TAX FACULTY

Budget 2018

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The Chancellor of the Exchequer delivered his Budget on 29 October 2018.

This is a summary of the announcements on tax and related matters. It has been prepared by the ICAEW Tax Faculty team, with an overview by Frank Haskew, and edited by Jane Moore.

All the government announcements and publications can be found on the gov.uk Budget 2018 page. There is also a page with links to all the tax-related documents and announcements.

The main Budget documents are the Red Book, which summarises the Budget announcements and policy decisions, and the Overview of Tax Legislation and Rates (OOTLAR), which sets out details of each policy announcement.

ICAEW has a UK Budget 2018 page which brings together our commentary on all aspects of the Budget.

The Finance (No. 3) Bill 2017-19 (referred to here as FB 2018-19) will be published on 7 November 2018. This Bill will become Finance Act 2019.

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OVERVIEW

The calm before the storm? Philip Hammond seeks to reassure with a steady Budget, but what happens next is the question to which we all want to know the answer.

The 2018 Budget was delivered by the Chancellor, Philip Hammond, on 29 October 2018.

Given the Chancellor had been handed a difficult job, he gave a pretty impressive performance but, as chancellors go, he is getting to be quite an old hand at this game. With less than six months to go before the UK leaves the EU, it was hardly surprising that the shadow of Brexit would loom over this Budget. He made it clear that if the UK leaves the EU without a deal, then it is likely that the 2019 Spring Statement will be 'upgraded' to a full Budget. Was this the warm-up act for an Emergency Budget in the Spring of 2019?

Business taxes

Given the uncertainty of Brexit and the need to encourage business and entrepreneurship, the Chancellor announced a number of business-friendly measures. In view of growing concern about the death of the high street, he announced some further relief from business rates for smaller businesses: one-third off the rates bill for those businesses with a rateable value below £51,000. That will be welcome news for many struggling retail businesses but will not help larger retailers trying to compete with internet-based businesses, for which he announced a new tax (see below).

As had been widely trailed, the Chancellor has decided that the amended IR35 rules that currently apply only to those in the public sector will be extended to the private sector. However, this change will be introduced with effect from 6 April 2020 rather than 2019 as had been feared. But make no mistake, businesses will need the next year and half to prepare for this change. It was also interesting that smaller businesses will be exempt from the extension of the IR35 rules. The extra revenue that this measure will bring in is estimated at more than £3bn over the five years to 2023-24.

On the business investment front, the Chancellor announced a major increase for a two-year period in the annual investment allowance, up from £200,000 to £1m for investments made on or after 1 January 2019. In addition, a new 2% structures and buildings allowance is being introduced on new non-residential structures and buildings. This sounds rather like a modern form of the old, and much missed, industrial and agricultural buildings allowances, and will allow you to write off the cost of your otherwise non-tax-relievable buildings over a 50-year period. As a quid pro quo, however, the capital allowances special rate on qualifying plant and machinery will be reduced from 8% to 6%. The phrase 'what goes around comes around' springs to mind.

Taxing digital services

Given the current environment perhaps the biggest surprise, although not entirely left-field, was the announcement of a proposed tax on digital services. The Chancellor has stated previously that, while he preferred a global solution to this problem, he would not be afraid to act unilaterally, and the government previously published a consultation on what such a tax might look like.

He has clearly lost patience with the slow progress on the international front and has announced that the proposed new tax will be introduced with effect from April 2020. However, it will only be aimed at the largest internet businesses with global revenues from in-scope businesses of more than £500m. The amount raised looks to be very modest at only £400m per annum, small change in the greater scheme of the UK government finances. But it will be another tax for HMRC to administer, along with a proposed new tax on plastic packaging.

VAT

With Making Tax Digital (MTD) due to take effect from 1 April 2019, it always looked unlikely that the VAT registration threshold of £85,000 would be reduced. That would be one double whammy too many – hands up all those who remember that famous phrase from the era of Margaret Thatcher? In the event the Chancellor announced a further freeze in the registration threshold for two years with effect from April 2020. Given the uncertainty over the introduction of MTD for VAT, this was nevertheless a welcome announcement.

Personal tax

The Conservative manifesto commitment to raise the personal allowance to £12,500 and the higher rate threshold to £50,000 by 2020 has been brought forward a year and will now happen with effect from 6 April 2019 rather than 2020 as planned.

The public finances

As we have said many times previously, the task of bringing the UK budget back into balance, let alone surplus, remains a huge challenge. The Chancellor confirmed that austerity was coming to an end, which was code for taking the brakes off public spending. To decode the message it was necessary to have a look at the figures in the Red Book, which laid bare the increase. Table 1 of the Red Book shows that the total forecast cost of the spending decisions announced for the period up to 2023/24 weigh in at … wait for it … just over £100bn.

Ironically, given the above, the Office for Budget Responsibility's forecasts for the government deficit over the period to 2022/23 were better that those forecast at the time of the Spring Statement and the 2017 Autumn Statement. In this Budget, the OBR forecast that the deficit for 2018/19 would be £25.5bn, down from £37.1bn in the 2018 Spring Statement. There were smaller reductions in the public spending for each of the following years up to 2022/23. The expected outturn for 2017/18 also improved. At the time of the Spring Statement, it was estimated to be £45.2bn, which was itself down from £49.9bn in the 2017 Autumn Statement. A year on, and this deficit has been reduced further, this time to £39.8bn. Forecasting is not an exact science and these figures show an improved position over the past year, but how all this reconciles with the spending commitments remains an enigma that the codebreakers at Bletchley Park might struggle to crack.

In conclusion

It seems difficult to believe this was the Chancellor's fourth proper Budget. Given it was delivered at a time of considerable uncertainty, he struck a positive 'steady as she goes' tone, which was probably about the best he could manage in the circumstances. But the reality was that this was really a holding Budget. Attention is now on whether we will have a 2019 Spring Statement or a full-blown Emergency Budget. Hopefully by that stage we may have some clarity about how the UK will be leaving the EU and on what terms. Pending greater clarity on this front the fall-out from Brexit is likely to have a far-reaching impact on Budget decisions and revenue and spending projections that might well dwarf those seen this time around.

RATES AND ALLOWANCES

The government has published a table of rates and allowances (Annex A to the OOTLAR). The Tax Faculty will be publishing an updated version of our tax rates and allowances summary.

Personal allowances

The government announced at Budget 2018 that it would fulfil its manifesto commitment to increase the tax-free personal allowance to £12,500 and the higher rate threshold to £50,000. The increases will be effective from April 2019, a year earlier than expected. The cost to the Exchequer of this change is very considerable at £2.79bn.

The tax-free personal allowance in 2018/19 is £11,850. This will increase to £12,500 for 2019/20. The allowance will remain at this figure in 2020/21 and then increase by the Consumer Prices Index (CPI).

Higher rate threshold

The 20% basic rate income tax band will increase to £37,500 for 2019/20. As a result, the higher rate threshold (ie, the personal allowance plus the basic rate band) which is £46,350 in 2018/19 will be £50,000 in 2019/20. The threshold will remain at this level in 2020/21.

In summary:

Year	Standard personal allowance	Basic rate band 20% on income	Higher rate threshold	Additional rate of 45% on income over
2018/19	£11,850	£34,500	£46,350*	£150,000
2019/20	£12,500	£37,500	£50,000*	£150,000

* A lower higher rate threshold applies to earned income of Scottish taxpayers

Dividend allowance
No change was announced to the tax-free dividend allowance of £2,000 (more correctly described as a dividend nil rate band) or to the taxation of dividends. The rates remain at 7.5%, 32.5% and 38.1% depending on the level of income.

National insurance
The national insurance contributions (NIC) earnings limits have been uprated.

For employees, the lower earnings limit will increase from £116 to £118 per week from April 2019. The primary and secondary thresholds will increase from £162 to £166 per week. The upper earnings limit will increase from £892 to £962.

For the self-employed, as announced in September 2018, class 2 NIC will not be abolished during this parliament as previously planned. The rate of class 2 increases to £3.00 per week from April 2019 (2018/19: £2.95) and the small profits threshold increases to £6,365 per annum from April 2019 (2018/19: £6.205). The lower and upper profits limits for class 4 NIC will increase from April 2019 to £8,632 (2018/19: £8,424) and £50,000 (2018/19: £46,350) respectively.

