possible
- Applies to qualifying disposals:-
  - Disposal by sole-trader or partners of whole or part of their business
  - Disposal of shares in a qualifying company
  - Associated disposal



CGT – Entrepreneurs’ Relief

- Disposal of shares – satisfy tests
  - 5% ordinary shares, trading company and employee/officer
- Formerly tests had to be satisfied for one year
- For disposals on or after 6 April 2019 one year increased to two (unless business ceased before 29 October)
- Period also increased for self-employment/partner disposals and associated disposals
- Change in 5% test from Budget day – must include 5% of distributable profits and assets available for distribution in a winding up



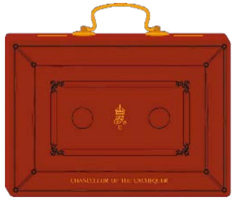
Changes to Private Residence Relief

Disposal of property which has always been the main residence is exempt from capital gains tax

Last 18 months treated as deemed occupation – reducing to 9 months from April 2020

Where property was not occupied but was let then lettings relief of up to £40,000 an owner was available

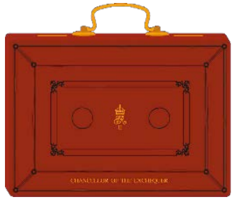
- Lettings relief to be restricted from April 2020 to cases where there is shared occupancy
- Could cost £22,400 – review selling date



Closing in on Tax Evasion

Techniques to identify and fight tax evasion includes:

- Information from other countries
- Information from third parties (Land Registry, banks, property agents etc)
- CampaignsTaskforces (raised more than half a billion)
- Use the “Connect System” which holds data from taxpayers and 3rd parties which can be analysed to show tax gaps

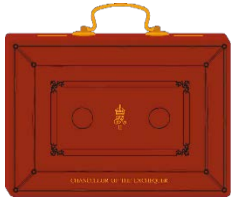


Closing in on Tax Evasion

- HMRC Changing approach
- Using general information powers (April 2009) ability to issue taxpayer information notice and request documents etc “reasonably required to check the taxpayer’s position”

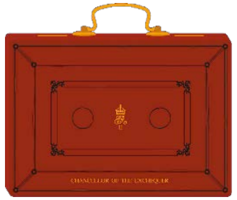
- Old style compliance checks PAYE – replaced by informal requests
- Remote compliance checks
- Less HMRC resource – taxpayer does all the work
- Much wider net on limited resources

- Enquiry case leaders – more junior refer to manager
- HMRC getting greater coverage and volume out of available resources
- Tax enquiry fee protection – Insurance



VAT

- VAT Registration limit to stay at £85,000 (for the time being)

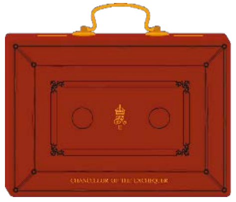


Making Tax Digital for VAT

- VAT registered business with Turnover above the VAT threshold (£85,000).

- Most mandated from first VAT period starting after 1 April 2019. Except those deferred.

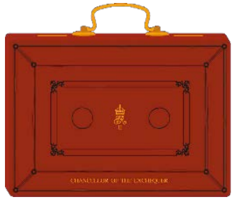
- 6 Month delay for those deferred so no requirement to comply for those affected until first VAT period starting after 1 October 2019



Making Tax Digital for VAT

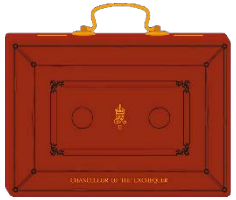
Deferral for the following:

- trusts,
- ‘not for profit’ organisations that are not set up as a company,
- VAT divisions and VAT groups
- Certain public sector entities required to provide additional information on their VAT return
- local authorities and public corporations
- traders based overseas,
- those required to make payments on account
- annual accounting scheme users.



