Spring Budget 2020
The Partners' Review

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Toilet Rolls, Tampons and Tax! Which Way Now?

In order to crystal ball gaze we have to consider things both on the micro level of the rural sector and the Government's approach to wealth more generally. This is a Conservative government in name only. Society is changing and is likely to revert back to a demographic structure that existed in Victorian times, lots of people at the bottom and a few at the top; the middle disappears. The massive difference being that today everyone can vote whereas 150 years ago they could not!

This means politicians will inevitably focus on pushing up the minimum wage, keeping tax low at the bottom end and trying to evolve the economy. Quite where the economy goes is a mystery because surely technology ultimately removes jobs from the economy. Automation means no delivery drivers, nobody working in factories and, more worryingly, no accountants! So how on earth does the Treasury balance the books? In all likelihood inflation and an increasing tax take.

The net impact has to be a wealth grab from those at the top and the removal of tax reliefs that are perceived as unfair or too difficult to administer. The reduction in Entrepreneurs' Relief is a good example of this. Environmental taxes will inevitably evolve and will penalize the 'perceived' polluters and reward those who are carbon neutral or better. The evolution of red diesel highlights this aspect.

In reality the landscape will mean that reliefs such as Agricultural Property Relief are likely to disappear and hopefully Business Property Relief will not. Trading will be rewarded and investors will be penalized.

So which way now?

The agricultural sector should have a bright future. Coronavirus should be focusing our Government on food security and home grown production. Globalization was already in reverse gear and this will only be accelerated by the current hysteria and market turmoil.

Farmers and landowners need to focus on the opportunities that carbon brings. We believe land will continue to be an attractive asset to hold regardless of tax relief….green gold!

All businesses should be focusing on their 'Green' credentials. Investment in renewables will be critical, as will the evolution of how farmers and landowners measure and report their carbon credentials. This investment should be happening now and waiting for government to tell you how to do it will be too late in our opinion. Our aim is that the majority of our clients will be undertaking 'Green' reporting in the next two years.

Those who haven't tackled their succession planning need to get on with it. The tax environment can't really get any better and is likely to get much worse. The starting point is to look at where you currently sit and then take a worst case view on reliefs. Although tax is never the only driver of decision making it is material and may become more so.

Change is inevitable; most of us like to delay those big decisions on transferring assets or getting our affairs in order. Time is running out and we all need to focus on preserving our assets and protecting them from the inevitable assault that is coming from HMRC.

Karen Blackiston
Partner in charge of Legal Practice, Trusts and Estates



Taxation measures included in Budget 2020

- **The Employment Allowance**, which reduces liability to Class 1 National Insurance Contributions for businesses, will increase from £3,000 to £4,000 for 2020/21, however, from April 2020, the eligibility rules change so that Employment Allowance is counted as State Aid. The ability to claim the allowance may therefore be restricted, depending on circumstances.

- The lifetime limit for gains qualifying for **Entrepreneurs' Relief** has been reduced from £10 million to £1 million for disposals on or after 11 March 2020. Disposals entered into, but not completed, prior to 11 March 2020 will also be subject to the reduced limit unless it can be demonstrated the disposal was not made with the purpose of taking advantage of the £10 million limit and was made for commercial reasons.

- The income level above which the Annual Allowance for **pension contributions** starts to be reduced has increased by £90,000 to £200,000. However the allowance can now be reduced to £4,000, rather than £10,000 so that those with income above £300,000 will be disadvantaged. The Lifetime Allowance will increase in line with CPI to £1,073,100.

- The rate of **Structures and Buildings Allowance** will increase from 2% to 3% with effect from 1 April 2020 for Corporation Tax and 6 April 2020 for Income Tax.

- The **R&D** Relief Expenditure Credit will be increased to 13% from 12%. There will be a consultation on whether to allow expenditure on data and cloud computing within R&D claims. The proposed PAYE based cap for the payable tax credit from the SME R&D scheme has been delayed to allow a consultation on changing how the cap operates.

- Some uncertainty in the calculation of Income Tax liabilities on **life insurance policies** for those with high income has been removed. It has also been confirmed that allowances and reliefs must be set against other income in preference to the gain.

- From April 2022 entitlement to use **Red Diesel** will be withdrawn from all sectors other than agriculture, rail and non-commercial heating.

