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Thompson Jenner LLP
Chartered Accountants
Business Advisers | Tax Consultants

Budget breakfast briefing



12th March 2020



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Speaking today:

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General changes in tax rates 2020/21

- The personal allowance remains at £12,500.
- The higher rate tax band remains at £37,500. £50,000 earned before becoming a higher tax payer.
- The Primary NIC increases from £8,632 to £9,500.
- £60,000 salary take home pay increases from £43,336 to £43,440.
- CGT AE increases to £12,300.

TAX DATA 2020/21

Ready next week

Property issues

- Tax Changes to Rental Properties
- Mortgage Interest Relief – Example
- 30 Day Reporting Deadline – Residential Disposals
- Property Disposals – Relief Changes
- Relief Changes - Example

Tax Changes to Rental Properties

- 2020/21 no tax relief for mortgage interest payments.
- Now treated as a 20% tax reducer.
- No impact for basic rate tax payers.
- Higher rate taxpayers will lose out.
- More taxpayers into the higher rate tax bands (see example).
- Also impacts other areas, e.g. Child benefit.

Restrictions of finance cost relief for individual landlords

	2016/17	2017/18	2018/19	2019/20	2020/21
Rental Inc	10,000	10,000	10,000	10,000	10,000
Finance Costs	<u>(8,000)</u>	<u>(6,000)</u>	<u>(4,000)</u>	<u>(2,000)</u>	<u>(-)</u>
	<u>£2,000</u>	<u>£4,000</u>	<u>£6,000</u>	<u>£8,000</u>	<u>£10,000</u>
Tax at 40%	800	1,600	2,400	3,200	4,000
BR Restriction	-	(400)	(800)	(1,200)	(1,600)
Tax Liability	<u>£800</u>	<u>£1,200</u>	<u>£1,600</u>	<u>£2,000</u>	<u>£2,400</u>

Restrictions of finance cost relief for individual landlords

	2016/17	2017/18	2018/19	2019/20	2020/21
Rental Income	60,000	60,000	60,000	60,000	60,000
Finance Costs	<u>(30,000)</u>	<u>(22,500)</u>	<u>(15,000)</u>	<u>(7,500)</u>	<u>(-)</u>
Taxable Income	<u>£30,000</u>	<u>£37,500</u>	<u>£45,000</u>	<u>£52,500</u>	<u>£60,000</u>

30 Day Reporting Deadline – Residential Disposals

- Residential properties disposed of from 6 April 2020 must be reported to HMRC within 30 days.
- Tax due on these disposals must be paid within 30 days.
- Previously this requirement only applied to non UK residents.
- Will not apply where there is no tax due on disposal.
- Early planning is essential.

Property Disposals – Relief Changes

- Huge changes introduced from 6 April 2020 for disposals of rental disposals that were once the main residence of the vendor.
- Deemed occupation for the final 18 months will be cut to 9 months.
- Lettings relief will be removed from 6 April 2020 onwards.
- This relief was up to £40,000 per an individual.

Relief Changes - Example

- An Individual disposes of a property owned for 10 years.
- Lived in property first 5 years then let out remaining 5.

	Pre 5 April 2020	Post 5 April 2020
Gain	100,000	100,000
PPR occupied period	(50,000)	(50,000)
PPR Deemed Occupation	(15,000)	(7,500)
Lettings Relief	(35,000)	0
Chargeable Gain	£0	£42,500

Research & Development (R&D)

- R&D Tax Relief Update
- Changes to R&D Tax Credit
- R&D Tax Relief Successes

R&D Tax Relief Update

- For qualifying SME's the relief is 130% of qualifying R&D expenditure.
- So if a company incurs £100,000 of qualifying expenditure, they are entitled to an additional £130,000 of corporation tax relief.
- This gives a tax saving of £24,700.
- If a company makes a loss it can opt to claim an R&D tax credit at 14.5% of the lower of:
 - 1) The Taxable Loss made in the period.
 - 2) The Total R&D expenditure incurred in the period.

Changes to R&D Tax Credit

- The 14.5% R&D Tax Credit will be capped at three times the total PAYE and NIC bill.
- Change does not affect the tax relief available.
- Losses not covered by the cap are not wasted.
- No impact on profit making companies.
- Potential impact on one man start-ups could be significant.
- One option would be to increase the salary costs for the director of this start up company.
- Our research shows this is not necessarily the best way forward.

R&D Tax Relief Successes

- As a firm this is an area we have had significant success.
- Successful claims have been made for clients from a wide range of sectors, from software development, engineering, agricultural and construction.
- In 2019 alone we have obtained over £1.5 million in tax relief.

If you think this may be applicable to you please talk to us.

Capital Allowances

- In January 2019 the Annual Investment Allowance (AIA) increased from £200,000 to £1,000,000.
- From 1 January 2021 this will fall back to £200,000.
- For accounting periods straddling a change in the rates, great care needs to be taken.
- The logic for working out the available AIA is not consistent from when it was increased to when it decreases again next January.
- **Timing of capital expenditure is critical.**

Capital Allowances

Year End	Max AIA, Whole Period	Max AIA 2018 Months	Max AIA 2019 Months	Max AIA 2020 Months	Max AIA 2021 Months
31/01/2019	£266,667	£200,000	£266,667	N/A	N/A
31/01/2020	£1M	N/A	£1M	£1M	N/A
31/01/2021	£933,333	N/A	N/A	£933,333	£16,667

Structural Buildings Allowance (SBA)

- SBA gives 2% relief on qualifying expenditure post 29 October 2018.
- The allowance is 2% per annum.
- Broadly applies to construction, conversion and renovations of existing buildings
- This relief increases to 3% per annum from April 2020.

