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## Chancellor delivers Spring Statement amid 'cloud of uncertainty'

**Chancellor Philip Hammond's second Spring Statement was delivered against a backdrop of political turmoil, following the voting down of Prime Minister Theresa May's Brexit withdrawal deal.**

Despite describing the economy as 'remarkably robust', the Chancellor offered a clear warning on the potential impact of a no-deal scenario, which he said would put progress on the public finances 'at risk' and cause 'significant disruption' to the UK economy.

The latest forecasts from the Office for Budget Responsibility (OBR) revealed mixed news on the economy, with the OBR revising down its previous UK growth forecast for 2019 from 1.6% to 1.2%. Meanwhile, the forecast for government borrowing has also been revised down from £25.5 billion to £22.8 billion, with the Chancellor heralding rising wages and a strong employment market.

However, Mr Hammond emphasised the importance of a smooth Brexit transition in securing economic stability, pledging that a £26.6 billion 'deal dividend' would be made available to help boost the economy, providing that an agreement can be reached. The Chancellor also confirmed that a full Spending Review will conclude alongside the 2019 Autumn Budget.

Turning to other issues, the Chancellor announced new government investment in the UK's physical and digital infrastructure, technology, housing and the environment, together with a bringing forward of the £700 million reforms for business apprenticeships previously announced in the 2018 Autumn Budget.

The Chancellor's statement also confirmed that the government will apply a 'light touch' approach to penalties under its new Making Tax Digital regime; and promised to take action on late payments, including requiring company Audit Committees to review payment practices and report on them in their Annual Accounts.

Other measures announced include free sanitary products for secondary schools and colleges in England from the start of the next school year, and an additional £100 million fund dedicated to tackling the recent surge in serious violence and knife crime.



## Measures announced

**Although the Spring Statement is not intended to be a major fiscal event like the Budget, the Chancellor did announce some new measures. These included:**

### Apprenticeship Levy

In the Autumn Budget it was announced that the co-investment rate will be halved from 10% to 5%, and the amount employers can transfer to their supply chains would increase to 25%. These changes will now take effect from April 2019.

### Local Full Fibre Networks: Wave 3 allocations

Since the Autumn Budget, nine local areas have successfully bid for a share of £53 million of funding from the third wave of the Local Full Fibre Networks challenge fund, enabling next-generation full fibre connections to key public buildings, and nearby homes and businesses. The successful areas are Colchester, Isle of Wight, Norfolk, North Wales, Northern Ireland, Rutland, the Shetland Islands, South Essex and Stoke-on-Trent.

### Borderlands Growth Deal

In addition to the £102 million announced recently for the Carlisle Southern Link Road from the Housing Infrastructure Fund, up to £260 million has been made available for investment into the Borderlands area.

### National Living Wage

The government has appointed Professor Arindrajit Dube to undertake a review of the latest international evidence on the impact of minimum wages, to inform future National Living Wage policy after 2020.



## Looking ahead

**The Chancellor has announced various consultations and publications on possible future changes. These included:**

### NICs Employment Allowance draft regulations

Following the announcement in the Autumn Budget of reform of the national insurance contributions (NICs) Employment Allowance to restrict it to businesses with an employer NICs bill below £100,000, the government will invite technical comments on the draft regulations.

### CGT private residence relief

In the Autumn Budget it was announced that from April 2020 the government will make two changes to private residence relief. The final period exemption will be reduced from 18 months to nine months, and 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. In the Spring Statement the Chancellor announced a consultation on these changes.

### Anti-avoidance: R&D tax relief

The government will publish a consultation on the measure announced at the Autumn Budget aimed at preventing abuse of the R&D tax relief for SMEs, focusing on the application of the measure to minimise any impact on genuine businesses.

### Insurance Premium Tax (IPT)

There will be a call for evidence on where improvements can be made to ensure that IPT operates fairly and efficiently.

### Child Trust Funds (CTFs)

The government will publish draft regulations to ensure that CTF accounts can retain their tax-free status after maturity.

### Off-payroll working in the private sector

The changes to the off-payroll rules (commonly known as IR35) that came into effect in April 2017 for the public sector will be extended to the private sector from April 2020. A consultation paper has now been issued on the proposed operation of the rules. The consultation is intended to provide businesses and off-payroll workers with greater certainty around how



the off-payroll working rules will operate and help businesses make the correct determination of a worker's status.

### **VAT fraud in labour provision in the construction sector**

The government will pursue legislation to shift responsibility for paying VAT along the supply chain with the introduction of a domestic VAT reverse charge for supplies of construction services with effect from 1 October 2019. Draft legislation and guidance has been issued.

### **Aggregates Levy review**

A discussion paper has been published launching a review of the Aggregates Levy, including the Terms of Reference, information on timing and scope of the review as well as membership of an expert working group.

### **Clean growth**

The Chancellor announced a range of initiatives aimed at tackling climate change and delivering 'clean growth'. These included: a call for evidence on a business energy efficiency scheme; mandating net gains for biodiversity on new developments in England to deliver an overall increase in biodiversity; increasing the proportion of green gas in the grid; and introducing a Future Homes Standard by 2025, so that new build homes are future-proofed with low carbon heating and greater energy efficiency.

