UK Autumn Budget 2018

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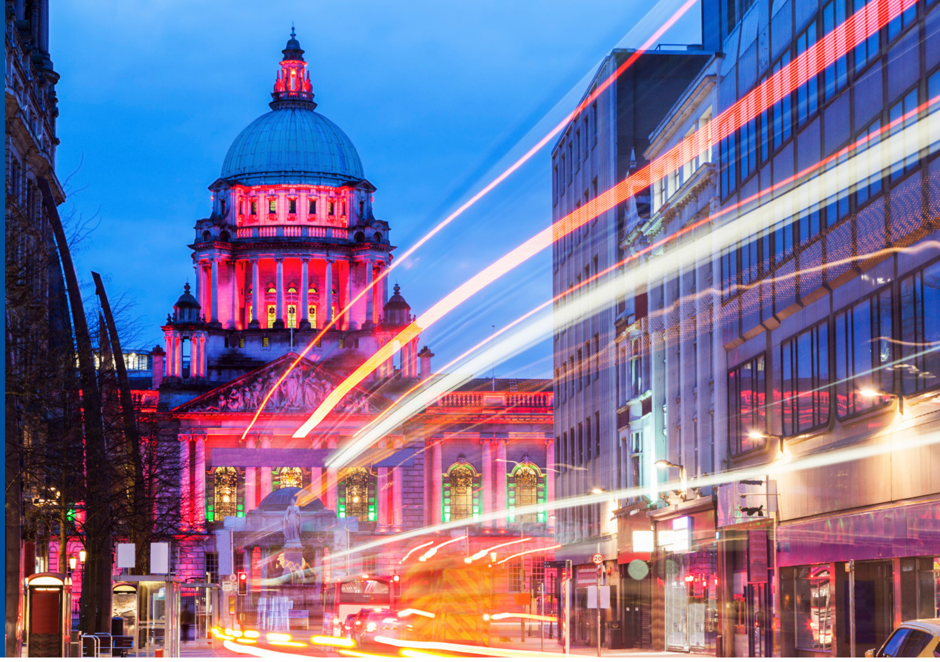


Today's Budget is the final "scheduled" Budget before the UK's departure date from the EU on 29 March 2019. It was interesting though not surprising (given the delicate status of negotiations with the EU and political sensitivities) that Brexit did not get much of a mention, apart from a commitment to additional funding to assist Government Departments in their Brexit preparedness and a few references to the Government "continuing to plan for all scenarios". A reference to the Government's confidence of "getting a good deal" was buried deep within the Budget document. It is important nonetheless to highlight that the Office for Budget Responsibility (OBR) economic forecasts which underpin the measures announced today assumes (i) that the UK will leave the EU on an orderly basis and (ii) that there will be a transition period until 2021. In the hopefully unlikely event of a no deal scenario it is very clear that another "emergency" budget would be needed in the Spring if not earlier.

In a Budget largely dominated by spending measures there were a number of notable tax changes and tax policy announcements geared towards supporting business, growth and boosting living standards. An overview of these measures is set out in the following pages and includes a significant increase in the personal tax free threshold and higher rate band thresholds effective from April 2019. A package of measures was also introduced to stimulate investment in certain capex, including a new capital allowances regime for eligible construction costs (Structures and Buildings) incurred on or after Budget day. This is welcome, as is the continuing commitment of the UK government to reduce the corporation tax rate to 17% in 2020. As expected, the Chancellor announced a new 2% Digital Services Tax to apply from April 2020 to ensure that large established digital companies pay increased UK taxes, though there will be consultation on the detail.

From a local perspective, we welcome the announcement that the UK government will contribute £350m towards an ambitious Belfast Region City Deal, the first City Deal in Northern Ireland. We also welcome the announcement that formal negotiations will now commence on Derry-Londonderry and Strabane Region City Deals. The progression of all NI City Deals is critically important in assisting to address the region's infrastructure deficit and productivity gap and also ensuring inclusive economic growth.