Capital gains tax
The CGT annual exemption for 2019/20 will be £12,000 (£6,000 for most trustees). This is an increase from £11,700 for 2018/19. There are no changes to the rates of CGT.

Property taxes
See the sections on Property tax for annual tax on enveloped dwellings (ATED) and Stamp taxes for stamp duty land tax (SDLT).

Pensions
The lifetime allowance for pension savings will be £1,055,000 in 2019/20 (2018/19: £1,030,000).

Corporation tax
The rate of corporation tax is currently 19%. As previously announced it will be reduced to 17% from 1 April 2020.

VAT
The VAT registration threshold will remain frozen at £85,000 for two further years, until April 2022.

PERSONAL AND EMPLOYMENT TAXES

Off-payroll working in the private sector
From April 2020, responsibility for operating the off-payroll working rules in the private sector will move from the individual worker to the organisation, agency or other third party engaging that worker through their personal service company (PSC). This follows a similar change, made in April 2017, when the government reformed the off-payroll working rules in the public sector, moving responsibility

for determining whether the rules apply from the individual to the public sector body engaging the worker through their PSC.

This change will bring much of the private sector into line with the public sector off-payroll working system. The difference is that for the private sector, the new rules will apply only to those whose PSCs supply the workers' services to end clients that are large and medium sized businesses. Where end clients are small private sector organisations, PSCs will continue to be responsible for applying the current IR35 rules.

There will be consultation on the detailed operation of the reform, which will be published in the coming months. This will inform the draft Finance Bill legislation, which is expected to be published in Summer 2019.

HMRC will provide support and guidance to medium and large organisations ahead of implementation.

This measure is not unexpected but, as we commented in our representations to the consultation earlier this year, ICAEW Rep 73/18 and ICAEW Rep 91/18, the practical problems with the public sector off-payrolling regime need to be resolved as a matter of priority.

Self-funded work-related training costs

The existing tax reliefs for work-related training costs for employees and the self-employed will not be extended. This follows consultation responses indicating that tax relief is unlikely to be effective in addressing barriers to learning or incentivising training. Instead, the government believes other policy interventions will be more effective in delivering support, such as the National Retraining Scheme and skills training pilots.

Short-term business visitors from overseas branches

Eligibility for the PAYE special arrangements for short-term business visitors will be widened and reporting and tax payment deadlines will be extended to 31 May, with effect from 6 April 2020. The PAYE special arrangement limit for UK workdays in the tax year will be extended from 30 days or less to 60 days or less. These measures are intended to help reduce administrative burdens on UK employers and follow consultation earlier this year. The Income Tax (Pay As You Earn) Regulations 2003 will be amended appropriately.

Expenses for unpaid office-holders

Primary legislation will enact the concession under which expenses paid or reimbursed to unpaid office-holders are exempt from income tax when incurred because of their voluntary duties. This will help provide certainty for organisations engaging unpaid office-holders. Corresponding legislation for NIC will be introduced to mirror the income tax exemption. The change will have effect on and after Royal Assent to FB 2019-20.

Van and car fuel benefit charges

The van benefit charge for 2019/20 will increase by the September 2018 CPI. The car and van fuel benefit charges will be increased by the September 2018 RPI.

This means that for 2019/20 the flat-rate van benefit charge will increase to £3,430, the multiplier for the car fuel benefit charge will increase to £24,100, and the flat-rate van fuel benefit charge will increase to £655.

Tax treatment of social security income

FB 2018-19 will include legislation to confirm the income tax treatment of nine new and existing social security benefits.

The following eight benefits are exempt from income tax:

- Young Carer Grant, Best Start Grant, Funeral Expense Assistance and Discretionary Housing Payment (introduced by the Scottish government);
- Discretionary Support Scheme (overseen by the Northern Ireland Executive); and
- Council Tax Reduction Scheme, Discretionary Housing Payment and the Flexible Support Fund (overseen by the UK government).

The Carer's Allowance Supplement in Scotland is subject to income tax.

The five new benefits being introduced in Scotland will be treated in accordance with the 2016 agreement between the Scottish government and the UK government on the Scottish government's fiscal framework

NIC changes

As previously announced, class 2 NIC will not be abolished during this parliament, due to concerns about the impact on lower earners.

However, reforms to the NIC treatment of termination payments and income from sporting testimonials, which were in the draft National Insurance Contributions Bill published on 5 December 2016, will go ahead. They will take effect from April 2020.

Employment allowance

The employment allowance (EA) provides businesses with a reduction of up to £3,000 in their employer NIC. The EA will be restricted from April 2020 to employers with an employer NIC liability below £100,000 in their previous tax year. Where employers are connected under the EA rules the threshold will apply to their aggregated liability. These restrictions are designed to target the EA towards smaller businesses.

Apprenticeship training costs

The rate of the compulsory contribution that smaller businesses have to make toward the cost of training their apprentices will be halved from 10% to 5%.

Employers who do not pay the apprenticeship levy have to share the cost of training and assessing their apprentices with government – this is called 'co-investment'. From May 2017 employers have had to pay 10% towards the cost of apprenticeship training and government has paid the balance (90%), up to the specific funding band maximum which applies to that particular apprenticeship. See official guidance on how apprenticeship funding works for non-levy paying employers.

This decrease to the co-investment rate is part of a package of reforms designed to strengthen the role of employers in the apprenticeship programme. Other changes include:

- apprenticeship levy paying employers will be able to transfer up to 25% of their funds to pay for apprenticeship training in their supply chains;
- the Institute for Apprenticeships and National Apprenticeship Service is being asked to identify gaps in the training provider market and increase the number of employer-designed apprenticeship standards available to employers. All new apprentices will start on these new courses from September 2020; and
- government will work with a range of employers and providers to consider how they are responding to the apprenticeship levy across different sectors and regions in England.

PENSIONS AND SAVINGS

Pensions tax relief

Contrary to much press speculation there was no change to tax relief on pensions.

In line with existing policy (as announced in Spring Budget 2015) the lifetime allowance, the maximum that can be saved into a pension fund without incurring an excess tax charge, increases in line with CPI to £1,055,000 for 2019/20.

ISAs

The annual subscription rate for an adult individual savings account (ISA) remains at £20,000 but subscription limits for Junior ISA and Child Trust Funds (CTF) will increase in line with CPI to £4,368 for 2019/20.

CTF are savings accounts that were available for babies born between 1 September 2002 and 2 January 2011 which could be used to deposit free cash vouchers handed out to each child by the government. Further funds could be added by parents and others subject to the annual limit. The accounts cannot be accessed until the child reaches age 18 so the first accounts will be unlocked from September 2020; the government will issue a consultation in 2019 on draft regulations for maturing CTF accounts.

UNIVERSAL CREDIT

The Chancellor was under considerable pressure to introduce changes to universal credit (UC), particularly to ease the migration from existing benefits. He announced some limited changes while confirming the government's intention to proceed with implementing the policy.

The work allowance, the amount that certain claimants can earn before their award begins to be withdrawn, is to be increased by £1,000 per annum from April 2019. This partly reverses the reduction of the work allowance announced in summer Budget 2015.

The implementation schedule for those who remain on existing benefits has been further pushed back. This migration process is now due to begin in July 2019 and will not be concluded until at least December 2023.

The impact of the complex minimum income floor and surplus earnings rules was addressed in a very limited way.

Self-employed claimants transitioning to universal credit will benefit from a 12-month grace period in which the minimum income floor rules will not apply (instead of six months previously proposed) but this is only a temporary reprieve. The fundamental concern about the minimum income floor is that it fails to account for fluctuating earnings or one-off large business expenses, leading to a situation where a self-employed claimant with fluctuating earnings can receive substantially less UC than an employed claimant earning a similar annual income above the level of the current minimum income floor. This was not addressed.

The scope of the surplus earnings rules is to be temporarily reduced; the rules will affect earnings spikes of above £2,500 until April 2020 before reverting to £300.