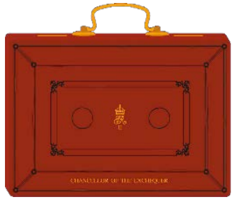
Making Tax Digital for VAT

- Must keep digital records in 'functional compatible software'.
  - Functional compatible software is a software program, or set of software programs, products or applications, that must be able to:
    - record and preserve digital records
    - provide to HMRC information and returns from data held in those digital records by using the API platform
    - receive information from HMRC via the API platform
- Spreadsheets?
  - These can still be used to maintain your digital records but will need to be linked to bridging software to perform the API submission.
- What is to be submitted?
  - The same 9 box VAT return as currently (subject to any changes resulting from Brexit).



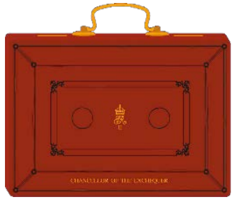
Business Tax

Chris Connor, Tax Partner



Corporation Tax Rates

Financial Year	FY 2018	FY 2019	FY 2020	FY 2021
Main Rate	19%	19%	17%	17%

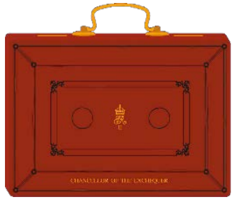


Corporation Tax Losses

- Changed from 1 April 2017

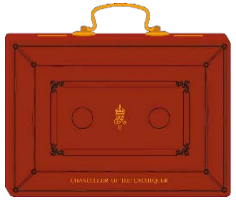
- Carried forward trading losses can be set against:
  - Total profits
  - Group company profits

- Loss offset restricted to 50% of profits in excess of £5m.



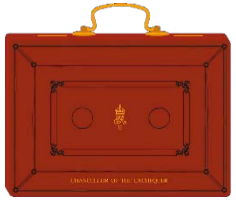
Company Car

- Choice – have a company car or use own car and charge for business mileage?
- If have a company car, then fuel too? Expensive
- No hard and fast rules – need to consider business vs private mileage, servicing costs, ability to claim capital allowance etc
- Company car – tax on BIK but all costs paid by company. If no fuel reclaim for business miles 11-22p per mile
- Private car – reclaim 45p/25p for business miles, but bear all costs



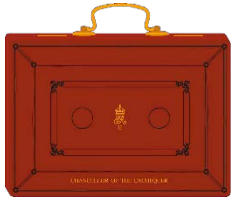
Car and Van Provision

BIK Position	2017/18	2018/19	2019/20
50g/km or below	9	13	16
51 – 75g/km	13	16	19
Above 75g/km to relevant threshold	17	19	22
Equal to threshold	18	20	23
Above threshold	1% for 5g/km max 37%	1% for 5g/km max 37%	1% for 5g/km max 37%
Diesel supplement (non RDE2)	3%	4%	4%
Company Van flat rate	£3,230	£3,350	£3,430



Car Provision

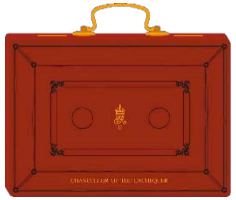
BIK Position	2020/21
0 g/km	2
1 – 50 g/km – greater than 130 miles at zero emissions	2
- 70 – 129 miles at zero emissions	5
- 40 – 129 miles at zero emissions	8
- 30 – 39 miles at zero emissions	12
- Less than 30 miles at zero emissions	14
51 g/km and above	1% for 5g/km max 37%
Diesel supplement (non RDE2)	4%



2020/21 Examples

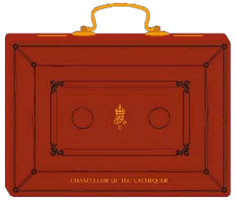
Car	Cost	Range	BIK 0 – 2%	HR	BR
Jaguar iPace	£58,995	298	£1,180	£471	£236
Nissan Leaf	£22,790	235	£456	£182	£91
VW eGolf	£28,230	186	£564	£276	£113

