Budget 2018

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CIPP summary of Budget 2018

In the last Budget before we exit the EU, the Chancellor Philip Hammond appeared to relish the delivery of his 2018 Budget speech, so much so that he took an hour and a quarter to deliver it and even found space for a little toilet humour - which earned him the biggest groan of the entire Budget statement.

His task this year is not an enviable task as the ‘deal or no deal’ debate continues with many questions unanswered. Admitting to being at a pivotal moment in their Brexit negotiations, the government is confident but not complacent and *is “preparing for every eventuality”.*

We were assured that this is a Budget for Britain’s future, a Budget that paves the way for a brighter future; a Budget for hard working families, for the strivers, the grafters and the carers; and that government would minimise the amount of tax it has to take from their wages.

Which brings us neatly to the Conservative’s promise of a £12,500 Personal Allowance and £50,000 Higher Rate Threshold by 2020. We are to see this come to fruition a year earlier than previously announced, from April 2019, and with expectation high that this manifesto promise could be broken this year, this announcement came as a pleasant surprise at the end of the lengthy Budget narration.

The National Living Wage and National Minimum Wage rate increases recommended by the Low Pay Commission have been accepted in full and the Chancellor acknowledged the importance of updating the LPC remit for monitoring the National Living Wage once it achieves the ‘60% of median earnings’ target by 2020.

A further package of measures was announced to tackle tax avoidance and evasion and, as has been widely speculated over recent weeks, the off-payroll reforms that were rolled out to the public sector last year will be extended to medium and large engagers in the private sector from 2020.

Smaller firms taking on apprentices will see their contribution halved to 5% by the government. The Employment Allowance is to be restricted so that only SMEs will benefit. A new UK digital services tax is to be introduced from 2020 and add to that the proposal that there is to be a new tax introduced on plastic packaging and it is fair to say that a number of changes face us all in the coming years.

Measures were confirmed and announced to help with the cost of living including fuel duties being frozen for the ninth consecutive year. Beer, cider and spirit duties are also to be frozen for one year.

“Universal Credit is here to stay” announced the Chancellor, but government recognises the concerns that have been raised so is providing additional measures to aid the transition worth 1 billion pounds over the next five years.

The economic forecast from the Office for Budget Responsibility (OBR) was positive; with wages growing at the fastest pace in almost a decade we are assured of sustained real wage growth in each of the next five years. The OBR also confirmed significant improvement in our public finances with national debt having peaked in 2016-17. This means a new path for public spending: *“Fiscal Phil says Fiscal Rules OK”* – we are not making that up, he really did say that.

Every chancellor likes to have a rabbit or two in his hat when it comes to revealing their Budget but some of *"his bunnies"* have escaped early – referring to 'leaks' to the media that financial support is to be given to fix the nations' potholes, increase broadband coverage, help social care, defence and the ailing high street.

On a crescendo finish, *"We have reached a defining moment…the era of austerity is finally coming to an end…but discipline will remain".*

The word "budget" derives from the term "bougette" – a wallet in which either documents or money could be kept. As the **Budget document** published today runs to 106 pages together with the associated publications and consultation responses I think we can all agree that the 2018 "bougette" needs to be pretty hefty in size to hold it all.

As you can expect with a Budget announcement, the devil is in the detail and the CIPP policy team will continue to bring you further news over the coming days.

In the meantime, please read on for our summary of the key announcements.

Tax rates and thresholds

Income tax

The Conservative Party's manifesto included a commitment to set the Personal Allowance for tax-free income at £12,500 and the Higher Rate Threshold (HRT), when higher earners start to pay 40% tax, at £50,000 by 2020. However, following positive forecasts from the OBR, the Chancellor announced that these figures will come into force a year earlier than originally intended and will now take effect for the 2019-20 tax year and remain in force for the 2020-21 tax year. This means that a typical basic rate taxpayer will pay £1,205 less tax in 2019-20 than in 2010-11.

From April 2021, both the Personal Allowance and HRT would return to annual increases that are in line with CPI inflation (as currently legislated for).

