

## 2020 Budget Update

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12 March 2020

This document highlights the more important tax changes and announcements from the 2020 Budget.

### PERSONAL TAXES

#### ENTREPRENEURS' RELIEF (ER)

A claim for ER enables taxpayers to benefit from a 10% capital gains tax rate when selling qualifying business assets. The lifetime limit of capital gains on which ER can be claimed has stood at £10 million for a number of years. The Budget reduces the lifetime limit to £1 million. This applies to all gains realised from 11 March 2020 onward, and takes into account previous gains on which relief has already been claimed.

Anti-avoidance rules will apply such that any contracts entered into before 11 March 2020 with the aim of obtaining a tax advantage in relation to the curtailment of ER, and where the parties to the contract are connected, will be subject to the reduced lifetime limit. There are also anti-avoidance provisions in relation to share-for-share exchange relief and the potential disclaiming of this relief where both companies involved in a transaction are controlled by the same persons.

#### PENSIONS

Against the recent backdrop of NHS Consultants foregoing additional shifts due to pensions savings tax charges, the Chancellor has increased the income limits used in calculating the tapered annual allowance for tax relief on pension contributions.

Currently, individuals who are not subject to taper may claim income tax relief on up to £40,000 of gross pension contributions per year. This allowance is gradually tapered down for those individuals with threshold income (broadly income before tax) of more than £110,000 and adjusted income (broadly threshold income plus pension accrual) of more than £150,000. The maximum taper was £30,000, i.e. a minimum annual allowance of £10,000, with the annual allowance reducing by £1 for every £2 of income over the adjusted income threshold of £150,000.

From 6 April 2020, both the threshold and adjusted income limits will be increased by £90,000, such that tapering will not kick in until threshold income is above £200,000 and adjusted income is above £240,000. The minimum annual allowance has reduced to £4,000, which would apply to individuals with adjusted income in excess of £312,000.

#### NATIONAL INSURANCE (NI)

The threshold at which employees and the self-employed will begin paying class 1 and 4 NI contributions will increase from £8,632 to £9,500 from 6 April 2020.

The government has announced a NI 'holiday' for employers of veterans in the first year of civilian employment, to support the employment of veterans. The holiday will apply for tax years from 2021/22 onward, and will exempt employers from NI liabilities on the veteran's salary up to the NI Upper Earnings Limit (c.£50k per year).

#### HEMWORKING FLAT RATE DEDUCTION

Employees who are required to work from home may claim a flat rate deduction in respect of additional costs incurred as a result of that work. The rate will increase from £4 to £6 per week from 6 April 2020.

#### JUNIOR ISAS/CHILD TRUST FUNDS (CTFS)

The annual subscription limit for Junior ISAs and CTFs will be increased from £4,368 to £9,000 from 6 April 2021.

The adult ISA limit of £20,000 per year will remain unchanged.

#### STAMP DUTY LAND TAX (SDLT)

The rate of SDLT in respect of purchases of residential property in England and Northern Ireland by non-UK residents will be increased by a 2% surcharge from 1 April 2021.

#### NATIONAL LIVING WAGE (NLW)

By 2024, the government aims for NLW to be increased for workers aged 21 and over to reach two thirds of median earnings. Based on current forecasts, this means that the NLW is expected to be over £10.50 per hour in 2024.

### BUSINESS TAXES

#### RESEARCH AND DEVELOPMENT EXPENDITURE

Large companies who carry out research and development can claim a Research and Development Expenditure Credit. This is brought into account in calculating trading profits and then deducted as a credit against the company's corporation tax liability. If the company makes a loss the credit can, subject to

certain rules, be refunded to the company. The current rate is 12% of qualifying expenditure.

For expenditure incurred on or after 1 April 2020 the rate of credit will be increased to 13%.

## CORPORATE CAPITAL LOSSES

Currently, when a company incurs a loss on the disposal of a capital asset, that loss can be carried forward and set against future capital gains without limit.

Changes were first announced in Budget 2018, subject to consultation which completed in January 2019. These changes proposed that capital losses would be treated in the same way as trading losses brought forward.

The changes have been confirmed. With effect from 1 April 2020, trading and capital losses brought forward by a company will be subject to an overall deductions allowance of £5m, above which the loss can be offset against 50% of capital gains made by the company.

For a large company this is likely to mean that if it makes a capital gain, and has capital losses brought forward, the carry forward relief will be restricted to 50% of the gain.

## EMPLOYMENT ALLOWANCE

Under current rules, where a business has employees it is entitled to an employment allowance of £3,000. With effect from April 2020 the allowance will only be available to employers whose NIC liability in the previous tax year was under £100,000, but will be increased to £4,000.

The allowance does not apply to single director companies or to employers of personal or domestic staff (except for care or support workers).

## STRUCTURES AND BUILDINGS ALLOWANCE

Expenditure incurred by businesses on or after 29 October 2018 on non-residential structures and buildings used for business purposes are able to claim Structures and Buildings Allowance (SBA) at the rate of 2% a year on allowable costs. This rate will be increased to 3% with effect from 1 April 2020 for corporation tax and 6 April 2020 for income tax.

## CORPORATION TAX RATE

The rate of corporation tax was to decrease to 17% with effect from 1 April 2020. However, this rate change has been reversed, so that the corporation tax rate for the years commencing 1 April 2020 and 2021 will be 19%.

## INTANGIBLE FIXED ASSETS

Companies are able to claim relief for amortisation of intangible fixed assets, such as goodwill, trademarks, patents or design rights. However, when the legislation was introduced on 1 April 2002 there was a distinction between "old" intangibles (intangibles that were in existence before 1 April 2002) and "new" intangibles. Old intangibles continued to be treated under the former capital gains tax rules, whereas new intangibles were treated under the new intangible fixed asset rules.

The legislation included provisions preventing a company from claiming amortisation on the acquisition of old intangible assets from connected parties, whereas, so long as certain requirements are met, it is possible to claim relief for amortisation in relation to new intangibles acquired in similar circumstances.

In order to remove this anomaly, the provisions for relief will be aligned in relation to old intangible assets for acquisitions on or after 1 July 2020. This will be subject to some anti-avoidance provisions.

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