- The **100% First Year Allowance** available on qualifying expenditure on plant and machinery for use primarily within an Assisted Area within an Enterprise Zone will be extended to be available on qualifying expenditure until 31 March 2021.

- From 1 January 2021 the **Agricultural Flat Rate Scheme for VAT** will have a maximum turnover limit of £150,000 in order to join the scheme and businesses with farming turnover over £230,000 must deregister from the scheme.

- The **company van and car benefits,** as well as the associated fuel benefits for 2020/21 will increase in line with the Consumer Price Index. The benefit for vans that produce zero carbon emissions will be reduced to zero from 6 April 2021.

- The **Corporation Tax** rate will remain at 19% for the years beginning 1 April 2020 and 1 April 2021.

- The annual subscription limit for **Junior ISAs** and Child Trust Funds will increase from £4,368 to £9,000 for 2020/21. The limit for ordinary ISAs remains at £20,000.

- The flat rate **Home Working Allowance** Income Tax deduction for employees will increase from £4 to £6 per week from April 2020. This deduction does not apply to employees who voluntarily work from home.

- **Non-UK resident companies** with UK property income and gains will be subject to Corporation Tax instead of Income Tax and Capital Gains Tax with effect from 6 April 2020.

Karen Blackiston
Partner in charge of Legal Practice, Trusts and Estates



Taxation measures included in Budget 2020 (continued)

- There will be a 2% **Stamp Duty Land Tax** surcharge on non-UK residents purchasing residential property in England and Northern Ireland from 1 April 2021. This surcharge applies in addition to the 3% surcharge for buying a second residential property. If contracts were exchanged prior to 11 March 2020 but complete, or are substantially performed, after 1 April 2021 there are transitional rules.

- **Intangible assets** created prior to 1 April 2002 and acquired from related parties from 1 July 2020 will now be eligible for tax relief through the Intangible Fixed Assets regime.

- Expenditure on **Zero emission goods vehicles** will continue to qualify for 100% First Year Allowances from April 2021 to April 2025.

Arrangements to support businesses affected by COVID-19

The Government has introduced certain measures specifically to help affected businesses:

- It will reimburse **Statutory Sick Pay (SSP)** for absences of up to two weeks due to COVID-19 for businesses with under 250 employees;

- It will increase the **Business Rates** retail discount to 100% and expand it to the leisure and hospitality sectors. *The Government has announced a fundamental review of the system of Business Rates, calling for evidence in the Spring and will report by Autumn 2020;*

- It will provide funding for local authorities to make grants of up to £3,000 to businesses that do not currently pay Business Rates due to Small Business Rate Relief;

- A new **Coronavirus Business Interruption Loan Scheme,** offered by the British Business Bank and its partner banks, will temporarily replace the Enterprise Finance Guarantee which is designed for those businesses with limited security to offer but are otherwise viable;

- Running alongside the existing **"Time to Pay"** instalment arrangements, HMRC has set up a new dedicated helpline for those businesses struggling to settle tax bills due to the impact of the virus;

- For the self employed, who cannot claim SSP, rules restricting claims to Universal Credit (UC) and Contributory Employment and Support Allowance have been relaxed but eligibility for UC is restricted to individuals with savings under £16,000.

A reminder of previously announced measures which commence in 2020

- Disposals of **UK residential property** on or after 6 April 2020 must be notified to HMRC, and the Capital Gains Tax liability paid, within 30 days of completion of the sale using a new online service. Details of the gain must still be reported on the individual's Self Assessment annual Tax Return.

- The introduction of the **VAT domestic reverse charge** for building and construction services has been delayed until 1 October 2020.

- From 6 April 2020 large and medium sized organisations within the private sector which engage workers to provide their services via an intermediary will become responsible for determining whether the worker is a **deemed employee** under the IR35 rules and ensuring that the necessary PAYE and NI deductions are made.

Iain Morris
Partner in charge of Corporate and Renewables

Climate change v incentivising economic progress or Greta Thunberg v Donald Trump

Over the last few months two people have affected the green agenda and global economics far more than Coronavirus. One is a schoolgirl from Sweden who has single-handedly convinced most of the world that climate change is real and the world is "on fire" and the other is a US president hell bent on convincing the world that climate change policies shouldn`t get in the way of making America great again. This, of course, comes from the man who refuses to take economic lessons from a schoolgirl but last week managed to wipe over a trillion dollars from the world markets by announcing an ill-founded decision to ban EU flights into the US, presumably because he woke up with a slight cough.