Documents published alongside the Budget Statement confirmed other allowances for the 2019-20 tax year; the Marriage Allowance (also known as the Transferable Tax Allowance) will increase to £1,250, the Married Couple's Allowance will increase to a maximum of £8,915 (minimum £3,450) and the Blind Person's Allowance will increase to £2,450.

These changes apply to non-savings, non-dividend income in England, Wales and Northern Ireland, and to savings and dividend income in the UK. UK income tax rates remain unchanged.

Devolved income tax

The Scottish Government is responsible for setting the income tax rates and thresholds that apply to Scottish taxpayers. Wednesday 12 December is the date that has been set for the 2018 Scottish Budget.

The Welsh Government is responsible for setting Welsh Income Tax rates from April 2019, for the first time. These are based on the UK rates: 10p in the pound is removed from each UK rate and the relevant Welsh rate is added. The Welsh Government has announced its intention to set Welsh rates at 10p in the pound for the 2019-20 tax year, so that the net effect for Welsh taxpayers is that they are subject to the same basic, higher and additional rates as taxpayers in England and Northern Ireland. Confirmation is expected in December.

Company cars, vans and fuel

The Budget Statement confirmed that figures for the company car fuel benefit charge and the van fuel benefit charge will increase in line with RPI and the van benefit charge will increase in line with CPI.

Documents published alongside the Budget Statement confirm that the multiplier for the car fuel benefit charge will increase to £24,100 (from £23,400), the flat-rate van fuel benefit charge will increase to £655 (from £633) and the flat-rate van benefit charge will increase to £3,430 (from £3,350).

The van benefit charge for zero-emission goods vehicles increases from 40% to 60% of the standard charge from April 2019, as previously announced.

The diesel supplement for the Company Car Tax appropriate percentage remains at 4%, subject to a maximum appropriate percentage of 37%. Cars that meet the Euro 6d standard (also known as Real Driving Emissions Step 2, RDE2) are exempt.

Apprentices

Transferring levy funds

Confirmation was given of the announcement made at the Conservative Party conference last month that from April 2019 levy-paying employers will be able to transfer up to 25% of their funds to pay for apprenticeship training in their supply chains.

Contribution to funding costs halved for non-levy paying employers

The co-investment rate for smaller businesses taking on apprentices will halve from 10% to 5%. It is expected that the change to a 5% contribution will only apply to new starters from April 2019. But it is not yet known if this reduced contribution will also apply to levy-paying employers when their levy pot is empty.

Employer-designed apprenticeship standards

The government will also provide up to £5 million to the Institute for Apprenticeships and National Apprenticeship Service in 2019-20, 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, higher-quality courses from September 2020.

CIPP comment
With the number of new apprentices falling far below the numbers hoped for when introducing the apprenticeship levy, these changes are welcome. However, we understand that the government intends to consult with businesses about further changes to the levy from 2020, following the slow take up and employer criticisms.

Improvements to the PAYE special arrangements

Following the consultation held during the Summer on the tax and administrative treatment of Short Term Business Visitors (STBV) from overseas branches of UK headquartered companies the government has made two proposals, in response:

- The UK workday rule will be increased from 30 days or less to 60 days or less. The result being to open up the PAYE special arrangement to a greater number of STBVs from branches and reduce the need for employers to monitor or restrict business travel when STBVs approach the 30 workday limit.
- The existing PAYE reporting and payment deadlines of 19 April and 22 April will be changed to 31 May to allow employers more time to gather relevant information about their STBVs to operate PAYE accurately. It was clear that these deadlines are too restrictive to businesses and are making it difficult for them to comply with their obligations.

The aim being to reduce administrative burden on UK employers with effect from April 2020. The government has published a **summary of responses** to the consultation.

CIPP comment
The slight extension to the reporting and payment deadlines is welcome but sadly doesn't go far enough in achieving a reduction to the administrative burden caused in gathering all data to report in a timely manner.

National Insurance contributions

Limits and thresholds

National Insurance contribution limits and thresholds for 2019-20 were published in associated documents. The weekly Lower Earnings Limit (LEL) increases to £118 (from £116) and the weekly primary and secondary thresholds (PT, ST) increase to £166 (from £162). The Upper Earnings Limit (UEL), Upper Secondary Threshold (UST) for under 21s and Apprentice Upper Secondary Threshold (AUST) for under 25s increase to £962 a week (from £892).

