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It's the little details that make a big difference

Chancellor's Budget October 2018 – from a partnership perspective

Whilst Monday's Budget did not reveal anything unexpected for partnerships and their partners, the introduction of IR35 reforms for the private sector from April 2020 may impact consultancy arrangements with former partners and contractors. In addition, from next April, the previously announced profit fragmentation rules may need to be considered by firms operating in the UK and overseas.

For more details on both these areas and other points of interest arising from the Budget please see below and do get in touch if you would like to discuss anything further.

Off-payroll working in the private sector

This change was expected and puts the public and private sectors on the same footing. It mainly involves workers who provide their services to companies through a personal service company (PSC) although this will also impact workers engaged via agencies. A link is attached below to a document, prepared before the Budget, which outlines the changes expected to come into force – these will broadly mirror the changes introduced in the public sector in 2017.

These rules will apply from April 2020. Under the new rules, the burden of determining whether a worker can be paid without deduction of PAYE and National Insurance contributions (NIC) will be passed to the fee payer, rather than the PSC (as it is now). Small organisations (those with 2 of the following; turnover less than £10.2 million; balance sheet less than £5.1 million; 50 employees or less) will however be exempt with HMRC providing support and guidance to medium and large organisations ahead of implementation.

What could this mean and why does this need to be addressed now?

- For workers caught by the new rules, the cost of using these workers will increase because employer's National Insurance will be due (at 13.8% of all payments made) as well as the Apprenticeship Levy;
- New systems and processes will need to be introduced to make sure you can identify workers caught by the new rules and take the necessary actions via payroll;
- Failure to comply with the new rules will lead will lead to HMRC collecting the under deducted tax/NIC from the partnership plus interest and penalties.

Based on our experience of working with public sector bodies, we know that it can take up to 18 months to ensure the relevant controls and processes are in place to cope with the new rules. We are therefore recommending that businesses start to explore what steps they will need to take now, so that they are prepared for these changes when they are introduced.

Click here for further information and how we can help.

Profit Fragmentation Arrangements

As previously announced, the Government is introducing targeted anti-avoidance legislation which aims to prevent UK businesses from avoiding UK tax by arranging for their UK taxable business profits to accrue to entities without sufficient substance and resident in territories where significantly lower tax is paid than in the UK. The taxable UK profits will be increased to the actual, commercial level. The link below provides more detail of what was included in the previous draft legislation but please note that, following consultation, changes to this draft legislation were announced in the Budget to remove the duty to notify HMRC of relevant arrangements meeting certain criteria. This amended legislation has not yet been published. The rules will commence with effect from April 2019 and will apply to individuals, partnerships and companies carrying on a business within the charge to UK taxation.

Click here for further information.

Capital Allowances

Annual Investment Allowance – This will increase from £200,000 to £1 million for all qualifying investment in plant and machinery on or after 1 January 2019 until 31 December 2020. This allowance is not available to "mixed" partnerships i.e. those with both individual and corporate partners.

Special rate allowance – From April 2019, the capital allowances special rate for qualifying plant and machinery assets will be reduced from 8% to 6%, to more closely match average accounts depreciation

Enhanced Capital Allowances (ECA) – The government will end ECAs and First Year Tax Credits for technologies on the Energy Technology List and Water Technology List from April 2020.

Capital Gains Tax – Entrepreneur's Relief on disposal of a partnership interest

From 6 April 2019 the minimum period throughout which the qualifying conditions for entrepreneur's relief must be met will be extended from 12 months to 24 months. This will have effect for qualifying disposals after April 2019.

Income tax thresholds

From April 2019 the income tax personal allowance will be increased to £12,500 and the higher rate allowance to £50,000. Thereafter these thresholds will rise in line with inflation.

Short term business visitors (STBV)

Following a consultation on the tax and administrative treatment of STBVs from overseas branches of UK headquartered companies, the government will widen eligibility for the STBV Pay As You Earn (PAYE) special arrangement and extend its deadlines for reporting and paying tax. This will reduce administrative burdens on UK employers with effect from April 2020. Although we have yet to see the detail, it is hoped that this will also apply to LLPs and partnerships.

For a summary of the announcements I attach a link to our Autumn 2018 Budget on a page.

And finally, for those that missed it, a mention of a recent announcement by HMRC relating to **Making Tax Digital VAT**:

Making Tax Digital will be deferred to October 2019 for certain categories of business. The six month deferral applies to the following categories:

- VAT Groups/VAT Divisions;
- Trusts (may be relevant to some VAT registered corporate pensions schemes);
- Overseas traders and
- Businesses making payments on account.

Kind regards,

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