The two-week run-on of support for housing benefit claimants transitioning to UC, which was announced at Autumn Budget 2017, is to be extended to cover income-based jobseekers allowance, income-related employment and support allowance and income support claimants. This change will apply from July 2020.

BUSINESS AND COMPANY TAX

New digital services tax

The Chancellor has always said that he would prefer to take collective action with other countries to ensure that international digital businesses pay an appropriate amount of tax but that he would be prepared to take unilateral action if needs be.

He now proposes to take action and introduce a digital services tax (DST) with effect from April 2020. There will be a consultation shortly to consider the details of the new regime. Legislation will be in FB 2019-20.

The Red Book scorecard indicates that the government anticipates that the new tax will raise £275m in the first year, 2020/21, rising to £440m in 2023/24: a total of nearly £1.5bn over four years.

The proposal

The government will introduce a new 2% tax on the revenues of certain digital businesses to ensure that the amount of tax paid in the UK reflects the value they derive from their UK users. The tax will:

- apply to revenues generated from the provision of the following business activities: search engines, social media platforms and online marketplaces;
- apply to revenues from those activities that are linked to the participation of UK users, subject to a £25m per annum allowance;
- only apply to groups that generate global revenues from in-scope business activities in excess of £500m per annum; and
- include a safe harbour provision that exempts loss-makers and reduces the effective rate of tax on businesses with very low profit margins.

Businesses covered

DST will apply to specific digital business models where the revenues are linked to the participation of UK users. The tax will apply to search engines; social media platforms; and online marketplaces. This is because the government considers these business models derive significant value from the participation of their users.

The DST is not a tax on online sales of goods – as a result it will only apply to revenues earned from intermediating such sales, not from making the online sale.

DST is also not a generalised tax on online advertising or the collection of data. Businesses will only be taxed on the revenues derived from these services to the extent they are performing one of the in-scope business models, which are the provision of a search engine, social media platform or online marketplace.

Financial and payment services, the provision of online content, sales of software/hardware and television/broadcasting services will not be within scope of the DST. The government will explore with stakeholders during the consultation whether further exemptions should be made.

Businesses will need to generate revenues from in-scope business models of at least £500m globally to become taxable under the DST. The first £25m of relevant UK revenues are also not taxable. This means that small businesses will not be within the scope of the tax.

Safe harbour provisions

Businesses will be able to elect to calculate their liability on an alternative basis, which will be of benefit to those with very low profit margins. The outcome is that those making losses under this calculation will not have to pay the DST and those with very low profit margins will pay a reduced rate of tax. The government will be consulting on the precise design of the safe harbour which is intended to ensure that DST is proportionate.

Links with existing tax system

The DST will be an allowable expense for UK corporate tax purposes under ordinary principles. However, given that DST will not be within the scope of the UK's double tax treaties, it will not be creditable against UK corporate tax.

Sunset clause

There will be a formal review in 2025 to ensure the tax is still required following international moves to come up with a coordinated approach. The government will disapply DST if an appropriate international solution is in place prior to 2025.

Annual investment allowance

The annual investment allowance is to be increased temporarily from £200,000 to £1m. The increased allowance will apply for two years, for qualifying expenditure incurred from 1 January 2019 to 31 December 2020. The legislation will be in FB 2018-19 which means that the measure is expected to apply before the legislation receives Royal Assent; this introduces an element of political risk.

Very few businesses make annual investments of more than the current limit of £200,000 so this measure is aimed at the largest businesses. Businesses will need to take great care to time their investments to make best use of the allowance, particularly where the business does not have a 31 December year-end. Where a business does not have a December year-end it will typically have a three-month period in which only £50,000 of expenditure will be covered by the allowance.

New structures and buildings allowance

Industrial and agricultural buildings allowances were abolished many years ago. The Chancellor announced a new structures and buildings allowance (SBA) which has some of the characteristics of the former reliefs.

SBA will provide relief for qualifying capital expenditure on new non-residential structures and buildings. Expenditure on office accommodation (not within a dwelling) is expected to qualify but expenditure on land or residential buildings will not.

Relief will be given at 2% on a straight line basis and will apply to contracts for physical construction works entered into on or after 29 October 2018.

The government has published a detailed technical note in advance of draft legislation, which will be included in FB 2018-19. The government is inviting comment on a number of aspects of the SBA (details and a contact email address are included in the technical note). The legislation in the Bill is expected to be largely enabling; the detailed rules will be included in secondary legislation which will be published for technical consultation before being laid before parliament after the Bill receives Royal Assent.

Capital allowances special rate reduction

Special rate expenditure includes expenditure on long-life assets, thermal insulation, integral features and expenditure incurred on or after 1 April 2018 on cars with CO_2 emissions of more than 110 grams per kilometre driven. The capital allowances rate applying to this asset pool is to be reduced from 8% to 6% from April 2019.

Enhanced capital allowances

The lists of energy efficient and environmentally beneficial technologies and products which are eligible for enhanced capital allowances (the energy technology list and water technology list) are to be updated. The measure will also end the first-year allowance for products on these lists, including the associated first year tax credit, from April 2020 onwards.

The government is taking a different approach to enhanced capital allowances for electric vehicle charge points – the enhanced allowances are to be extended for four years and will now cover expenditure incurred up to 31 March 2023 for corporation tax and 5 April 2023 for income tax.

Costs of altering land for installing plant

Legislation in FB 2018-19 will clarify the scope of the relief given by Capital Allowances Act 2001 for altering land in connection with qualifying expenditure on plant and machinery. The measure is intended to put beyond doubt that land alteration expenditure can qualify for plant and machinery capital allowances only where the plant or machinery itself qualifies for capital allowances. The measure is effective from 29 October 2018.

R&D tax relief review

The government will consult on changes to the current research and development (R&D) tax relief for small and medium-sized enterprises (SMEs), with the aim of preventing abuse of the relief.

It proposes to introduce a limit on the amount of payable tax credit that can be claimed, which will be set at three times the company's total PAYE and NIC liability for the period.

The change will have effect for accounting periods beginning on or after 1 April 2020. Any loss that a company cannot surrender for a payable credit can be carried forward and used against future profits.

Social investment tax relief

A call for evidence will be published in early 2019 to allow the government to understand why take-up of this relief is lower than anticipated and to consider the design and targeting of the relief.

The tax relief for social investment is similar to enterprise investment scheme (EIS) relief. There is a 30% income tax relief and capital gains can be deferred; the investment must be held for three years. It was designed to encourage individuals to support social enterprises and help the social enterprise to access new sources of finance.

EIS knowledge-intensive fund structure

Following consultation, the government will reform the EIS rules for approved knowledge-intensive funds. The amendments will be to:

- require approved funds to focus on investments in knowledge-intensive companies;
- give funds a longer period over which to invest fund capital; and
- allow investors in approved funds to set their income tax relief against liabilities in the year before the fund closes.

Legislation will be in FB 2019-20 with the changes taking effect from 6 April 2020.

Non-resident companies: treatment of UK property income

UK non-resident companies are currently subject to income tax on their UK property income.

As previously announced, legislation in FB 2018-19 will change this so that non-UK resident companies that carry on a UK property business or have other UK property income or gains will be charged to corporation tax.

Draft legislation was published on 6 July 2018. Following consultation, the legislation has been revised to provide further clarity on how the loan relationship and derivative contract rules will apply, and revised legislation published on Budget day. In addition, a targeted anti-avoidance rule is introduced from 29 October 2018.

The changes will have effect from 6 April 2020.

Affected companies will need to prepare to submit corporation tax returns and accounts in iXBRL format. The government will issue guidance on the transitional rules as well as general guidance on corporation tax aimed at non-UK resident companies during 2019 and before the change takes effect.

Lease accounting changes: tax adjustments

As announced in Autumn Budget 2017 the government will legislate in FB 2018-19 to ensure that the tax legislation, including the long funding lease and corporate interest restriction rules, continues to operate as intended following the introduction of the new accounting standard for leases, IFRS 16.

The measures will have effect for periods of accounts beginning on or after 1 January 2019. Certain amendments to the long funding lease rules only have effect for leases entered into on or after 1 January 2019.