NICs rates remain unchanged.

Employment Allowance

The Employment Allowance is an annual amount that is currently available to all businesses and charities (with some exclusions) to offset against their Class 1 secondary NICs bill. It remains at £3,000 for 2019-20.

It was introduced in April 2014 to support employers to grow and hire new staff. However, it is a flat rate regardless of the size of the employer and is therefore less likely to be an incentive for larger employers. Therefore, the government has decided to target this allowance at smaller businesses.

From April 2020, the Employment Allowance will be restricted to organisations with a NICs bill below £100,000 in the previous tax year.

Draft National Insurance contributions Bill

The draft National Insurance contributions Bill contained measures to abolish Class 2 NICs – as previously announced, this change will not happen take place following concerns raised that they would have an adverse impact on the lowest self-employed individuals.

Other proposals in the draft Bill will go ahead from April 2020: the introduction of employer NICs on termination payments and on income from sporting testimonials.

National Minimum Wage and National Living Wage

The Low Pay Commission (LPC) recommendations were accepted in full, together with the acknowledgement that the LPC will need a new remit when it comes to monitoring the National Living Wage going forward following the fulfilment of the current remit of monitoring the delivery of achieving a National Living Wage rate of 60% of median earnings by April 2020. The NLW is on target to achieve this and based on current forecasts the LPC estimates that the NLW will reach this target at a rate of £8.62 in 2020.

The LPC's rate recommendations comprised:

	Current	From April 2019	Increase
NLW	£7.83	£8.21	4.9%
21-24 rate	£7.38	£7.70	4.3%
18-20 rate	£5.90	£6.15	4.2%
16-17 rate	£4.20	£4.35	3.6%
Apprentice rate	£3.70	£3.90	5.4%
Accommodation offset	£7.00	£7.55	7.9%

The LPC 2018 Report, containing the underpinning analysis and evidence used to make these recommendations, will be published on 27 November. In previous years it has been published on the same day as the rates were announced, but the early Budget means that this has not been possible this year.

Off-payroll working in the private sector

From April 2020 the government will extend reforms to the off-payroll working rules (known as IR35) in the private sector. This follows consultation held earlier this year following the roll-out of reform in the public sector.

Responsibility for operating the off-payroll working rules will move from individuals to the organisation, agency or other third party engaging the worker.

Small organisations will be exempt, minimising administrative burdens for the smallest engagers. HMRC intend to work with stakeholders through the delivery of another consultation in a bid to provide support and guidance to medium and large organisations ahead of implementation.

The government has decided that for services provided to small businesses, the responsibility for determining employment status and paying the appropriate tax and NICs will remain with Personal Services Companies. Small businesses will not need to consider the employment status or deduct employment taxes from the fees of people they engage in this way. This will address concerns about small businesses' capacity to implement the proposed reform, whilst ensuring that businesses which are best placed to determine whether the rules apply take responsibility for doing so. The government intends to use similar criteria to define small businesses as is found in the Companies Act 2006. As a result, over 95% of businesses will not need to apply the reform.

Concerns were raised during consultation that businesses may use blanket decisions for the employment status of groups of workers in similar roles without recourse, should those decisions be incorrect. The government plans to explore options available for ensuring that, where this occurs, there are consequences to businesses for failure to use reasonable care in their decision making.

HMRC is looking at where the CEST (Check Employment Status for Tax) tool, along with wider guidance, might be improved, both as part of normal good practice and to ensure it reflects the needs of the larger and more diverse private sector. HMRC plans to work with stakeholders to better understand the concerns about CEST raised in response to this consultation; these included saying more about mutuality of obligation, how to treat multiple contracts and clarifying the language used in places.

Government has published a **summary of responses** to the consultation on off-payroll working in the private sector.

Parental bereavement leave and pay

Confirmation that the government will introduce a new statutory entitlement to two weeks' of leave for employees who suffer the death of a child under 18, or a stillbirth after 24 weeks of pregnancy. Employed parents will also be able to claim pay for this period, subject to meeting eligibility criteria.

This entitlement will come into force in April 2020.