Electric/Low Emission Cars

- New and unused cars purchased pre April 2021 with CO2 rate under 50g/km get 100% tax relief
- For 0% CO2 cars, relief available to 2025.
- Benefit in Kind charges apply to any private usage.
- This is based on the vehicle list price multiplied by the CO2 emissions percentage.
- For pure electric cars, this will drop from 16% to 0% from April.
- The benefit in kind charge for low emission vehicles under 50g/km will be based on the electric mileage range.



Entrepreneurs' Relief

- Current Limit £10m.
- 10% CGT rate.
- Qualifying Disposals.
 - 1) Shares in trading companies – 5% test/Officer or employee
 - 2) Trading businesses
 - 3) Two year qualifying period
 - 4) Associated Disposals

Entrepreneurs' Relief

- The lifetime allowance decreases from £10m to £1m
- This change takes effect from 11 March 2020.
- Potential Capital Gains Tax cost of up to £900,000.
- Will take into account previous gains made.
- Special provisions for disposals entered into pre 11 March 2020 but not yet completed.

Inheritance tax

- The all-party parliamentary group report.
- Abolish PET's and replace with £30,000 annual allowance then 10% - CGT implications.
- No more seven year planning.
- Abolish APR/BPR.
- Abolish Residential nil-rate band.
- No CGT uplift on death.
- 10%/20% IHT rate on death.

Inheritance tax

Shares in Trading Company	1,000,000
Private Residence	500,000
Buy to let Property	350,000*
Other assets	100,000
Gross Estate	£1,950,000
Current IHT Liability	£NIL
Proposed Liability	£130,000

***If sold currently no CGT but no longer CGT free**

Inheritance tax

Private Residence	500,000
Buy to let Properties	500,000
Other assets	100,000*
Gross Estate	£1,100,000
Current IHT Liability	£60,000
Proposed Liability	£45,000

***If sold currently no CGT but no longer CGT free**

Inheritance tax

- Will's – Estimated that more than half of Adults in UK **DON'T** have a Will!
- Rules of Intestacy.
- Post death planning.
- Residential nil-rate band.
- £175,000 from 6 April 2020.
- Downsizing and check conditions!

Capital Losses Companies

- If a company makes a gain it can now reduce that gain by 50% using carried forward capital losses.
- It used to be that the gain could be reduced by 100% using carried forward losses
- Change comes into effect from 1 April 2020.

IR35 and off payroll working

- IR 35 – Introduced in 1999 to counter tax avoidance.
- Personal Service Companies (PSC's).
- CEST - Check Employment Status for Tax.
- April 2017 – Public Sector April 2020 – Private Sector.
- Large and medium sized entities.
- More than 50 employees and
- Either Annual Turnover greater than £10.2m or a balance sheet total of more than £5.1m.

IR35 and off payroll working

Fees receivable via Personal Service Company	£50,000
Current net cash after tax	£39,618
Revised without ER net cash after tax	£37,535
Revised if Off-Payroll Working	£34,124

Pensions

- £36billion cost of tax relief for pension contributions.
- Annual allowance currently £40,000.
- Taper if income greater than £110,000.
- Taper limit to increase from April 2020 to £200,000 to help partly solve the NHS “mini-crisis”.
- Taper reduces the annual allowance to minimum of £4,000, from April 2020.
- Higher rate relief on pension contributions?

Stamp Duty Land Tax (SDLT)

- Higher Rates on additional residential properties.
- Extra 3%.
- But don't forget MDR.
- Replacement Residence – NB No election.
- 2% surcharge for non residents.
- SDLT refunds.
- Companies.

SDLT on additional residential properties

Threshold	Existing	Additional Property
£0 -£125k	0%	3%
£125k - £250k	2%	5%
£250k - £925k	5%	8%
£925k - £1,5m	10%	13%
£1.5m +	12%	15%

SDLT - Example

Purchase new residence with separate Granny Annexe
Cost £500,000 including estimated value of annexe of
£100,000.

No MDR - £15,000 SDLT Liability

With MDR - £5,000 SDLT Liability



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VAT/Brexit

- From 31 December 2020 no longer subject to EU VAT Directive.
- Complete control over reduced VAT rates/minimum VAT rate.
- End of zero-rated B2B Supplies – Import or export.
- Postponed Accounting import VAT – Reciprocal?
- End of £15 low value stock relief.
- VAT on services rules likely to stay same.
- Northern Ireland will enter into special relationship and keep zero-rating for supplies across border.

VAT/Brexit

- Place of supply rules.
- For VAT purposes, the place of supply of a service is the place where that service is treated as being supplied.
- This is the place where it's liable to VAT (if any).
- If in the UK or a member state of the EU, that supply is subject to the VAT rules of that member state and not those of any other country – member state supplies are said to be 'outside the scope' of UK VAT.
- Outside the UK or EU, that supply is made outside the UK or EU and is therefore not liable to VAT in any member state such supplies are said to be 'outside the scope' of both UK and EU VAT.

Questions



Launch of the TJ Charity Walk 2020



A team from Thompson Jenner LLP will be undertaking a challenging **40-mile charity walk across Dartmoor** on the 5th and 6th June 2020. Their plan is to walk 40 miles in two days stopping at ten pubs for a tipple. The team have set themselves the target of fundraising **£10,000** to support the wonderful work of three fantastic causes:

Prostate Cancer UK - Plymouth Hospitals Charity - Exeter Chiefs Foundation

How can you help?

- Please can support the team by donating at our Virgin Money Giving Page at: <https://uk.virginmoneygiving.com/tjdartmoortentippletour>
- Or by completing one of the sponsor forms that are available at our event today.



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- **Business strategy and growth**
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