Corporate interest restriction rules

The government proposes to make changes in FB 2018-19 to ensure the corporate interest restriction regime works as intended. The draft legislation was published on 6 July 2018 and there are now some further amendments to take into account consultation responses.

The current regime provides that from 1 April 2017 the tax-deductible finance costs of UK stand-alone companies or UK members of a worldwide group are restricted to 30% of their tax earnings before interest, tax, depreciation and amortisation (EBITDA) subject to:

- a cap based on the worldwide group's net finance costs; and
- an option to apply a group ratio subject to a similar cap.

To the extent that companies/groups had UK tax-deductible finance costs of less than £2m in the period of the accounts, the restriction does not apply.

The proposed amendments are:

- Changes to the relevant derivative contract rules – to ensure that debits and credits on derivatives hedging a financial trade that is not a banking business are not inappropriately excluded from tax-interest amounts.
- Changes to the treatment of research and development expenditure credits (RDECs) amounts in the calculation of Group-EBITDA – so that this is aligned with the calculation of tax-EBITDA.
- Changes to the definition of a group – so that this aligns with accounting standards and to ensure that otherwise unrelated businesses are not treated as a group for the purposes of these rules purely as a result of having a common asset manager.
- Various changes to the public benefit infrastructure exemption (PBIE):
- ensuring that insignificant amounts of non-taxable income do not affect qualification for the PBIE;
    - confirming that if a third party acquires an asset from a qualifying infrastructure company, that third party is not automatically treated as having elected into the rules;
    - extending the deadline for making the PBIE election to the last day of the accounting period for which the election first applies; and
    - ensuring that the limitation on relief for related party interest expense cannot be avoided through the use of a conduit company.
- Finally, an administrative change, so that when an interest restriction return is submitted, companies will be required to amend their company tax returns if their tax position is changed.

Corporate capital loss restriction

From 1 April 2020, the proportion of annual capital gain that can be relieved by brought-forward capital losses will be restricted to 50%. This is to ensure that large companies pay tax when they make significant capital gains.

To ensure the measure applies only to larger companies the restriction will not apply to the first £5m of carry-forward loss (whether capital or income-type losses). However, capital losses will continue to be streamed against chargeable gains, with the existing mechanism under s171A, Taxation of Chargeable Gains Act 1992 being retained to transfer gains/losses intragroup.

Companies will be required to split their 2020 accounting period into two notional periods, with net chargeable gains arising in the period up to 1 April 2020 not subject to restriction. Where there is a net chargeable gain in one notional period and a net capital loss in another notional period, these are aggregated before applying the carry-forward loss restriction rule to the whole period.

The government proposes anti-forestalling legislation to counteract arrangements designed to defer capital losses beyond the start date, or to accelerate capital gain crystallisation before the start date. Genuine third party transactions should not be caught by this, but artificial de-groupings or uncompleted contracts are likely to be counteracted.

A consultation Corporate Capital Loss Restriction: Consultation on delivery is open for comment until 25 January 2019, and legislation will be included in FB 2019-20.

The anti-forestalling measures will have effect from 29 October 2018.

Controlled foreign companies

As originally announced on 6 July 2018, the government will legislate, in FB 2018-19, to make two changes to the controlled foreign companies (CFC) rules. These changes relate to the definition of control and the treatment of certain profits generated by UK activity, and will ensure that the UK CFC rules comply with Council Directive (EU) 2016/1164, also referred to as the EU Anti-Tax Avoidance Directive (ATAD). The changes will take effect from 1 January 2019.

Hybrid mismatches

FB 2018-19 will include minor changes to the existing UK rules for hybrid mismatches. The changes include:

- Specific provisions requiring the UK to counteract arrangements relating to permanent establishments of a company recognised by the jurisdiction where it is resident but not by the jurisdiction where the permanent establishment is situated.

- Amendments to the current exemption for regulatory capital, to enable regulations to be made which can provide for a revised definition of regulatory capital. The current exemption will remain in place until the new regulations come into force.

The changes will be effective from 1 January 2020.

Hybrid capital instruments

There will be a new elective regime for the taxation of 'hybrid capital instruments'.

In introducing these rules, the government seeks to provide certainty regarding the tax treatment of hybrid capital instruments that are, in essence, genuine debt instruments. These rules will apply to any UK-resident company that issues hybrid capital instruments, regardless of sector, and the existing regulations which apply to certain capital instruments issued by banks or insurance companies will be repealed.

New provisions will define a hybrid capital instrument as being a loan relationship on which the debtor is allowed to defer or cancel interest payments, and which has no significant equity features. The provisions are expected to provide that coupons on the instruments are potentially deductible under the loan relationship rules, even if recognised in equity rather than in the profit and loss account. A number of other measures are expected, including a specific exemption from all stamp duties for instruments falling within the rules. The election for the rules to apply will be ineffective where there are arrangements, the main purpose, or one of the main purposes, of which is to obtain a tax deduction for any person.

Offshore receipts in respect of intangible property

At Autumn Budget 2017, the government announced it would introduce measures to tax income derived from intangible property held in low-tax jurisdictions to the extent that it related to UK sales.

The government published a consultation on 1 December 2017 and Tax Faculty responded in February 2018 ICAEW Rep 26/18 Royalties Withholding Tax. The government has now published a summary of responses to that consultation along with proposed draft legislation and explanatory notes.

In our representation we were concerned that any changes need to take account of the way that particular industries currently operate, giving the music industry as an example.

The new provisions will take effect from 1 April 2019. However, collection of the tax will be by direct assessment on the owner of the intangible property, rather than via a withholding tax on payments made to the intangible property-owning company by other persons.

Also, the scope will be broadened to include embedded royalties and income from the indirect exploitation of intangible property in the UK market through unrelated parties. De minimis thresholds and exemptions will be introduced, including a de minimis threshold for UK sales of £10m, an exemption for income that is taxed at what is deemed to be an acceptable rate and an exemption where the intangible property owner is considered to have sufficient local substance.

In common with other similar provisions introduced in recent years, there will be anti-avoidance provisions, applicable from 29 October 2018, targeted at arrangements that seek to circumvent the application of these rules.

Intangible fixed asset regime

The government carried out a consultation between February and May 2018 into the fixed asset regime introduced in 2002, to determine how to make the regime more competitive and easier to administer. Two problems were the fact that the regime did not apply to intangible assets in existence at April 2002 and the changes to the de-grouping rules in 2011. ICAEW submitted its views in ICAEW Rep 53/18.

From the statement in the Red Book, para 3.30, it would appear that the government will address both these issues. However, we believe there is a need to adopt a more fundamental approach to the regime compared with earlier reviews which have concentrated on eliminating abuse of the system or have sought to cut the cost of the regime.

A restriction on the ability to amortise goodwill for UK corporation tax purposes on the acquisition of a business was introduced with effect from July 2015. The government proposes that tax relief will be available for the amortisation of goodwill on the acquisition of businesses with eligible intellectual property with effect from 1 April 2019.

In common with the chargeable gains regime, the intangible fixed asset regime provides for a de-grouping charge if a company leaves a group holding an asset that was transferred to it on a tax neutral basis in the prior six-year period. However, the intangible fixed asset regime was not been reformed at the same time as the chargeable gains regime. This was to enable the exemption of this de-grouping charge from tax where the company that holds the asset at the time of the de-grouping qualifies for the substantial shareholding exemption. The rules will now be aligned, which should enable a more flexible approach to transact the carve-out, sale and purchase of businesses.

UK definition of permanent establishment

The OECD Base Erosion and Profit Shifting (BEPS) project published the Action 7 Report Preventing the Artificial Avoidance of PE Status in October 2015. The report recommended changes to Article 5 of the OECD Model Tax Convention (MTC) that are included in the 2017 version of the MTC.

One of the changes is an anti-fragmentation rule, which the UK will adopt in its tax treaties through the multi-lateral instrument which was signed in June 2017 and which entered into force for the UK on 1 October 2018. The UK now needs to replicate this change in UK domestic law to make the change to tax treaties effective.