NB = all will qualify for 100% capital allowances in year of expenditure



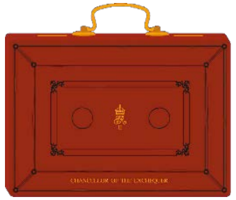
Car benefit example

	eGolf	Golf 1.4 SE nav
Benefit in Kind Value	£27,690 *(£23,190 actual cost)*	£20,980
Co2	0 g/km	120 g/km
Car benefit – 2018/19	£3,600	£6,922
Car benefit – 2019/20	£4,430	£7,753
Car benefit – 2020/21	£554	£8,030
Capital allowances – Year 1	£23,190	£4,984



Car provision

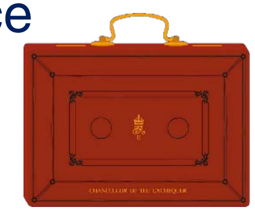
Capital Allowances	From April 2018
100% allowance	Up to 50 g/km
18% reducing basis	Up to 110 g/km
8% reducing basis	Over 110 g/km



Company vans – HMRC Potential Challenge

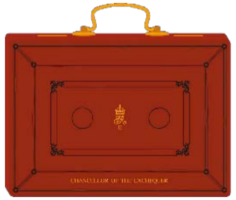
- 2017 case – Coca-Cola vs HMRC
- Whether VW Kombi & Vauxhall Vivaro are cars or vans?
- BIK Position – ITEPA 2003
  - Vehicle primarily designed for conveyance of goods of burden of any description
- What was considered?
  - Both vehicles capable of carrying passengers & large payload for goods
  - VAT cases – Comfort levels, number of windows, seating arrangements & whether curtailed the use of load space

- Concluded VW - Car – dual design, removable bench seat, goods & people
  Vivaro - Van – More specific design to carry loads & maximum load space



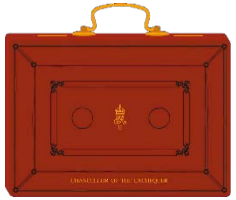
Budget 2018 R&D Schemes

- £1.8b in relief given in 2017
- Wide spread abuse
- £300m fraud attempts
- From April 2020 loss claims restricted
- 3 times the cap of PAYE/NIC liabilities for the year
- Subcontracted R&D/low wage bill
- Consultations ahead



R&D Schemes

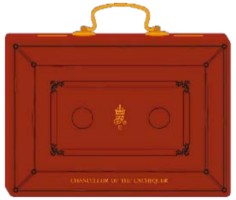
- Small Scheme. 130% enhanced deduction.
- Small Scheme: 14.5% Tax credit (surrender of losses)
- Large Scheme: Above the Line -11% (12% from Jan 2018)
- Large Scheme – Repayment available



Small/Medium Entity (‘SME’)

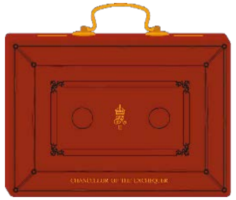
You’re a SME with:

- less than 500 staff
- a turnover of under €100m or a balance sheet total under €86m
- You may need to include linked companies and partnerships when you work out if you’re a SME.
- Subcontracted R&D – Large Scheme may be available.



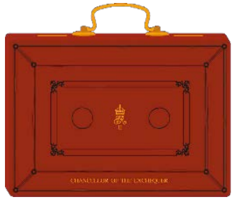
Guidelines – key points

- Project seeks to achieve an advance in overall knowledge or capability in a field of science or technology, not a company’s own state of knowledge or capability alone.
- R&D activities within the project: directly contribute to achieving that advance through resolution of scientific or technological uncertainty.
- Project does not have to succeed.