Despite a strong case presented by local businesses and industry groups for cuts to the rate of VAT applying to accommodation and other tourism related services within NI (from the standard UK rate of 20% to something closer to the ROI rate of 9% currently and 13.5% from January 2019), the government has concluded that, "in the absence of an Executive in Northern Ireland there is currently no scope for further devolution of any tax, including APD". There is a commitment to continue to analyse the evidence and receive representation on both matters but for now there will be no change to either VAT or APD in NI (and not a whisper about corporation tax!) and it is pretty clear that will remain the case until the Executive returns!!

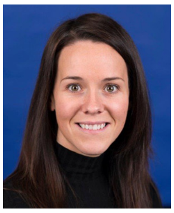
KPMG's tax team in Northern Ireland have prepared a concise overview of today's main "UK Autumn Budget 2018" announcements affecting businesses and individuals.

If you require any further information on today's Budget please do not hesitate to get in touch with me or your usual KPMG contacts.

Johnny Hanna
Partner and Head of Tax
KPMG in Northern Ireland

Businesses

Phillip McMaw
Partner



Marie Farrell
Director

- **Corporation Tax Rates:** The Chancellor restated the government's commitment to reduce the main rate of corporation tax to 17% by 2020.
- **Intangible Assets:** From April 2019, the government will partially re-instate relief for acquired goodwill via the introduction of targeted relief on the acquisition of a business with eligible intellectual property. With effect from 7 November 2018, the government will also reform the de-grouping charge rules on intellectual property so that a charge will not arise where de-grouping is the result of a share disposal that qualifies for the Substantial Shareholding Exemption, aligning the rules with equivalent de-grouping rules elsewhere in the tax code.
- **Digital Services Tax:** A Digital Services Tax (DST) at a rate of 2% will be introduced from April 2020 on the revenue from the provision of search engines, social media platforms and online marketplaces by certain digital businesses. DST is aimed at global tech giants and will apply to groups that generate global revenues from 'in-scope' business activities in excess of £500m per annum.
- **Offshore IP Income:** From April 2019, tax will be collected directly from offshore entities that generate income from intangible property in low tax jurisdictions in connection with sales made to UK-based customers, subject to a de minimis UK sales threshold of £10m. The legislation will include an exemption for income that is taxed at appropriate levels, and income relating to intangible property that is supported by sufficient local substance.
- **R&D Tax Credits:** Measures to prevent abuse of R&D tax relief for SMEs will be introduced from April 2020. Following a period of consultation, the R&D tax credit for SMEs will be restricted to three times the company's total PAYE and NICs liability for that year.
- **Capital Losses:** The tax treatment of corporate capital losses will be brought into line with the treatment of income losses – from April 2020, the government will restrict the proportion of annual capital gains that can be relieved by brought forward capital losses to 50%, subject to the £5m annual allowance, which will be extended to include both capital and income losses.
- **Taxes in Insolvency:** From April 2020, when a business enters insolvency, taxes paid by its employees and customers (VAT, PAYE, NIC, CIS) will be used to fund public services rather than distributed to other creditors. The rules will remain unchanged to taxes owed by the business themselves. Legislation will also be introduced to make directors and other persons involved in tax avoidance and evasion joint and severally liable for company tax liabilities, where there is a risk the company may deliberately enter insolvency.
- Various technical amendments to the corporate interest restriction rules and loss relief rules will be made to ensure these regimes work as originally intended.