### **Tax simplification**

Following on from the recommendations of the Office of Tax Simplification, the government will publish a call for evidence on potential simplification and improvement of the VAT Partial Exemption regime and the Capital Goods Scheme.

### **Enterprise Investment Scheme (EIS)**

Draft guidelines stating HMRC's proposed policy and practice for approving funds will be published in the coming months.



### **International Research and Innovation Strategy**

The government will publish a strategy setting out its stated ambition to 'ensure the UK retains its place as a global partner of choice for science and innovation collaboration'. An independent review has been launched to assess and make recommendations on future frameworks for international collaboration.

### **Consultation on SDLT charge for non-residents**

The government recently published a consultation on the introduction of an SDLT (Stamp Duty Land Tax) surcharge for non-UK residents. The surcharge will apply to purchases of residential property made by non-UK resident individuals and certain non-natural persons. The surcharge will apply to freehold and leasehold purchases of residential property and will be at a rate of 1% on top of existing SDLT rates, including the rates applicable to the rental element of leasehold property. No date has been set for the introduction of the surcharge.

## Income tax

**The UK personal allowance, tax rates and bands for 2019/20 were announced by the Chancellor in the 2018 Autumn Budget.**

The income tax rates and bands applying from 6 April 2019 in England and Northern Ireland are outlined below:

| Band (£)         | Rate (%) |
|------------------|----------|
| 0 - 37,500       | 20       |
| 37,501 - 150,000 | 40       |
| Over 150,000     | 45       |

### Savings income

|                                 |        |
|---------------------------------|--------|
| Starting rate for savings       | 0%     |
| Starting rate limit for savings | £5,000 |

*Not available if the taxable non-savings income exceeds the starting rate band. £1,000 of savings income for basic rate taxpayers (£500 for higher rate) may be tax-free.*

### Dividend income

|                          |       |
|--------------------------|-------|
| Dividend ordinary rate   | 7.5%  |
| Dividend upper rate      | 32.5% |
| Dividend additional rate | 38.1% |

*The first £2,000 of dividends are tax-free.*

### Scottish residents

The tax on income (other than savings and dividend income) is different for taxpayers who are resident in Scotland to taxpayers resident elsewhere in the UK. The Scottish income tax rates and bands apply to income such as employment income, self-employed trade profits and property income.

The new Scottish income tax rates and bands for 2019/20, applicable to non-savings and non-dividend income, are summarised below:

| Band (£)         | Bandname       | Rate (%) |
|------------------|----------------|----------|
| 0 - 2,049        | Starter        | 19       |
| 2,050 - 12,444   | Scottish Basic | 20       |
| 12,445 - 30,930  | Intermediate   | 21       |
| 30,931 - 150,000 | Higher         | 41       |
| Over 150,000     | Top            | 46       |

### Welsh residents

From April 2019, the Welsh government has the right to vary the rates of income tax payable by Welsh taxpayers. The UK government has reduced each of the three rates of income tax paid by Welsh taxpayers by 10p. The Welsh government has set the Welsh rate of income tax at 10p, which will be added to the reduced rates. This means the tax payable by Welsh taxpayers continues to be the same as that payable by English and Northern Irish taxpayers.

## Making Tax Digital (MTD)

**HMRC is phasing in its Making Tax Digital regime, which will ultimately require taxpayers to move to a fully digital tax system.**

Under the new rules, businesses with a taxable turnover above the VAT threshold (currently £85,000) must keep digital records for VAT purposes and provide their VAT return information to HMRC using MTD functional compatible software.

The new rules take effect from 1 April 2019 where a taxpayer has a 'prescribed accounting period' which

begins on that date, or otherwise from the first day of a taxpayer's first prescribed accounting period beginning after 1 April 2019. For some VAT-registered businesses with more complex requirements, the rules will not take effect until 1 October 2019. Included in the deferred start date category are VAT divisions, VAT groups and businesses using the annual accounting scheme.

In the Spring Statement the Chancellor confirmed that the focus will be on supporting businesses to transition and the government will therefore not be mandating MTD for any new taxes or businesses in 2020.



## Changes to Entrepreneurs' Relief

### Increase in the minimum qualifying period

The minimum period throughout which certain conditions must be met to qualify for Entrepreneurs' Relief (ER) is being increased from one year to two years. This has effect for disposals on or after 6 April 2019, except where a business ceased before 29 October 2018. Where the claimant's business ceased, or their personal company ceased to be a trading company (or the holding company of a trading

group) before 29 October 2018, the existing one year qualifying period continues to apply.

### The new 5% rules for company shareholders

To qualify for ER, the company needs to be an individual's 'personal company'. This means that an individual must, throughout the relevant qualifying period:

- be a company employee or office holder
- hold at least 5% of the company's ordinary share capital; and
- be able to exercise at least 5% of the voting rights.