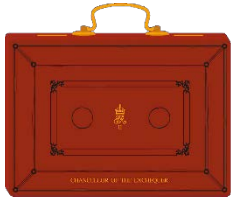


Qualifying Expenditure

- Staffing costs – tax planning opportunities
- Travel costs
- Software or ‘Consumable’ items
- Sub-contracted R & D – 65% of labour costs
- Externally provided workers
- Not subsidised – DTI Grants & the TSB

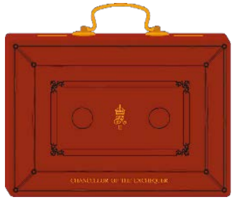


Capital Expenditure – Planning points



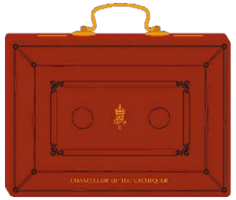
Capital Allowances
Budget 2018

- Some significant changes
- Annual Investment Allowance
- Enhanced Capital Allowances
- Structures and Buildings Allowance (‘SBA’s)



Annual Investment Allowance (AIA)

- 'AIA' increase to £1,000,000 for 2 years
- From 1st January 2019
- Transitional rules apply
- Year end 31 December 2019
- Review spending decisions
- Defer large projects
- Both P&M and IF
- Not cars



AIA - Example

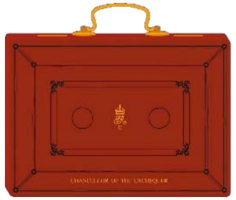
Year end 30 June 2019

AIA= 6 x 12th’s £200k = £100,000

6 x 12ths’s £1m = £500,000

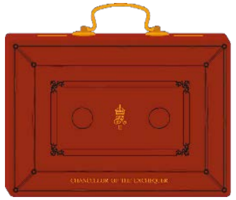
Total £600,000 to June 2019

Watch transitional rules - Pre Jan 2019 Max £200,000



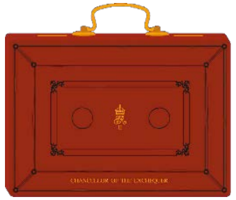
Capital Expenditure

- Consider timings – Transitional rules
- Unconditional obligation to pay
- Invoiced (4 month rule)
- Watch out for HP/LP – Brought into use
- Repair or capital?
- Alteration of land to install P&M only (Budget 2018)



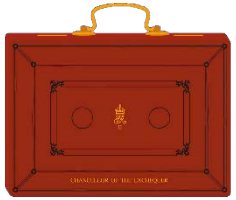
Enhanced Capital Allowances (‘ECA’s)

- Abolished from April 2020 (19 years in existence)
- Use them or lose them.
- Accelerate expenditure projects
- In addition to the AIA (100%)
- Energy Saving/beneficial Plant & Machinery
- Published list of products (ETA List)
- Must be brand new
- First year repayable tax credit – 19%
- Opportunity to spec a project and think about tax relief.



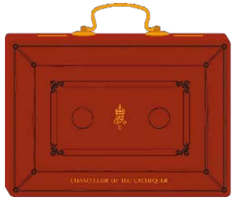
- Air-to-air energy recovery
- Automatic monitoring and targeting equipment
- Boiler equipment
- Combined heat and power
- Compressed air equipment
- Heat pumps
- Heating ventilation and air conditioning equipment
- High speed air hand dryers
- Lighting
- Motors and drives
- Pipework insulation
- Radiant and warm air heaters
- Refrigeration equipment
- Solar thermal systems
- Uninterruptible power supplies
- Waste heat to electricity conversion equipment

- Cleaning in place equipment
- Efficient showers
- Efficient taps
- Efficient toilets
- Efficient washing machines
- Flow controllers
- Grey water recovery and reuse equipment
- Leakage detection equipment
- Meters and monitoring equipment
- Rainwater harvesting equipment
- Small scale slurry and sludge dewatering equipment
- Vehicle wash water reclaim units
- Water efficient industrial cleaning equipment
- Water management equipment for mechanical seals Water reuse systems