Pensions and Savings

Lifetime Allowance

The Budget Statement confirms that the Lifetime Allowance for pension savings will rise to £1,055,000 for 2019-20, in line with CPI inflation.

Starting rate for savings

The band of savings income that is subject to the 0% starting rate will be kept at its current level of £5,000 for 2019-20.

Individual Savings Account (ISA) annual subscription limits

The adult ISA annual subscription limit for 2019-20 will remain unchanged at £20,000. The annual subscription limit for Junior ISAs for 2019-20 will be uprated in line with CPI to £4,368.

Child Trust Funds

The government will publish a consultation in 2019 on draft regulations for maturing Child Trust Fund accounts. The annual subscription limit for Child Trust Funds for 2019-20 will be uprated in line with CPI to £4,368.

Improving NS&I's offer to customers

NS&I will allow people other than parents and grandparents to gift Premium Bonds to a child. This, alongside a lower minimum investment of just £25 and the launch of a new app, will make saving with NS&I easier than ever.

Pension Dashboards

The government is taking steps to support the launch of Pensions Dashboards, innovative tools that will for the first time allow an individual to see their pension pots, including their State Pension, in one place.

The Budget confirmed that the DWP will consult later this year on the detailed design for Pensions Dashboards, and on how an industry-led approach could harness innovation while protecting consumers. DWP will work closely with the pensions industry and financial technology firms.

Boosting pensions for the self-employed

This winter, DWP will publish a paper setting out the government's approach to increasing pension participation and savings persistency among the self-employed. This follows the 2017 review of automatic enrolment and will focus on expanding evidence through a programme of targeted interventions and partnerships.

Tax avoidance and evasion

The government remains committed to tackling tax avoidance and evasion, aggressive tax planning and non-compliance. Since 2010 the government has secured and protected over £185 billion of tax that would otherwise have gone unpaid and introduced over 100 measures to crack down further on avoidance, evasion, aggressive tax planning and unfair outcomes. New measures announced in this budget include:

Preventing abuse of R&D tax relief for small and medium-sized enterprises (SMEs)

To help prevent abuse of the payable credit, from 1 April 2020, the amount of payable R&D tax credit that a qualifying loss-making company can receive in any tax year will be restricted to three times the company's total PAYE and NICs liability for that year. This will ensure the relief is robust against identified abuse, including fraud, following the prevention by HMRC of fraudulent claims worth £300 million. The government will consult on this change.

Protecting your taxes in insolvency

From 6 April 2020, when a business enters insolvency, more of the taxes paid in good faith by its employees and customers, and temporarily held in trust by the business, will go to fund public services rather than being distributed to other creditors. This reform will only apply to taxes collected and held by businesses on behalf of other taxpayers (VAT, PAYE Income Tax, employee NICs, and Construction Industry Scheme deductions).

Tax abuse and insolvency

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

Conditionality: hidden economy

Following the consultation 'Tackling the hidden economy: public sector licensing' published in December 2017, the government will consider legislating at Finance Bill 2019-20 to introduce 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.

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.

Offshore tax compliance strategy

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

Other areas of interest

Assistance for small businesses

Management capability

The Productivity Leadership Group has shown that business-led approaches to improving productivity work. Building on work with Be the Business and the emerging findings of the Industrial Strategy Business Productivity Review, to support management capability so that businesses can raise their productivity, the government will:

- create a Small Business Leadership Programme, delivered in partnership with business schools and leading businesses across England. 2,000 places will be delivered in 2019-20, with an ambition to train 10,000 people per year by 2025
- invest up to £25 million to boost business productivity through the Knowledge Transfer Partnerships scheme, placing over 200 additional graduates and academics with relevant skills into firms to translate their research insights into business growth
- invest £20 million in 2019-20 to support local peer-to-peer networks focused on business improvement so that thousands of business leaders can share expertise on leadership, business development and technology adoption

Digital tools for business

The government will work in partnership with large banks, professional services firms and technology companies to support the productivity of their small business customers. The government also aims to improve the customer experience for businesses accessing online government information and services.