Property Taxes, Capital Allowances & Stamp Taxes

Mat Scott
Partner

Andrew Reid
Director

- **Capital Allowances:** The Chancellor announced the most significant suite of changes to the capital allowances regime since the 2007/08 Budget (when Industrial Buildings Allowances were removed and the integral features regime was introduced).
- In the current Budget, a decade later, the Chancellor has introduced a **Structures and Buildings Allowance** (SBA) to provide relief at 2% per annum on a straight-line basis for investment in structures and buildings but excluding land and dwellings. The allowance will be available for expenditure incurred on construction contracts entered into after the Budget date.
- Perhaps as a method of paying for the SBA, the special rate pool writing down allowance (relevant to plant integral to buildings and long life assets) has been reduced again from 8% to 6%. This reduction follows suggestions made in the recent consultation into the capital allowances regime to bring the rates of allowances more in line with accounting depreciation for the underlying assets. The reduction will have effect from 1 April 2019.
- The **Enhanced Capital Allowances** provisions, which provide accelerated relief for businesses investing in water or energy efficient equipment, will be removed from 2020.
- As a balancing measure, and to incentivise investment in (qualifying) capital assets, the **Annual Investment Allowance** will be increased to its highest ever level of £1m from 1 January 2019 to 31 December 2020.
- **Offshore Property Owners:** Gains made by non-residents on the disposal of UK property interests will be subject to UK capital gains tax as previously announced. This measure will apply to most direct and indirect disposals of non-residential and residential UK property and will be effective for disposals made on or after 6 April 2019.
- The previously trailed measure to bring non-resident corporate bodies owning UK property into the scope of corporation tax on UK rental income received has been confirmed as applying from 6 April 2020. At present, such companies are subject to income tax via the Non-Resident Landlord regime but they will now need to consider corporation tax rules including complicated measures such as transfer pricing, the corporate interest restriction and the anti-hybrid regime.
- **Stamp Duty Land Tax (SDLT):** First-time buyers of qualifying shared ownership property will now also be able to enjoy first-time buyers' relief from SDLT. The relief will be available for transactions with an effective date on 29 October 2018 but also backdated to 22 November 2017.
- The Budget also introduced a positive measure extending the period for claiming back higher rate SDLT for additional dwellings from 3 months to one year from the date of sale of the first property.

Individuals

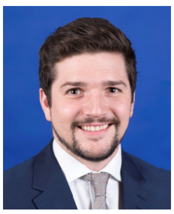
Kevin Bell
Partner

Susan Smyth
Director

- No change to rates of income tax.
- The **income tax personal allowance** will be increased to £12,500 for 2019-2020 and the basic rate limit will be increased to £37,500. These rates will however be frozen for 2020-2021 and then indexed in future years in line with the Consumer Price Index (CPI).
- The **capital gains tax annual exempt amount** is increased to £12,000 for individuals for 2019-2020.
- **Entrepreneurs' Relief:** There are two new additional tests to be met in relation to the definition of a personal service company for Entrepreneurs' Relief. These tests will require the claimant to have a 5% interest in both the distributable profits and the net assets of the company. The measure will have effect for disposals on or after 29 October 2018.
- There has also been an increase to the minimum period throughout which the conditions must be met to qualify for Entrepreneurs' Relief, from one year to two years. The measure will have effect for disposals on or after 6 April 2019, except where a business ceased before 29 October 2018, in which case the existing one year qualifying period will continue to apply.
- From April 2020 there will be two changes to **capital gains principal private residence relief**. Firstly, the final period exemption will be reduced from 18 months to 9 months. Secondly, lettings relief will be reformed so that it only applies in circumstances where the owner of the property is in "shared-occupancy" with a tenant.
- **Pension Savings:** Despite rumours of fundamental changes in relation to the pensions regime the only measure in relation to pensions was confirmation of the previous announcement in the Spring 2015 Budget that for 2019-2020 the lifetime allowance for pension savings will increase by the CPI to £1,055,000.
- As previously announced in Budget 2017, the Finance Bill 2018-2019 will include measures to increase the self-assessment time limit for offshore tax non-compliance from 4 years (non-careless behaviour) and 6 years (careless behaviour), to 12 years for income tax, capital gains tax and inheritance tax. Where there is deliberate behaviour the time limit remains at 20 years.