Whoever is right, the world has changed and our Government is trying to look as if it really cares about the environment and has publically committed to a zero carbon position by 2050. Yesterday it announced a range of policies, most of which will, in time, affect our sector:

Key points

- Fuel duty will remain frozen for another year
- The levy on electricity will be frozen and raised on gas from April 2022
- Carbon Emissions Tax consultation
- A Low Carbon Heat Support Scheme from April 2022.
- A plastic packaging tax will charge manufacturers and importers £200 per tonne on packaging made of less than 30% recycled plastic
- Red Diesel tax relief will be abolished for most sectors, not including agriculture, from 2022
- Doubling R&D investment in energy innovation programme to £1bn
- Investing £640m in a new Nature for Climate Fund
- 30,000 hectares of trees will be planted and 35,000 hectares of peatland will be restored over the next five years
- £800m will be invested in more Carbon Capture and Storage clusters by 2030
- Greening of the gas grid: There will be a new support scheme for biomethane, funded by a Green Gas Levy

Frozen fuel duty
Despite a cost of £110bn to the taxpayer, for the tenth year in a row the duty of fuel will remain frozen for another year. According to the Chancellor of the Exchequer, "Compared to pre-2010 plans, that's a saving of £1,200" [for the average car driver].

Electricity and gas levy – gas is evil?
As a move towards equalising the divergence between gas and electricity, the levy on electricity will be frozen, and that of gas will be raised, as of April 2022. The increase will generate a total of £660m between 2022 and 2025.

To support the most energy-intensive industries to transition to net-zero, the Climate Change Agreement Scheme will also be extended for a further two years. This will cost a projected £390m over the next five years. Agriculture is definitely eligible but needs to co-ordinate with industry bodies to best use this resource.

Carbon Emissions Tax
A new tax on emitters of greenhouse gases was announced. There will be a consultation over the summer but this could bring a significant cost.

Iain Morris
Partner in charge of Corporate and Renewables

Plastic waste
From April 2022, manufacturers and importers will be charged £200 per tonne on packaging made of less than 30% recycled plastic. This is likely to have a big impact on horticulture in particular.

R&D investment
R&D investment in the energy innovation programme will be more than doubled to take it up to £1bn. It was also announced that investment in clean transport would be increased with corresponding taxes cut. The real detail is yet to emerge.

"We are investing £500m to support the rollout of new rapid charging hubs, so that drivers are never more than 30 miles away from being able to charge up their car," said the Chancellor.....And tractors?

Although there are generous incentives for investment, more policies are required to drive a change of consumer behaviours in the UK, given the net-zero target. The comparative costs of purchasing and running an electric vehicle and a traditional combustion engine need to be reduced to make the choice of vehicle an environmental decision rather than a financial one.

Natural habitat investments
£640m is the proposed investment for a new Nature for Climate Fund. We will consider the detail of this when published given many farmers will be eligible.

Over the next five years, around 30,000 hectares of trees will be planted and 35,000 hectares of peatland will be restored.

A £25 million Nature Recovery Network Fund, will partner with landowners, businesses and local communities to protect, restore and support existing habitats and wildlife.

Carbon capture and storage technology
It was announced that £800m will be invested in establishing two or more new Carbon Capture and Storage clusters by 2030. These would store millions of tonnes of carbon dioxide but the economic benefit will be mostly in the North/Scotland.

Conclusion and what's next on the green agenda

Clearly Greta will be happy with the vast investments pledged for Carbon Capture and Storage (CCS) as well as other green measures that support carbon reductions. However most of these schemes are off-patch and a large part of the tree planting and environmental schemes already announced in the Agriculture Bill will be aimed outside the South East.

Renewable energy generation didn`t get centre stage but remains a viable option for the rural sector, especially those with large power consumption. Planning rules are likely to be relaxed especially for on-shore wind.

Trump might counter that overall it would appear spending on climate change actions has been undermined by fuel duties being frozen for another year and the announcement of huge road schemes. No changes were made to assist improvements to inefficient heat-leaking homes.

The agricultural sector does need to seize the day and, although in the past environmental schemes didn`t seem worth the bother, we now have an opportunity, and probably an obligation, to take centre stage when it comes to carbon reduction. Farmers have the opportunity to access good sources of funding for environmental and renewable projects which could provide a lucrative and far less volatile return than combinable crops.