The purpose of the anti-fragmentation rule is to prevent a foreign business from fragmenting complementary functions, otherwise forming part of a cohesive business operation, between locations or among related companies. This was previously done by companies to claim that each of the fragmented operations were preparatory or auxiliary and did not create a permanent establishment (PE) in the UK. The new rule requires the activities to be considered together to determine whether a PE exists.

CHARITIES

Small trading exemption

Three measures aimed at reducing the administrative burden on charities were announced in the Budget.

FB 2018-19 will include legislation to increase the small trading exemption limits that apply to charities. These limits allow charities to engage in some small-scale trading without incurring a tax liability on the profits, so long as the trading does not relate to the charity's primary purpose.

The current limits are:

Annual charity income	Maximum non-primary purpose trading
Under £20,000	£5,000
£20,001 to £200,000	25% of annual turnover
Over £200,000	£50,000

From April 2019 limits will be:

Annual charity income	Maximum non-primary purpose trading
Under £32,000	£8,000
£32,001 to £320,000	25% of annual turnover
Over £320,000	£80,000

Gift aid small donations scheme

The government will introduce secondary legislation to increase the gift aid small donations scheme individual donation limit to £30. This will be effective from April 2019

Retail gift aid scheme

Charities operating the retail gift aid scheme are currently required to issue annual letters to donors. This requirement will be relaxed to every three years where the total donations in a tax year are less than £20. This will be effective from April 2019.

PROPERTY TAXES

Rent-a-room relief

Following a call for evidence earlier this year HMRC put forward draft legislation in July 2018 to include a 'shared occupancy test' for rent-a-room relief. This change will not now go ahead.

The relief allows income of up to £7,500 per annum tax-free from renting out a room in your main or only residence and was first introduced in 1992 to encourage the release of additional accommodation. It was envisaged that people would provide a spare room for students or for people working away from home during the week. The advent of the internet and websites like Airbnb have enabled people to rent out entire houses very easily, moving the relief away from the original policy intention. The draft legislation introduced a shared occupancy test in order for the relief to apply but the meaning of shared occupancy was not made clear. In our representation (ICAEW Rep 108/18) we expressed our concern about the difficulty of defining and monitoring shared occupancy and we are pleased to note that our comments have been heeded and the legislation will not now be introduced.

HMRC will work with stakeholders to ensure the rules around the relief are clearly understood.

Business rates

The change in the way we shop, buying more online and less in the high street shops, has been causing problems, with many shops (including very large chains) going under, and there have been cries for the government to help. The cries were heard and there is some help for small businesses:

- Through the government's 'Our Plan for the High Street', support will be given by cutting the business rates bill by one-third for retail properties with a rateable value below £51,000 for two years from April 2019.
- The plan includes a £675m Future High Streets Fund, a High Streets Task Force to support local leadership and funding to strengthen community assets.
- The £1,500 business rates discount for office space occupied by local newspapers will continue in 2019/20.
- Local authorities will be compensated for these measures.

The measure milked for the most laughs by the Chancellor was the announcement that a 100% business rates relief will be given for all public lavatories. More than a quarter of public toilets have been closed down since 2000 as they are an easy target for cash strapped councils.

Business rates are payable by owners of self-catering and holiday letting accommodation and these are generally lower than the council tax would be on the same property. There are no restrictions on how many weeks the property is let, unlike the rules for furnished holiday lets for income tax, and the government is concerned that not all those paying business rates are genuine businesses. A consultation will be published on the criteria for chargeability to business rates.

Annual tax on enveloped dwellings

The annual tax on enveloped dwellings (ATED) will rise by 2.4% from 1 April 2019 in line with CPI. The revised rates are as follows:

Property value	Charge for tax year 2018/19	Charge for tax year 2019/20
More than £500,000 but not more than £1m	£3,600	£3,650
More than £1m, but not more than £2m	£7,250	£7,400
More than £2m, but not more than £5m	£24,250	£24,800
More than, £5m, but not more than £10m	£56,550	£57,900
More than £10,, but not more than £20m	£113,400	£116,100
More than £20m	£226,950	£232,350

Note: the charges apply for years beginning on 1 April and ending on 31 March, rather than tax years.

Private residence relief

See the section on Capital taxes and trusts.

Stamp duty land tax

See the section on Stamp taxes.

Non-resident companies: treatment of UK property income

See the section on Business and company tax.

CAPITAL TAXES AND TRUSTS

Entrepreneurs' relief: new conditions

There will be more changes to entrepreneurs' relief (ER) to try and focus it on the intended target of genuine entrepreneurs:

ER was introduced in 2008 as a replacement for taper relief which in turn replaced retirement relief and in fact ER has much in common with retirement relief. The original concept was to allow some tax relief to business owners who traditionally treated their business as their pension when they sold up and retired.

When ER was first introduced the 10% capital gains tax (CGT) rate applied to £1m of gains. The limit has now been increased to £10m and in 2017/18 the relief cost the government £2.7bn. The high cost of the relief led many to speculate that this Budget would bring about some changes to the relief and indeed it has.

Generally, to qualify for ER on the sale of a company the requirement has been that at least 5% of the business and voting rights were owned by the vendor and that the vendor was an employee or officer of the company and these conditions had to be met for at least a year before sale.

The changes announced by the Chancellor are:

- The minimum holding period will be increased from one year to two years for sales on or after 6 April 2019.
- From 29 October 2018, shareholders must be entitled to at least 5% of the distributable profits and net assets of a company to claim the relief, as well as meeting the current requirements on share capital and voting rights.

HMRC has given us the following additional information on these changes:

“Legislation will be introduced in FB 2018-2019 to add two new conditions to the definition of an individual's personal company in s169S(3), Taxation of Chargeable Gains Act 1992. This change will have effect for share disposals on or after 29 October 2018 (Budget day). Both conditions, as well as the existing 'share capital' and 'voting rights' conditions, must be met throughout the appropriate period in order for relief to be due. The new conditions require the individual to be beneficially entitled to at least:

- 5% of the company's distributable profits and
- 5% of its assets available for distribution to equity holders in a winding up.

“References to the company include any other company which is a member of the same group.

“The same two new conditions are added to

- the conditions for relief on associated disposals in s169K(1B), so that they must both be met in relation to a material disposal consisting of shares before an associated disposal of an asset can qualify for relief; and
- the conditions for the withholding of relief on goodwill at s169LA(1), so in addition to the existing two conditions, if either of the new conditions is met following a disposal of goodwill to a close company, then relief will not be due.

“We expect the majority of shareholders to be unaffected by this measure. It will only affect those who hold shares which have voting rights that are disproportionate to the entitlement to economic benefits in the company.”

Entrepreneurs’ relief: shareholdings diluted below 5%

The government announced in the Autumn Budget 2017 that legislation would be introduced to allow entrepreneurs to claim ER if their shareholding was diluted below 5% before the actual sale. Relief would be available up to the date of the dilution. The draft legislation was published in July 2018 and we commented on it in ICAEW Rep 103/18. Changes have been made to the draft legislation to “clarify and improve the computational and qualifying rules” and the new measure will have effect for shares held at the time of fundraising events which take place on or after 6 April 2019.

Private residence relief: final period of ownership

Relief from capital gains on the sale of the principal private residence is one of the most valuable reliefs available to individuals and trustees. It allows all the sale proceeds, subject to occupation rules and a restriction to 0.5 hectares for the size of the plot, to be rolled into the purchase of the replacement property without a slice being taken out for taxes.

When the relief was introduced it was extended to cover a period of 12 months from ceasing to occupy to actual sale. Over the life of the relief this period has been 24 months and 36 months to reflect difficult market conditions when it was taking longer to sell. The extension period is currently 18 months unless the owner has left the home to go into a care home, in which case the period is 36 months.

The Chancellor announced a reduction from 18 months to nine months, from April 2020. The 36 months final period exemption available to those entering a care home is retained. There will be consultation on the change.

Private residence relief: lettings relief

Another CGT relief often used by people who have had difficulty selling their home is lettings relief whereby a maximum of £40,000 of gain per owner is exempt if the home has been rented out.

From April 2020 lettings relief will be reformed so it is only available where the owner and tenant are in shared occupation and not for a period when the entire property is rented out. There will be a consultation on the change.