For disposals on or after 29 October 2018, an individual must also satisfy either of the following:

- distribution tests which require the individual, by virtue of that holding, to be entitled to at least 5% of the company's profits available for distribution to 'equity holders' and 5% of the assets available for distribution to 'equity holders' in a winding up; or
- a proceeds test which requires the individual, in the event of a disposal of the whole of the ordinary share capital of the company, to be beneficially entitled to at least 5% of the proceeds.

## Other key changes for 2019/20

**A number of other key changes are coming into effect during 2019, which may have an impact on your business and personal finances.**

### Employer-provided cars

The scale of charges for working out the taxable benefit for an employee who has use of an employer-provided car are normally announced well in advance. Most cars are taxed by reference to bands of CO<sub>2</sub> emissions, multiplied by the original list price of the vehicle. The maximum charge is capped at 37% of the list price of the car.

For 2018/19 there was generally a 2% increase in the percentage applied by each band. For 2019/20 the rates will increase by a further 3%.

### Increase in compulsory employer pension contributions

The pensions auto-enrolment legislation currently requires employers to contribute at least 2% on the qualifying pensionable earnings for eligible jobholders. From 6 April 2019 this will rise to 3%.

### Rising Residence Nil-Rate Band

The inheritance tax Residence Nil-Rate Band (RNRB), introduced in April 2017, will rise from £125,000 in 2018/19 to £150,000 for the 2019/20 tax year.

The RNRB is designed to enable a 'family home' to be passed wholly or partially tax-free on death to direct descendants such as children or grandchildren. It will increase to £175,000 in 2020/21. Thereafter it will rise in line with the Consumer Price Index.

### Gift Aid – donor benefits

The donor benefits rules that apply to charities who claim Gift Aid tax relief on donations are simplified from 6 April 2019. The benefit threshold for the first £100 of the donation remains at 25% of that amount. For gifts exceeding £100, charities can offer benefits up to the sum of £25 and 5% of the amount of the donation that exceeds £100. The total value of the benefit that a donor can receive remains at £2,500.

The new limits replace the current mix of monetary and percentage thresholds that charities have to consider when determining the value of benefit they can give to their donors without losing the entitlement to claim Gift Aid tax relief on the donations given to them.

### Gift Aid Small Donations Scheme

The Gift Aid Small Donations Scheme (GASDS) applies to small charitable donations where it is impractical to obtain a Gift Aid declaration. The GASDS currently applies to donations of £20 or less made by individuals in cash or contactless payments. The limit increases to £30 from 6 April 2019.

## Considering capital allowances

### Plant and machinery

In the 2018 Autumn Budget, the government announced an increase in the Annual Investment Allowance (AIA) for two years, from £200,000 to £1 million, in relation to qualifying expenditure incurred from 1 January 2019. Special rules apply to accounting periods which straddle this date.

Other changes made to plant and machinery capital allowances include:

- a reduction in the rate of writing down allowance (WDA) on the special rate pool of plant and machinery (including long-life assets, thermal insulation, integral features and expenditure on cars with CO<sub>2</sub> emissions of more than 110 g/km) from 8% to 6% from April 2019. Special rules apply to accounting periods which straddle this date
- the end of the 100% first year allowance and first year tax credits for products on the Energy Technology List and Water Technology List from April 2020.

### The Structures and Buildings Allowance

A new capital allowance, termed the Structures and Buildings Allowance (SBA), gives relief for expenditure on certain structures and buildings. The allowance is available for new structures and buildings intended for commercial use, and the improvement of existing structures and buildings, including the cost of converting or renovating existing premises to qualifying use.

Relief is limited to the original cost of construction or renovation, and given across a fixed 50-year period, at an annual flat rate of 2%, regardless of changes in ownership.

Only certain expenditure will qualify. The structures or buildings must be brought into use for qualifying activities. These include trades, professions or vocations, and certain UK or overseas properties businesses – essentially, commercial property lettings.

Relief will be given on eligible construction costs incurred on or after 29 October 2018. Where a contract for the physical construction work is entered into before this date, relief is not available.

Since the ending of the Industrial and Agricultural Buildings Allowances, no relief has been available for most structures and buildings. The new allowance addresses the gap, and is intended to encourage investment in construction for commercial activity. The detailed rules are still subject to consultation.

## What they said...

*'Thanks to the difficult decisions we have taken in the last nine years, and the hard work of the British people, I can report today on public finances that continue to improve.'*

**Chancellor Philip Hammond**

*'We have just witnessed a display by the Chancellor of this government's toxic mix of callous, brutal complacency over austerity and its grotesque incompetence over the handling of Brexit.'*

**John McDonnell, Shadow Chancellor**

*'Against a hugely uncertain political backdrop, the Chancellor has made an admirable attempt to set out a long-term vision for the UK economy, yet remains shackled by Brexit.'*

**Rain Newton-Smith, Chief Economist  
at the Confederation of British Industry**

*This publication was prepared immediately following the Chancellor's Spring Statement based on official press releases and supporting documentation. The publication is for guidance only, and professional advice should be obtained before acting on any information contained herein. No responsibility can be accepted by the publishers or the distributors for any loss occasioned to any person as a result of action taken or refrained from in consequence of the contents of this publication.*