Ben Wilkinson
Partner in charge of Agriculture

Conspicuous by their absence

2019 was the first year in over two centuries that included no Budget, giving commentators and, in some cases, 'purveyors of general panic', plenty of time to voice predictions of what might change in the 2020 Budget. However, the speech from the dispatch box was not the groundbreaking event many forecast; a factor of the late substitution of Chancellor and the growing worldwide concern over Covid-19? The first question should be "what did not appear in the 2020 Budget?" In our view the items of greatest interest are:

Changes to Agricultural Property Relief

APR remains unchanged but for how much longer can that position continue? In its current iteration, not only does it provide Inheritance Tax (IHT) relief for agricultural property used in a trading business but, in certain circumstances, it also provides IHT relief for land held as an investment. If APR was withdrawn, Business Property Relief (BPR) would still provide IHT relief for most trading businesses so landlords and owners of tenanted estate land would be the worst hit; with farmhouses, even on active farms, also being exposed. A government focusing on the largest percentile of voters and supporting tax simplification will be asking itself 'why should this complex and expensive

Removal of rebated heavy oil / biofuel (red diesel)

After various reports published in the preceding weeks threatened the existence of red diesel, Rishi Sunak stepped back from its withdrawal for agricultural use (including forestry and horticulture) for the foreseeable future, and gave all other current qualifying users a two year lead time before its withdrawal in 2021/22. The terminology used in the Budget speech, however, was unequivocal in demonstrating this government's distain for Hydrocarbon fuel use, particularly diesel in industry, and with the backdrop of a material increase in R&D funds being made available for environmental improvement, it is not far-fetched to conclude that the writing is on the wall for red diesel in the not too distant future. If agriculture had to pay fuel duty at the full rate it would cost the UK industry an extra £500 million a year and add £16 per acre to costs on an average cereal farm.

Changes to Inheritance Tax

Concern that IHT might be curtailed in this Budget arose following the release in January of the "Reform of Inheritance Tax" report published by the All-Party Parliamentary Group for "Inheritance & Intergenerational Fairness". The proposals in the report were very much 'blue sky thinking' and entailed a wholesale scrapping of the current IHT, APR and BPR systems, replacing them with a simpler, flat-rate tax environment that would see lifetime gifts, will legacies and settlements into trust on a par with each other. Such a massive alteration to the tax landscape would, at the very least, require a far more detailed consultation before adoption and, more likely, would not happen at all. However, one aspect in the current regime, spot-lighted in the report as being inequitable, was the wiping out of capital gains on assets left as legacies on death where IHT relief is claimed. This double-relief must surely be in the sights of the government for future dispatch box appearances.

Capital Gains Tax

Alongside the already enshrined changes to the payment and reporting of Capital Gains Tax (CGT) on residential property sales and the changes to Entrepreneurs' Relief, some concern was voiced that an increase in general CGT rates, even aligning them with Income Tax rates, as was the case in years by-gone, would be a simple means of adding to the country's coffers. No such change arose in the 2020 Budget but it remains relatively safe to assume that CGT rates are unlikely to reduce and could therefore be targeted in coming years.

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Removal of VAT from Electric Vehicles

The support for electric vehicles (EVs) and those with zero 'point of use' emissions was clear from the exempting of expensive EVs from Vehicle Excise Duty, but the government stopped short of removing VAT from their purchase price, a move for which many had lobbied. Is the government trying to manage the speed of change from combustion to EV so as to allow the improvement in charging networks to keep up? Needless to say, the pledge to be Net Zero Carbon by 2050 will continue to focus minds and with the UKs independence from the EU, changes to VAT could be back on the cards.

During his Budget speech, Mr Sunak listed a number of matters that he intends to keep under review or that were subject to consultation; whether that is to be interpreted as "in advance of the autumn statement" or on a longer time horizon, time will tell but it appears that the Budget on 11 March 2020 may only have bought a little more time to consider your options.

There is no time like the present to consider your current position, and where you want to be in the next five to ten years, and plan that transition in the context of what the UK tax system might do in the meantime.

Make no mistake, this Conservative government is not content with the status quo and, with its 'borrowed voters' to please and a 5-year-forecasted material increase in net borrowing to repay, to balance its books it will need to increase the UK tax take.



For further budget insights please feel free to contact our Partnership team directly:

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