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# Budgets and Brexit – Whatever is going on?

## The latest position

At the time of writing, we remain in a period of political and economical uncertainty. MPs have returned to Parliament 19 days earlier than expected after the Supreme Court ruled that the suspension of Parliament was 'unlawful'. Before Parliament was suspended, MPs passed a new law designed to prevent a no-deal Brexit on 31 October. Under the law, unless a Brexit deal is agreed with the EU by 19 October 2019, the prime minister is required to request a three-month Brexit delay. Of course, how the EU will respond to such a request is unknown.

There will almost certainly be an imminent general election but a date for that is also yet to be set. With at least 25 working days being required, this would now fall after the planned 31 October Brexit date.

While this gives no indication of when we'll next have a Budget, it is likely to follow Brexit or a General Election, whichever comes first!

## Brexit preparations

The Government continue to publish to help businesses and individuals prepare for Brexit, especially in the scenario of exiting without a deal. This includes advice on Accounting for import VAT in a no-deal Brexit, for those trading with other EU businesses.

The online area is the most up to date reference source, with some of the information previously sent out to businesses now having been superseded.

**www.gov.uk/find-eu-exit-guidance-business**

**www.gov.uk/prepare-eu-exit**

## Budget predictions – what's on the horizon?

Bearing in mind the above, it is difficult to say, but when thinking ahead to the next Budget the following are areas where we can expect further news and updates.

### Draft clauses for the next Finance Bill

Back in July, the Government published draft legislation for the next Finance Bill. The consultation window on this closed on 5 September.

Of particular note, the draft legislation includes measures on the following areas.

### Off-payroll working in the private sector

As expected, it is envisaged that **revised rules** will apply from April 2020, to cast a wider net over not just public sector bodies but certain private sector entities as well. The entities in question are those that buy in employment type services through intermediaries (e.g. the worker's personal service company). Private sector businesses who are not small (see revised test basis) should prepare for the changes now. Similarly, where individuals are providing services through an intermediary, they would be best advised to consider whether the engager may look to change terms or arrangements from April 2020 and whether there is merit in opening a dialogue now.

### Private residence relief

Following consultation this Spring, changes are proposed to the **Private Residence Relief (PRR)** regime from April 2020. For properties that have not been occupied throughout the period of ownership, available deductions for capital gains tax purposes will be limited as follows:

- The final period exemption will be reduced from 18 months to 9 months (there are no changes to the 36 months that are available to disabled persons or those in a care home); and

- Lettings relief will be reformed so that it only applies in those circumstances where the owner of the property is in shared-occupancy with a tenant. Despite concerns raised during the consultation about periods of letting prior to April 2020 (and "accrued lettings relief"), the government is proceeding as planned and lettings reliefs will be restricted or curtailed for disposals on or after 6 April 2020, regardless of when the period of letting took place.

## Corporation tax loss relief

The rules that potentially limit the use of brought forward losses will be extended from 1 April 2020 to include **brought forward capital losses**. Companies (and corporate groups) will continue to have a £5m "deductions allowance" before restrictions apply but the inclusion of capital losses mean that it is now more likely to be exceeded for some.

## Digital Services Tax

From April 2020, the government will introduce **a new 2% tax** on the revenues of search engines, social media platforms and online marketplaces which derive value from UK users. However, this only applies when the group's worldwide revenues from these digital activities are more than £500m and more than £25m of these revenues are derived from UK users.

## Insolvency

From 6 April 2020, insolvency legislation will be amended to **move HMRC up the creditor hierarchy** for the distribution of assets in the event of insolvency by making HMRC a secondary preferential creditor in respect of certain tax debts held by a business (this includes individuals and partnerships) on behalf of their customers and employees. This includes VAT, PAYE income tax and CIS deductions.

The rules will remain unchanged for taxes owed by businesses themselves, such as Corporation Tax and employer National Insurance contributions.

Further, directors and other persons connected to companies subject to an insolvency procedure will be made jointly and severally liable for amounts payable to HMRC by the company in certain circumstances. This is mainly for cases where the company has engaged in avoidance, evasion or 'phoenixism'.

### Consultations awaiting Government responses

Following consultation this Spring, we are still awaiting a Government response and/or draft legislation on;

- **"Taxation of Trusts"**; and
- **"Preventing abuse of R&D relief for SMEs"**.

It may be that the next Budget will give news on both.

### Making Tax Digital

Making Tax Digital for VAT started for most businesses for VAT periods commencing on or after 1 April 2019.

What we may hear about at the next Budget is plans around Making Tax Digital for Income Tax and/or Corporation Tax. We do know that any such digitalisation would not happen until after April 2020 (and therefore probably periods commencing 1/6 April 2021 at the earliest).

### The Office of Tax Simplification (OTS)

We've also seen a flurry of OTS recommendations in recent months that the Government may respond to during the next Budget. This includes;

- Simplifications for small businesses (business lifecycle);
- Reporting and payment arrangements of the self-employed (linked to MTD and voluntary payments?); and
- Simplifying the design of inheritance tax (lifetime gifts and business exemptions in particular)

### Brexit

Brexit itself, whatever the position at the time of the next Budget, may trigger taxation changes.

Accounting for import VAT has already been mentioned above but further VAT and Customs measures could be on the horizon.

We may also see the Government wanting to implement measures to ensure that the UK stays competitive for business (the corporation tax rate is legislated to drop to 17% from 1 April 2020 but might this be taken further?).

And of course, in election season, we'll be expecting a range of manifesto pledges around taxation of individuals.