Autumn Budget 2018

A.C.MOLE & SONS
CHARTERED ACCOUNTANTS
CHARTERED TAX ADVISERS

The Economy

Chancellor Philip Hammond (or Fiscal Phil as he referred to himself in his speech) delivered his third Budget on Monday 29 October 2018. The Last time a chancellor delivered a Budget speech on a Monday was in 1962.

This was not an easy Budget to frame, given the uncertainty over Brexit. Mr Hammond has already allocated £3.7bn to Government departments for Brexit preparations and on Monday he added a further £0.5 billion to that war chest. He also said that he would upgrade the Spring Statement in March to a full Budget if necessary.

The Office for Budget Responsibility (OBR) revised its growth predictions to 1.3% for 2018, 1.6% for 2019 and 1.4% for 2020 and 2021. The uncertainty over the impact of Brexit makes it likely that the figures will be revised again in 2019.

CPI inflation is forecast to be 2.6% this year falling to 2.0% for the following two years.

The deficit – the amount by which the Government's annual expenditure exceeds its income – is now expected to be £25.5 billion for 2018/19 (£11.6 billion lower than forecast in March 2018), £31.8 billion in 2019/20, £26.7 billion in 2020/21 and £23.8 billion in 2021/22. No date has been set for achieving a surplus.

Debt as a percentage of GDP peaked in 2016/17 and is set to continue falling. As the Government is still borrowing however, the national debt will continue to increase in absolute terms. It is now forecast to reach £1.810 trillion this year and to hit £1.896 trillion in 2023/24.

The Budget Red Book once again highlights the UK's poor productivity, which remains well below the average for the UK's main competitors. This has been a persistent problem since the financial crisis in 2008.

The UK unemployment rate stands at 4%, the lowest since 1978.

Tax changes for individuals

The Chancellor announced that the personal allowance will increase to £12,500 from 6 April 2019, a year earlier than planned. The higher rate threshold will increase to £50,000 from the same date (again, a year earlier than planned). The allowance and threshold will then increase each year in line with inflation.

The Individual Savings Account (ISA) investment limit will remain at £20,000 for the 2019/20 tax year, while the limit for Junior ISAs will increase to £4,368.

Despite speculation in the press, there were no further changes to tax relief on payments to pension funds other than an increase in the Lifetime Allowance to £1,055,000 from 6 April 2019.

Capital gains tax

The annual exempt amount will increase to £12,000 for individuals and personal representatives and to £6,000 for trustees of settlements for 2019/20.

There will be some changes to principal private residence relief. The final period of ownership that will be covered by the relief after occupation has ceased has already been reduced from three years to 18 months. It will reduce further, to just nine months, from 6 April 2020. The availability of lettings relief (where a private residence has been let for part of the period of ownership) will also be restricted from 6 April 2020 to cover situations where the owner was in shared occupancy with the tenant. There will be no changes to the 36 months final period exemption available to disabled people or those in a care home.

The qualification period for ownership of assets or shares for Entrepreneurs' Relief will be increased from one year to two years and where the disposal is of shares, the claimant will have to have a 5% interest in both the distributable profits and the net assets of the company.

Business taxation

The rate of corporation tax will fall from 19% to 17% (as already announced) from 1 April 2020.

The VAT threshold will remain at its current level for a further two years, until 31 March 2022. There had been speculation that the Chancellor would reduce the threshold, but he clearly listened to representations from small business lobby groups. There had been suggestions that the threshold could be lowered from the current £85,000 to as little as £25,000 forcing many more small businesses to charge their customers VAT.

The Annual Investment Allowance (for investment in plant and machinery) will be increased from £200,000 to £1m for two years from 1 January 2019 to 31 December 2020.

A new Structures and Buildings Allowance will give relief for the cost of non-residential commercial buildings. The allowance will be given at 2% a year over a fifty year period for eligible expenditure incurred where all the contracts for the physical construction works were entered into on or after 29 October 2018. There will be no balancing allowances or charges on sale: the purchaser will simply take over the unexpired portion of the original allowances. Expenditure on integral features and fittings of a structure or building that are currently allowable as expenditure on plant and machinery will continue to qualify for writing down allowances for plant and machinery including the Annual Investment Allowance.

The Structures and Buildings Allowance will be funded in part by a reduction in the rate of writing down allowance on the special rate pool of plant and machinery from 8% to 6%. Special rate expenditure includes expenditure on long-life assets, thermal insulation, and integral features. Plant and machinery writing down allowances will not change.

The Apprenticeship Levy will be halved for small businesses.

Fuel duty will, as announced in advance of the Budget by the Prime Minister, be frozen for the ninth successive year.

Having placed the onus on public sector bodies to decide whether individuals working through limited companies should be treated as employees, the Government has decided to extend that responsibility to the private sector from April 2020. This will, however, only apply to large and medium sized organisations. Again, the Chancellor has clearly listened to representations that extending this requirement to the private sector would add additional burdens to many businesses.

The employment allowance, which reduces employers national insurance bills by up to £3,000 a year, will be restricted to businesses which paid less than £100,000 in employer national insurance contributions in the previous tax year. The restriction will take effect from April 2020.

From April 2020, the Government will introduce a new 2% Digital Services Tax on the revenues of certain digital businesses to ensure that – in the Chancellor's words - the amount of tax paid in the UK is reflective of the value they derive from their UK users.

Tax administration

There were no further announcements on Making Tax Digital (MTD) in the Budget, but MTD will be compulsory for VAT registered businesses with sales above the VAT threshold for VAT periods commencing on or after 1 April 2019. If you will be affected but have not yet begun preparing, we would suggest speaking to us as soon as possible: 1 April is not far away.

Last word

"Our economy," the Chancellor said "continues to confound those who talk it down". That would seem an appropriate and upbeat note on which to end.