Employment Taxes

Eunan Ferguson
Director



Christopher Morris
Associate Director

- Following responses to the **off-payroll working in the private sector** consultation document, the government has agreed to defer making changes for large and medium businesses until April 2020 in recognition of the time that will be required for affected organisations to implement new procedures.
- From April 2020, access to the National Insurance Contributions (NICs) **Employment Allowance** (currently £3,000) will be restricted to employers with an employer NICs liability below £100,000 in their previous tax year. For connected employers for Employment Allowance purposes, the £100,000 threshold will apply to the aggregated employer NICs liability.
- The government has delayed intentions to legislate for reforms to the **NICs treatment of termination payments** to April 2020.
- The PAYE reporting and payment deadlines will be extended to 31 May for companies using the PAYE special arrangements for **Short Term Business Visitors**, in recognition of the fact that accurate reporting is not always possible under the existing deadline of 19 April. The PAYE special arrangement limit for UK workdays in the tax year will also be extended from 30 days or less to 60 days or less. The changes will be made in time for the 2020-21 tax year.
- Concessionary treatment in relation to expenses paid or reimbursed to unpaid office-holders will be placed on to a statutory basis in Finance Bill 2018-19
to exempt such expenses from income tax when incurred because of their voluntary duties.

Indirect Taxes

Jennifer Upton
Director

- **VAT Registration Threshold:** The VAT registration and deregistration thresholds will not change for two years from 1 April 2020. Therefore, the taxable turnover threshold which determines whether a person must be registered for VAT, will remain at £85,000 and the taxable turnover threshold at which a person may apply for VAT deregistration will remain at £83,000 until April 2022.
- **Excise Duty:** Duty is frozen on beer, spirits and other drinks above 22% alcohol by volume (abv), including still cider and perry. The duty rates on wine and made-wine at or below 22% abv and high strength sparkling cider above 5.5% abv will rise by Retail Price Index (RPI) inflation from 1 February 2019. The duty rate on all tobacco products will continue to increase above 2% above RPI inflation. It was also announced that hand-rolling tobacco will rise by an additional 1%, to 3% above RPI inflation this year.
- **Gambling Taxes:** The rate of remote gaming duty is increasing to 21% (currently 15%) and will apply for accounting periods that begin on or after 1 October 2019.
- **Air Passenger Duty:** The long haul rates for Air Passenger Duty (APD) for the tax year 2020 to 2021 will increase in line with the Retail Price Index (RPI). Short haul rates will not rise.
- **Carbon Emissions Tax:** This tax will only be introduced if the UK leaves the EU without an agreement. In a 'no deal' scenario, the UK would cease to participate in the EU Emissions Trading System (EU ETS) from exit day. This tax would introduce a tax on carbon dioxide emissions (and other greenhouse gas emissions on a carbon equivalent basis) produced by UK stationary installations currently in the EU ETS and would be introduced form 1 April 2019. This tax would be collected annually by HMRC, with the first payment due in 2020.
- **Single-Use Plastics:** In order to reduce the problem of excessive and environmentally harmful plastic packaging and incentivise manufacturers to use recycled plastic, the government is introducing a tax on the production and import of plastic packaging from April 2022. Subject to consultation, this tax will apply to plastic packaging which does not contain at least 30% recycled plastic, to transform financial incentives for manufacturers to produce more sustainable packaging.

Northern Ireland City Deals

Ashleen Feeney
Director

- The UK government's commitment to a comprehensive and ambitious set of City Deals across Northern Ireland was further evidenced from the **£350m contribution towards Belfast Region City Deal and commencement of formal negotiations on Derry-Londonderry and Strabane Region City Deal.**
- City Deals offer a smart approach to supercharging economic growth. Today's announcements are significant for Northern Ireland and offer a once in a generation opportunity for the Belfast Region and Derry-Londonderry and Strabane Region to create more attractive conditions for leveraging long-term private sector investment.
- The Belfast Region City Deal includes capital investment in:

  – Digital and transport infrastructure: connecting businesses to businesses and businesses to talent; creating more and better jobs that are more accessible and will help retain Northern Ireland's young talent pool;

  – Innovation: strengthening collaboration between local government, academia and the private sector to fully exploit commercial opportunities and compete in global markets; and

  – Tourism: realising the full potential of this growing sector in Northern Ireland.

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