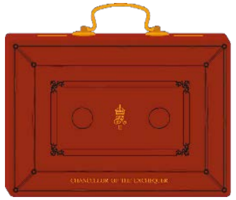
Structures and Buildings Allowances

- SBA's
- Reintroduction of IBA's?
- Non Residential Structures and Buildings
- From 29th October 2018
- Tax relief on the construction of buildings (previously ineligible)
- Mixed use developments apportioned
- Relief over 50 years (2% per annum)
- No balancing allowances/charges
- Not on second hand buildings.
- Legal costs excluded



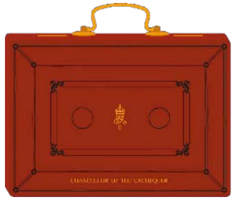
Structures and Buildings Allowances

- Types of costs - Offices, warehouses, factories, retail.....
- AIA not available
- P&M Fixtures and IF’s will continue to apply (no double counting)
- University halls – Not Eligible (to be consulted)
- Care homes and Hotels – Yes
- Cost of land land will not qualify (land preparation will)
- Still some clarification



Land Remediation Relief

- Relief available for qualifying expenditure on making good contaminated or derelict land
- Trading and UK Property Companies only
- 150% of expenditure as a deduction
- Can apply to both revenue and capital expenditure
- Tax credit available if there is a loss in the accounting period of the claim
- Credit will be repaid or offset against the Corporation Tax liability
- Tax credit is 16% of lower of
  - The 150% deduction
  - The unrelieved loss

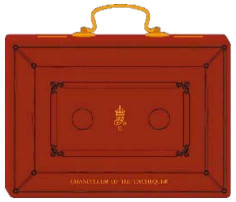


Charities

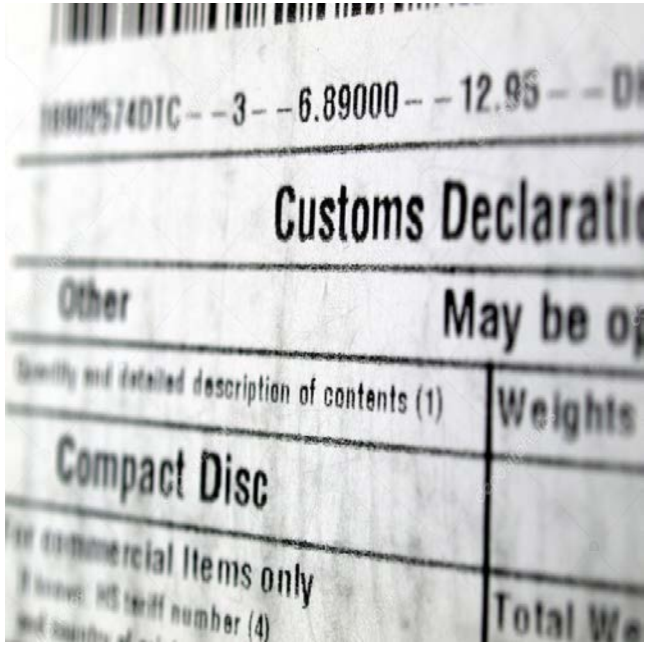
- Increase limits to trading exemption from tax from April 2019:

Annual Charity Income	Maximum Trading Income
Under £32,000 (up from £20,000)	£8,000 (up from £5,000)
£32,000 to £320,000	25% of income
Over £320,000 (up from £200,000)	£80,000 (up from £50,000)

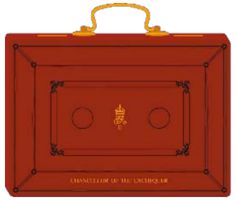
- Gift Aid Small Donations limit increased from £20 to £30.
- Admin reduction for charity shops using “Retail Gift Aid Scheme”.