It is to be hoped that the property market has picked up by 2020 otherwise several homeowners will find themselves subject to a capital gains tax charge when they do eventually sell their home.

CGT: non-residents disposing of UK land

As announced in the Autumn Budget 2017, CGT will apply to gains made by non-residents on the disposal of any UK land, extending the rules introduced in April 2015 for disposals of residential UK land. The charge will apply to disposals on or after 6 April 2019. Non-resident companies will be liable to corporation tax on their gains.

CGT: payment window

A further announcement in the Autumn Budget 2017 was to extend the early reporting and tax payment window on the disposal of residential property, which has applied to non-residents from April 2015, to UK residents. This is to apply for disposals on or after 6 April 2020.

We responded to the consultation and draft legislation published in July 2018 in ICAEW Rep 105/18 and we are pleased to note that some of our recommendations have been taken into account:

- reasonable estimates will be allowed to compute the gains if the actual valuations are not available when the return is due;
- disposals of non-UK property by UK residents are removed from the rules; and
- non-UK resident companies are also removed.

Inheritance tax

There was virtually no mention of IHT in the Budget papers, perhaps because the Office of Tax Simplification has yet to publish its review of how to simplify the tax.

A recent complication added to IHT is the residence nil rate band, with one of the most complex parts being the downsizing provisions. These were designed to allow a home-owner to downsize in their lifetime but ring-fence the value of the original property for the purpose of the relief. The intention is to introduce amendments to the legislation to clarify the downsizing rules. There will also be amendments to provide certainty over when a person is treated as inheriting property. There has been no consultation on these changes which come into effect from Budget day.

Another change to IHT relates to additions to existing trusts by UK domiciled or deemed domiciled individuals to reflect HMRC’s established legal position in relation to these additions. Where the trust was created by the individual while they were non-UK domiciled or deemed domiciled, the trust is excluded property for IHT purposes. HMRC’s view is that additions to the trust while UK domiciled or deemed domiciled are not excluded property and the legislative amendments will reflect that view.

Additional amendments will be made to ensure transfers between trusts after FB 2019-20 receives Royal Assent will be subject to additional excluded property tests.

Trusts consultation

The Chancellor announced in the Autumn Budget 2017 that a consultation would be published on the taxation of trusts to make the regime simpler, fairer and more transparent. Nearly a year later the consultation is about to be published and we will give more information on this in due course.

STAMP TAXES

SDLT: first-time buyers relief

First-time buyers relief for stamp duty land tax (SDLT) was introduced from 22 November 2017. It applies to purchases of residential property for £500,000 or less, provided the purchaser is a first-time buyer and intends to occupy the property as their only or main residence. First-time buyers purchasing their first home for £300,000 or less pay no SDLT. Where the purchase price is over £300,000 but below £500,000, 5% is payable on the amount exceeding £300,000.

The relief for first time buyers will be extended to purchasers of qualifying shared ownership properties who choose to pay SDLT in stages (rather than paying it on the market value of the whole property when they purchase their first share).

The extension is backdated to 22 November 2017 so first-time buyers in this position will be able to amend their return to claim a refund.

SDLT: non-residents buying residential property

A consultation will be published in January 2019 to consult on a SDLT surcharge of 1% for non-residents buying residential property in England and Northern Ireland.

SDLT: additional dwellings

A 3% additional SDLT charge was introduced from 1 April 2016 for purchasers of a dwelling who already own one or more dwellings, even if the intention is to occupy the new dwelling as the main home. Those purchasers who buy a replacement home before they have sold their existing home have to pay the additional rate of SDLT but they can then reclaim the additional charge if they sell within three years.

The time-frame for the reclaim has been extended with effect from Budget day.

If the previous main residence was sold on 28 October 2018 or earlier, HMRC must have the repayment claim within three months of the sale of that previous main residence, or within 12 months of the filing date of the return relating to the new residence, whichever is later.

If the previous main residence as sold on 29 October 2018 or later, the claim must be made within 12 months of the sale of that previous main residence, or within 12 months of the filing date of the return relating to the new residence, whichever is later.

Stamp taxes: resolution of financial institutions

Under the Banking Act 2009, the Bank of England has various resolution stabilisation powers to manage a failing financial institution in an orderly way. These ensure that an institution's operations can be maintained to protect financial stability, depositors and the taxpayer. A transfer of securities and/or property held by the failed institution to a temporary holding entity appointed by the Bank of England or to a temporary public body is within scope of the stamp taxes.

Provision will be included in FB 2018-19 to ensure that stamp duty, stamp duty reserve tax and stamp duty land tax are not payable when a financial institution fails and there is a temporary transfer of shares and/or land to a bridge entity as part of the process of dealing with the failed entity. The change will apply for transfers made on or after Royal Assent of FB 2018-19.

Stamp taxes: share incentive plans

An amendment will be made to s95, Finance Act 2001 to ensure consistency across all legislation for share incentive plans and confirms that the existing stamp duty relief continues to apply. The change will have effect from 6 April 2014.

Stamp taxes: shares consideration rules

A targeted market value rule for stamp duty and stamp duty reserve tax will be introduced for listed securities transferred to connected companies. The purpose is the simplify stamp taxes on shares and prevent contrived arrangements being used to avoid tax. The tax will be charged on the higher of the actual consideration and the market value of the securities with effect from Budget day.

There will be a consultation published on 7 November 2019 on aligning the stamp duty and the stamp duty reserve tax consideration rules and introducing a general connected party market value rule.

VAT

VAT registration and deregistration thresholds

The annual taxable turnover threshold, which determines whether a person must be registered for VAT, will remain at £85,000 for a further two years until 31 March 2022.

The taxable turnover threshold which determines whether a person may apply for deregistration will remain at £83,000.

The registration and deregistration limits for relevant acquisitions from other EU member states will also remain at £85,000.

Registration threshold: reform

In March 2018 the government launched a call for evidence into the current design of the VAT registration threshold, following the recommendations of the Office for Tax Simplification (OTS) report *Routes to Simplification for VAT*. The call for evidence sought to explore whether the design of the VAT threshold could better incentivise growth and considered policy options for reform.

The responses to this call for evidence were published on Budget day. They have not presented a clear solution to the problems surrounding the VAT registration threshold, and the government says it does not consider there to be a lead option for reform.

The government recognises that the introduction of a smoothing mechanism to ease the financial burden of VAT registration would be welcomed by some stakeholders, providing it does not increase complexity, but will not be implementing such a mechanism at this stage. Under EU law the UK would require a derogation to introduce a new smoothing mechanism. One of the criteria for acceptance would be revenue neutrality, so a mechanism that reduces the financial burden may only be possible in conjunction with a reduction of the threshold.

The government will continue to monitor and evaluate the design of the threshold and simplification schemes, and will look again at the possibility of introducing a smoothing mechanism once the terms of EU exit are clear.

VAT and vouchers

Following consultation, the UK law will to implement EU legislation which ensures that the correct amount of VAT is charged on what a customer pays, irrespective of whether payment is made with a voucher or other means of payment.

VAT grouping

The eligibility to join a VAT group is to be extended to certain non-corporate entities.

In addition, revised VAT grouping guidance will be issued to:

- amend the definition of ‘bought in services’ to ensure that such services are subject to UK VAT; and
- provide clarity to businesses on HMRC’s protection of revenue powers and treatment of UK fixed establishments.

Higher education amendments
VAT legislation will be amended to ensure continuity of VAT treatment for English higher education providers under the Higher Education and Research Act by enabling bodies registered with the Office for Students in the approved (fee cap) category to exempt supplies of education. HMRC will provide further guidance for providers ahead of the 2019/20 academic year.

Alternative method of VAT collection: split payment
A formal response to the consultation launched at Spring Statement 2018 is to be published on 7 November 2018. The aim is to reduce online VAT fraud by third country sellers and improve how VAT is collected on cross-border e-commerce.

The government believes that a split payment model, developed in close cooperation with stakeholders in the banking and payments sectors, could radically improve the way VAT is collected and reduce fraud. It has therefore announced that an industry working group will be established to address some of the main challenges associated with this policy.