Backing entrepreneurs

In a bid to maintain the UK's reputation as one of the best places in the world to start and grow a business, the government will extend the funding of the British Business Bank's Start-Up Loans Programme to 2021 so it can continue to provide loans and mentoring to entrepreneurs. The British Business Bank, which started operating in 2014, is the government's UK-wide economic development bank. It makes finance markets for smaller businesses work more effectively, allowing those businesses to prosper, grow and build UK economic activity.

SME access to dispute resolution and redress

The government welcomes the Financial Conduct Authority's plans to expand access to the Financial Ombudsman Service (FOS) to small and medium-sized enterprises (SMEs) with a turnover of up to £6.5 million, along with its consultation on increasing the FOS award limit to £350,000.

Universal Credit

Work Allowance increase

The amount that households with children, and people with disabilities, can earn before their Universal Credit award begins to be withdrawn, known as the Work Allowance, will be increased by £1,000 from April 2019.

Transitioning onto Universal Credit

Building on the Autumn Budget 2017 announcement that Housing Benefit claimants will receive an additional payment providing a fortnight's worth of support during their transition to Universal Credit, the government will extend this provision to cover the income-related elements of Jobseeker's Allowance and Employment and Support Allowance, and Income Support. This will be effective from July 2020.

CIPP comment
With Universal Credit dominating most news bulletins over the past few weeks, it is unsurprising that this Budget contained several measures to address the criticisms levelled at the government, only two of which are included in this report. With employer RTI submissions central to the operation of Universal Credit we will watch with interest if further changes arise over the coming months.

VAT registration threshold

The Chancellor said that he had been exploring ways to address "the cliff edge effect of VAT registration" but that EU law limits the options open. As a consequence the VAT threshold will be maintained at the current level of £85,000 for a further two years until April 2022. The government will look again at the possibility of introducing a smoothing mechanism once the terms of EU exit are clear

Digital services tax (DST)

From April 2020, 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 is reflective of 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 £25 million per annum allowance
- only apply to groups that generate global revenues from in-scope business activities in excess of £500 million per annum

The government remains committed to G20 and OECD discussions on potential future reforms to the international corporate tax framework and will only apply the DST until an appropriate long-term solution is in place. The government will consult on the detailed design of the DST and legislate in Finance Bill 2019-20.

Stamp Duty Land Tax (SDLT) and first-time buyers relief

The government will extend first-time buyers relief in England and Northern Ireland so that all qualifying shared ownership property purchasers can benefit, whether or not the purchaser elects to pay SDLT on the market value of the property. This change will apply to relevant transactions with an effective date on or after 29 October 2018, and will also be backdated to 22 November 2017 so that those eligible who have not previously claimed first-time buyers relief will be able to amend their return to claim a refund.

Devolution

Certain key economic policies are devolved, and the UK government has committed to continuing to work closely with the devolved administrations to deliver the maximum benefit for everyone across the UK

Spending decisions taken by the UK government in the Budget result in Barnett consequentials for the devolved administrations to deliver their devolved responsibilities:

- the Scottish Government's budget will increase by over £950 million through to 2020-21 before adjustments for tax devolution
- the Welsh Government's budget will increase by over £550 million through to 2020-21 before adjustments for tax devolution. This includes over £25 million as a result of a 5% uplift in Barnett consequentials agreed as part of the Welsh Government's fiscal framework
- the budget for a Northern Ireland Executive will increase by over £320 million through to 2020-21.

26-30 railcard

A new 26-30 railcard will be introduced by the end of 2018, offering a one-third discount (subject to a minimum £12 fare in the morning peak) to around 4.4 million 26 to 30 year olds in England, Scotland and Wales.

Making it easier to claim compensation

The Budget confirms a more streamlined process for compensating passengers affected by rail delays. A one-click delay repay system will be introduced as a requirement for future rail franchises and will be available to those passengers with advance purchase and season tickets.

Blocking scams and nuisance phone calls

As part of the government's efforts to tackle nuisance calls, National Trading Standards will receive further funding to extend their project providing telephone call blocking technology to vulnerable people.

Banning pensions cold calling

Cold calling is one of the most common methods used to initiate pension fraud. To help protect people from fraudsters, the government is publishing a response to its consultation alongside the Budget and will shortly be implementing legislation to make pensions cold calling illegal.