VAT Issues: Imports

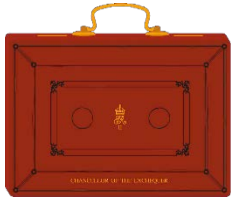


- Postponed VAT accounting
- Back to pre-December 31, 1992 position, not quite but close.



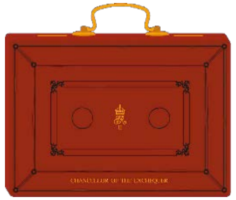
VAT Issues: Exports

- VAT on imports into the UK
- VAT on imports into EU/tariffs
- Importer of record – supplier or customer?
- Terms and conditions – review
- DDP as an example
- Appointment of tax representative



VAT Issues: General

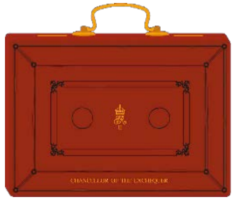
- No acquisitions
- No dispatches
- No ESL
- No Intrastat



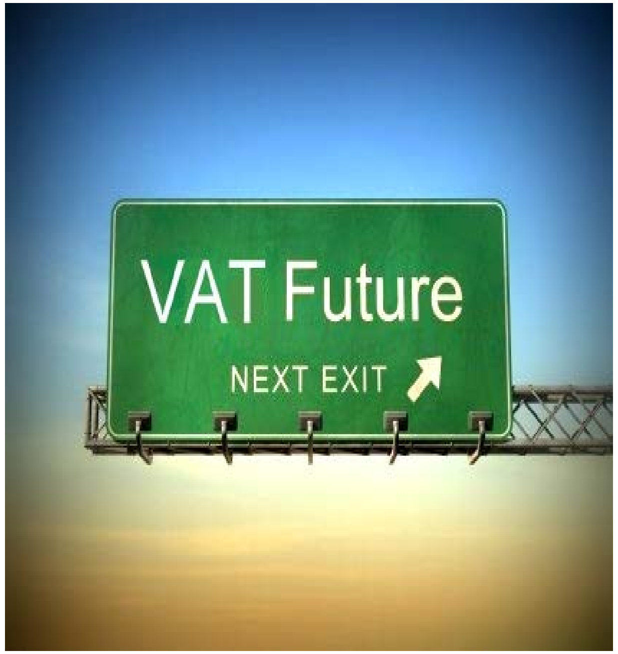
VAT Issues: General

The following go/change:

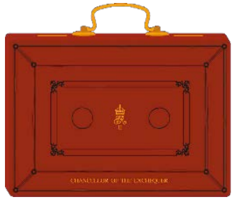
- Distance Selling
- MOSS
- EC VAT refunds (paper not electronic)
- TOMS



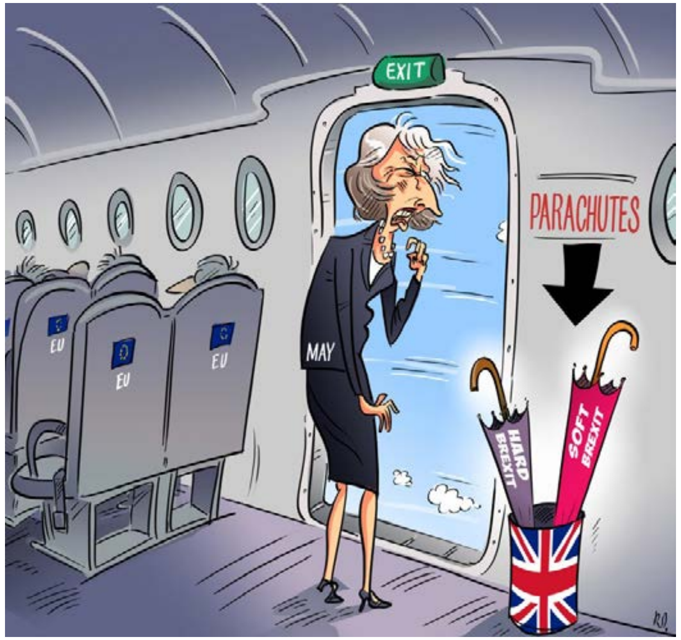
VAT Issues: Post Brexit



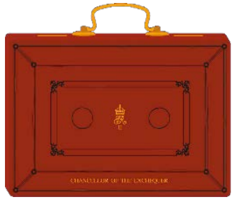
- Flexibility to move items between VAT rates
- Widen the zero rates or reduced rates
- Revisit previous VAT disputes