Unfulfilled supplies
New rules to bring consistency to the VAT treatment of prepayments will be introduced with effect from 1 March 2019. The change will bring all prepayments for goods and services into the scope of VAT where customers have failed to collect what they have paid for and have not received a refund.

Adjustments to VAT
New rules for the adjustments to VAT following retrospective reductions in the price of goods or services will be introduced in September 2019. Businesses will have to adjust their VAT returns within set time limits and send a credit note to their customers. This will ensure that such adjustments are only made in respect of genuine price reductions.

Guidance for VAT groups on bought-in services
HMRC will revise existing guidance for VAT groups to clarify which overseas services can be classified as bought-in services to ensure that such services are subject to UK VAT. HMRC will share the draft guidance with businesses in November 2018 with a view to implementation from 1 April 2019.

VAT, APD and tourism in Northern Ireland
Following an earlier call for evidence on the impact of VAT and APD on tourism in Northern Ireland, the response to which has now been published, the government has said there re will be no changes at the present time to the rates of VAT on tourism-related services in Northern Ireland or the UK as a whole. There will also be no changes to the APD regime in Northern Ireland.

DUTIES

Fuel duty: rates
Fuel duty rates will remain frozen for the tax year 2019/20.

Following an internal review, the government will extend the current differential between alternative and main road fuel duty rates until 2032 to support the decarbonisation of the UK transport sector, subject to review in 2024.

VED: rates
Vehicle excise duty (VED) rates for cars, vans, motorcycles and motorcycle trade licences will be increased by the RPI with effect from 1 April 2019.

VED for heavy goods vehicles (HGVs) will be frozen for the tax year 2019/20.

VED: vans

The government has published a summary of responses from the consultation on VED reform for vans, aimed at incentivising van drivers purchasing a new van to make the cleanest choices. The response sets out proposals to introduce environmental incentives from April 2021. The key decisions that the government has taken are to:

- further develop its understanding of the impacts of the Worldwide Harmonised Light vehicles Test Procedure (WLTP) on CO2 emissions for vans, ahead of announcing the new rates and bands, for introduction from April 2021;
- ensure the new system takes into account the weight of the van by introducing a two-category approach; and
- provide ongoing incentives, beyond the first year, for new zero emission, ultra-low emission and other alternatively fuelled vans from April 2021.

VED: exemption for blood bikes

From April 2020, motorcycles and cars owned by the Nationwide Association of Blood Bikes, used for the transportation of medical products, will be exempt from VED. This will align the tax treatment of the transportation of blood and medical supplies with other emergency vehicles.

HGV road user levy

From 1 February 2019, HGVs that meet the latest Euro VI emissions standards will be eligible for a 10% reduction in the cost of the HGV levy. Those HGVs that do not meet the latest emissions standards will see their liability increase by 20%, except where the rate is already set at its maximum rate allowable under European legislation.

Air passenger duty rates

Long-haul APD rates will rise in line with RPI with effect from 1 April 2020. Short-haul rates will not rise. The rates for long-haul economy will increase by £2, and the rates for those travelling in premium economy, business and first class will increase by £4. Those travelling long-haul by private jets will see the rate increase by £13.

Soft drinks industry levy

From April 2019, the raising of penalties will be permitted where businesses registered for the soft drinks industry levy (SDIL) do not submit a timely quarterly return. Quarterly returns covering the period April to June 2019, and which are received late or not at all after the due date of 30 July 2019, will be subject to the penalty.

The first late return will lead to a penalty for a fixed amount of £100. For the second late return within a 12 month period, the fixed amount is £200. A third late return within 12 months of the second means a fixed penalty of £300, and the penalty for a fourth or subsequent late return within 12 months of the most recent late return is a fixed amount of £400. Tax-geared penalties start when a return is six months late or more.

Remote gaming duty

In order to ensure funding for public services is maintained following the implementation of a £2 maximum stake on B2 machine games, the rate of remote gaming duty will increase to 21%. Both the reduction in maximum stake and increased duty rate will take effect from 1 October 2019.

Gaming duty accounting periods and bands

The requirement for casinos to pay gaming duty on account and to allow the carry forward of losses between accounting periods will be removed. The return period for gaming duty will remain six months. The bands to determine payment of gaming duty will be frozen from April 2019, while the changes to gaming duty accounting periods are implemented.

Tobacco duty rates

The duty rates for all tobacco products were increased by 2% above RPI inflation from 18:00 on 29 October 2018, although for hand-rolling tobacco, this rise was 3% above RPI. The minimum excise tax was also set at £293.95 per 1,000 cigarettes from the same time.

A new duty category, 'tobacco for heating', will be introduced from 1 July 2019 at a rate of £234.65 per kg, the same level as hand-rolling tobacco. In these products processed tobacco is heated (but not burned like conventional tobacco) to produce, or flavour, vapour.

The government will act on the recommendations of the recent All Party Parliamentary Group report by supporting the creation of a UK-wide Anti-Illicit Trade Group. This will bring together senior officials, representing each of the four parts of the United Kingdom, to share best practice and develop a national strategy for tackling this criminal activity and the societal ills that it fuels.

Alcohol duty: rates

Duty rates on beer, most cider and spirits will be frozen. However, duty on wine and made-wine rates at or below 22% alcohol by volume (abv); and sparkling cider and perry exceeding 5.5% abv but less than 8.5% abv will rise by RPI inflation from 1 February 2019.

A new duty band for still cider and perry of a strength of at least 6.9% but not exceeding 7.5% alcohol by volume will be introduced at £50.71 per hectolitre with effect from 1 February 2019, to encourage the production and consumption of lower-strength ciders.

Alcohol duty: simplification

The government will not be undertaking further consultation in 2018/19 to simplify the administration of alcohol duty. In the longer term, it remains committed to consulting on and implementing reforms to this duty, and reducing the administrative burden on businesses.

Small brewery relief

The current structure of the small brewery beer relief will be reviewed to ensure it is supporting growth in the sector.

Post duty point dilution

The practice of diluting certain alcohol products after excise duty has been calculated is to be banned with effect from April 2020, to ensure a level playing field with other duty regimes.

The government plans to publish draft primary legislation and regulations in summer 2019. The change will have effect after regulations have been laid, following Royal Assent of FB 2019-20

ENVIRONMENTAL TAXES

New plastics tax

A new tax on the production and import of plastic packaging will be introduced from April 2022. Subject to consultation, this tax will apply to plastic packaging which does not contain at least 30% recycled plastic. The aim is to provide financial incentives for manufacturers to produce more sustainable packaging. The tax will work alongside other measure to tackle the use of single-use plastics.

New carbon emissions tax

The government will legislate in FB 2018-19 to introduce a new carbon emissions tax to help meet its legally-binding carbon pricing commitments under the Climate Change Act in the event of the UK leaving the EU without a deal in 2019.

The tax would apply to all stationary installations currently participating in the EU Emissions Trading System (ETS). For 2019, a rate of £16 would apply to each tonne of CO_2 (or other greenhouse gas on a carbon equivalent basis) emitted over and above an installation’s emissions allowance, which would be based on the installation’s free allowances under the EU ETS.

The government is also legislating so it can prepare for a range of long-term carbon pricing options.

Company car tax and VED: carbon dioxide emission regime

The impact of the Worldwide harmonised Light-vehicles Test Procedure (WLTP) on the VED and company car tax systems is to be reviewed. Legislation will confirm that, for the purposes of VED and company car tax, the applicable CO2 figure for cars will be based upon WLTP. WLTP aims to provide a closer representation of ‘real-world’ fuel consumption and CO2 emissions.

For cars registered prior to 6 April 2020, HMRC will continue to use the current New European Driving Cycle (NEDC) test procedure for the purposes of collecting company car tax. Similarly, cars first registered prior to 1 April 2020 will maintain their current VED treatment.

Climate change levy rates

The rebalancing of the electricity and gas main rates of climate change levy (CCL) is to continue. The electricity rate will be lowered in 2020/21 and 2021/22, and the gas rate will increase in these years so that it reaches 60% of the electricity main rate by 2021/22. Other fuels such as coal will continue to align with the gas rate. The rate of CCL for liquefied petroleum gas will remain frozen at the 2019/20 level in both 2020/21 and 2021/22.