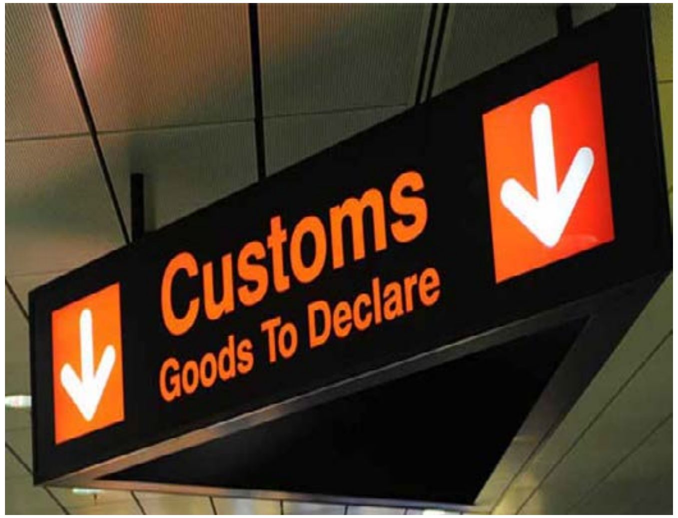
VAT Issues: Post Brexit



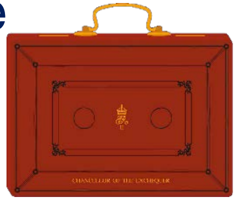
- UK leaves the EU on March 29, 2019 at 2300 hrs
- Third country rules and tariffs (WTO) apply – full border controls
- Time pressure to ‘grandfather’ existing EU FTAs
- Customs declarations increase to 350m annually
- UK customs infrastructure - CHIEF for exports, CDS for imports “this is a courageous decision”



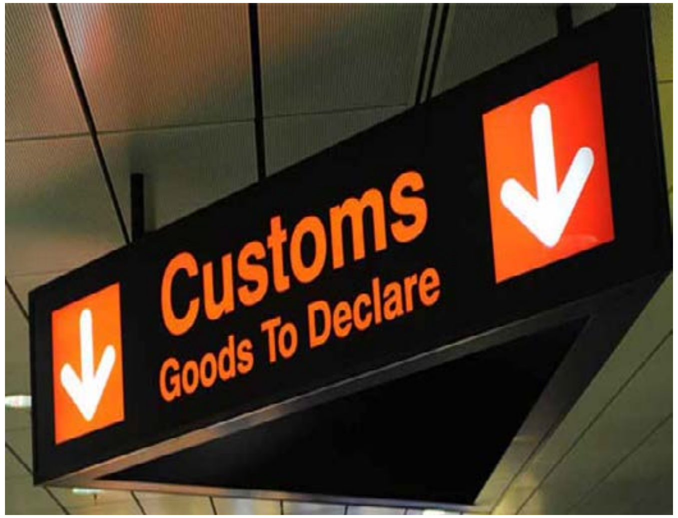
Customs: Duties



- Mirror of EU external tariffs
- Bottom line cost – but in many cases will be passed on to consumer
- Duty reliefs for certain processing activities
- Practical challenges of funding additional duty costs
- Import VAT costs the bigger challenge to manage



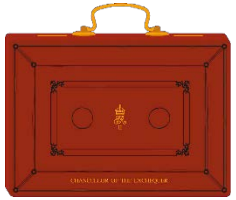
Customs: Reliefs/Regimes



- ‘Trusted trader’ kitemark (AEO)
- Deferment Account
- Customs Warehousing
- IP
- OP
- Processing under Customs Control (PCC)
- All require Authorisation and Guarantee

Preparations: How we can help

- Review intra-EU supply chains
- Evaluate additional costs – customs duties, brokerage requirements
- Review current preferential trade supply chains
- Determine appropriate duty reliefs and suspension arrangements
- Consider AEO – ‘trusted trader’ key to simplifications
- Ensure the business can fund additional costs



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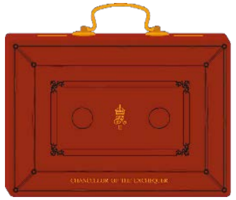

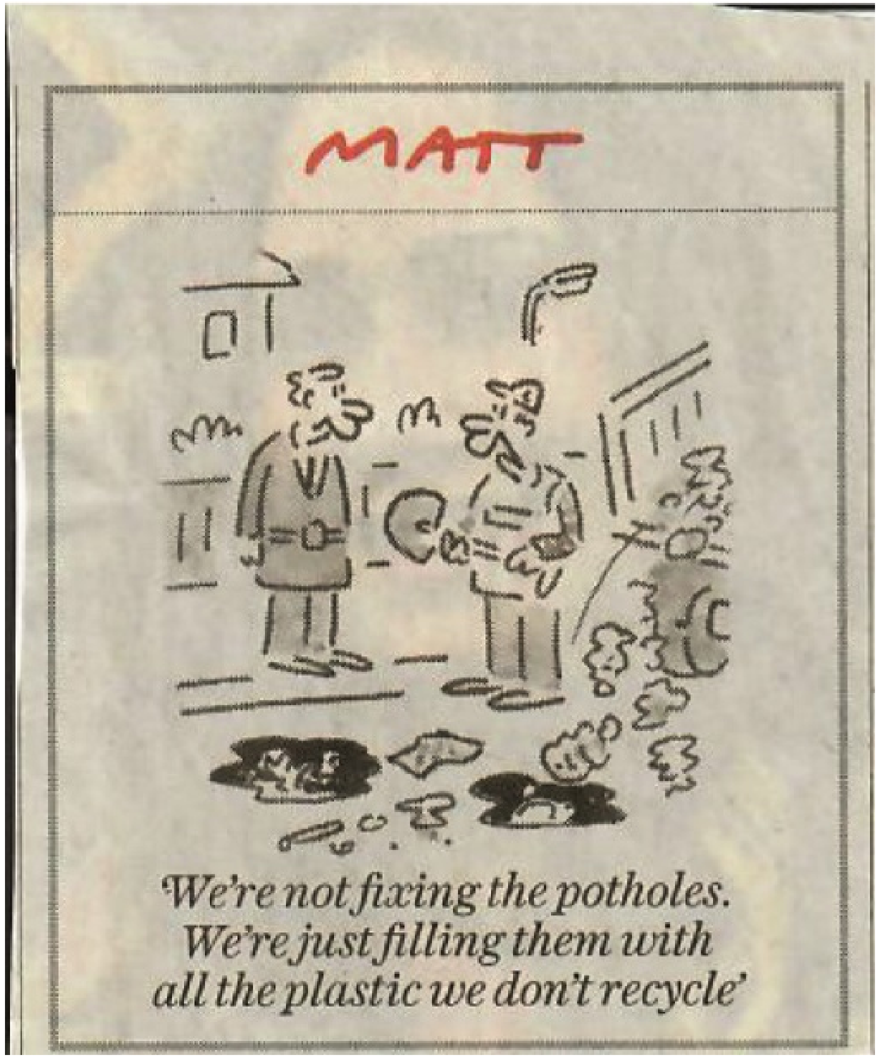

'We're not fixing the potholes. We're just filling them with all the plastic we don't recycle'