Carbon price support rates

The price of EU ETS allowances has risen significantly over recent months, raising the Total Carbon Price (currently made up of the EU ETS price and the carbon price support (CPS) rate). The CPS rate will be frozen at £18 per tonne of carbon dioxide emitted for 2020/21. From 2021/22, the government will seek to reduce the CPS rate if the Total Carbon Price remains high.

Aggregates levy rates
(para 2.31)

The Aggregates Levy rate for 2019 to 2020 will be frozen, but it is the intention to return the Levy to index-linking in future.

Landfill tax rates

The standard and lower rates of landfill tax will be increased in line with RPI, rounded to the nearest 5p, for both 2019/20 and 2020/21.

AVOIDANCE, EVASION AND COMPLIANCE

Profit fragmentation

As announced at Autumn Budget 2017, the government will legislate in FB 2018-19 to introduce targeted legislation that aims to prevent UK businesses from avoiding UK tax by arranging for their UK-taxable business profits to accrue to entities resident in territories where significantly lower tax is paid than in the UK. The taxable UK profits will be increased to the actual, commercial, level.

Draft legislation was published on 6 July 2018. Following consultation, changes have been made to the draft legislation to remove the duty to notify HMRC of relevant arrangements meeting certain criteria, to clarify the adjustments required to be made under this legislation, and to make a number of small technical changes.

The measure will have effect from 1 April 2019 onwards for corporation tax and 6 April 2019 for income tax and class 4 NIC, and will apply to all profits diverted on or after those date.

There was a consultation which ended in June 2018 to which ICAEW Tax Faculty responded ICAEW Rep 67/18 and expressed considerable concern about the consultation process itself as well as the nature of the proposals.

Diverted profits tax

Diverted profits tax (DPT) was introduced in FA 2015 to counter two types of arrangements used by large groups to artificially divert profits from the UK. Firstly, situations where a company with a UK taxable presence uses arrangements lacking economic substance to artificially divert profits from the UK to low tax jurisdictions. Secondly, situations where a person carries on activities in the UK for a foreign company that are designed to artificially avoid creating a UK permanent establishment, and thereby a UK taxable presence, of that foreign company.

Legislation will be included in FB 2018-19 to make clear that diverted profits will be taxed under either DPT or corporation tax provisions, but not both. The changes will also stop a planning opportunity from amendments being made to a company's corporation tax return after the review period has ended and the DPT time limit has expired.

In addition, changes will also be made to:

- extend the review period, the period where HMRC and the taxpayer work together to determine the extent of diverted profits, from 12 months to 15 months;
- extend a company's right to amend their corporation tax return to include diverted profits to the first 12 months of the review period; and
- make clear that diverted profits liable to DPT can be reduced by amendment to the company's corporation tax return during the first 12 months of the review period.

Reverse charge: building and construction services

A VAT domestic reverse change will come into effect on 1 October 2019 to prevent VAT losses through so-called 'missing trader' fraud. This occurs when traders collect VAT on their sales but go missing before passing that VAT on to HMRC. It shifts responsibility for paying VAT along the supply chain to remove the opportunity for it to be stolen by those traders. The change is being introduced following the conclusion of a technical consultation in June 2018, which resulted in changes to legislation by aligning it to payments reported through the construction industry scheme.

VAT: specified supplies order

As previously announced in July 2018, legislation will be introduced to prevent a version of VAT avoidance (known as 'looping') that involves UK insurers setting up associates in non-VAT territories and using these associates to supply their UK customers. This allows them to reclaim VAT on costs that UK-based competitors are unable to reclaim.

Electronic sales suppression

A call for evidence is to be published later in the year on electronic sales suppression (ESS). This refers to the misuse of electronic point of sale functions (ie, till systems), which is undertaken by a minority of businesses in order to hide or reduce the value of individual transactions and the corresponding tax liabilities.

Hidden economy: conditionality

The government will consider introducing a tax registration check linked to licence renewal processes for some public sector licences. Applicants would need to provide proof they are correctly registered for tax in order to be granted licences. This would make it more difficult to operate in the hidden economy, helping to level the playing field for compliant businesses.

Interest and penalties

Legislation will be introduced in FB 2018-19 to confirm current arrangements for calculating interest on late payments of corporation tax, inheritance tax, stamp duty, stamp duty land tax and penalties for failure to comply with PAYE obligations. The measure will also confirm the current arrangements for interest calculations on payments and repayments of diverted profits tax and extends the interest provisions to penalties charged under the promoters of tax avoidance schemes (POTAS) legislation.

This measure was originally announced in a written ministerial statement on 19 July 2018 except for the extension to PAYE penalties which was announced at Budget 2018.

Penalties reform

Legislation to introduce new late payment and late submission penalties was expected to be introduced in FB 2018-19 and draft clauses were published for consultation. The government has announced that the reform will go ahead but will be included in a future Finance Bill rather than FB 2018-19. This is to allow for further consideration of the communications plan and suggests that the new regime will be introduced later than the expected implementation date of April 2020.

Insolvency: HMRC to be preferential creditor

The government is going to change the rules so that HMRC becomes a preferential creditor in business insolvencies.

The change will only apply to taxes that business collects from third parties to pass on to the government: VAT, PAYE income tax, employee national insurance contributions and construction industry scheme deductions. It will not apply to taxes owed by businesses themselves, such as corporation tax and employer national insurance contributions.

It also does not appear to apply to personal insolvencies, although there are some areas that would need clarifying: for example, parents employing a nanny or disabled people employing a carer have to operate PAYE but are not businesses.

HMRC (or rather, its predecessor departments the Inland Revenue and HM Customs & Excise) used to have preferential creditor status but this was largely abolished by the Enterprise Act 2002. The previous rules imposed limits on how much of the debt would be treated as preferential (for example, PAYE arrears for the 12 months and VAT for the six months preceding a bankruptcy) but we do not know if similar terms will apply to the new rules.

The change will apply from 6 April 2020 and legislation will be in FB 2019-20.

Tax abuse and insolvency

Directors and other persons involved in tax avoidance, evasion or phoenixism will be made jointly and severally liable for company tax liabilities where there is a risk that the company may deliberately enter insolvency. The legislation will be in Finance Bill 2019-20.

Offshore tax compliance strategy

The government will publish an updated offshore tax compliance strategy. This will build on the progress the UK has made in tackling offshore tax evasion and non-compliance since the government's previous strategy was published in 2014.

International tax enforcement: disclosable arrangements

The government is enacting new legislation to allow the introduction of international disclosure rules about offshore structures that could avoid tax or could be misused to evade tax. The rules in question are the EU mandatory disclosure regime, referred to as 'DAC6' because it derives from a sixth amendment to the Directive on Administrative Cooperation, and the OECD's mandatory disclosure rules. Framework legislation will be in FB 2018-19 and draft regulations giving the detail are expected to be published for consultation in the new year.

ADMINISTRATION

Voluntary tax returns

Since the start of self assessment HMRC has always exercised its discretion to accept voluntary tax returns on the same basis as returns submitted under a statutory notice to file. Recent tribunal cases including Robertson [2018] UKFTT 0158 (TC) have challenged the validity of this practice. Legislation will be introduced in FB 2018-19 with retrospective and prospective effect to put the current practice on a statutory basis. This measure will give certainty to taxpayers who have submitted voluntary returns.

EU exit: necessary amendments to UK law

FB 2018-19 will introduce a power to permit the government to make minor amendments to ensure that tax law continues to operate as it does now if the UK leaves the EU without a deal.

The minor technical amendments that are contemplated include:

- replacing references to the ‘EU’ with references to the ‘EU and UK’ in legislation;
- amendments consequential to other changes to the law in preparation for EU exit; and
- amendments to change values in euros into values in sterling.

Legislation will also provide for technical changes to an existing power which permits the government to bring international tax agreements into effect in UK law, mirroring a provision currently contained in legislation that gives effect to EU law; and removes references to EU legislation when HMRC is considering whether, and to the extent which, a taxpayer may be unjustly enriched by repayment of insurance premium tax, landfill tax, or excise duty.

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