

UK Budget 2020

Tax Talks Blog on **March 13, 2020**

The UK Budget took place on 11 March. In its first post-Brexit Budget with substantial spending announcements, the Treasury wants to continue to ensure the UK remains an attractive and competitive place to invest and do business. We have summarized here the most notable tax changes that will be of interest to our corporate and international client base. Please contact any member of our UK tax group if you have any queries about how this year's Budget will affect your business.

- **UK corporation tax.** The UK main corporation tax rate that was expected to be reduced to 17% will now remain at 19% for 2020-2021 tax year.
- **Entrepreneurs' relief.** The Government announced that the lifetime entrepreneurs' relief will be reduced with immediate effect from 11 March 2020 from £10m to £1m and the limit will take into account disposals prior to such date. The Government expects that 80% of those using the relief will be unaffected. The new legislation addressing this change will also include (i) certain forestalling measures that would apply to unconditional contracts entered before 11 March 2020 to prevent taxpayers "locking in" to the pre-Budget lifetime limit and (ii) special provisions dealing with share exchanges entered into before 11 March 2020 but on or after 6 April 2019.
- **UK private funds regime.** The Government has opened a consultation seeking to improve the competitiveness of the UK tax regime as it applies to private fund structures. A review of the UK's funds regime during 2020 is commencing with a consultation focusing on tax treatment of asset holding companies for credit funds, real estate funds and private equity funds. This will include detailed consideration of withholding taxes, hybrid mismatches, and methods of returning proceeds to funds. The government will also look at VAT treatment of fund management fees. The Government wants to understand whether any further tax changes could be made in order to make the UK more attractive for private funds.
- **IR35 (off-payroll working rules).** The Government has confirmed (as previously reported) its intention to reform IR35 rules in order to address non-compliance with the existing rules by companies in the private sector. New legislation implementing the reforms will be published in the Finance Bill 2020 and will become effective from 6 April 2020.

- **EMI schemes.** The Government is intended to review the rules relating to the EMI scheme and examine whether more companies should be able to access the scheme. This might result in private fund-owned companies being able to implement EMI schemes which has been a request from the industry for a number of years.
- **Hybrid mismatch rules.** The Government intends to consult on corporation tax rules that apply to hybrid mismatch arrangements to ensure that hybrid mismatch rules work proportionately and as intended. This will involve further consideration of the differences in the application of the rules by multiple jurisdictions.
- **Digital services tax.** As previously announced (and reported), the DST will be introduced from 1 April 2020. The DST will be set at the rate of 2% and will apply to large businesses (with group revenues of over £500m) that generate their revenue from digital business activities such as social media platforms, online market places and search engines that are accessed by UK users. The new DST legislation will include a “safe harbor” election. This allows a group to elect to use the alternative basis of charge when calculating DST liability meaning that where the relevant activity is loss-making the DST liability could be reduced or eliminated.
- **LIBOR (London Interbank Offered Rate).** The Government will consult on the UK tax consequences of the withdrawal of LIBOR. This will include review of the existing UK tax legislation that refers to LIBOR and similar benchmarks.
- **Overseas retail/money market funds.** The Government also launched a consultation on 11 March 2020 on proposals to simplify the process for allowing investment funds set up overseas to be marketed in the UK. The proposed “overseas funds regime” will introduce two new regimes based on the principle of equivalence: one for retail investment funds and one for money market funds.
- **SDLT 2% surcharge.** Following a consultation, the Government has announced an introduction of a 2% stamp duty land tax surcharge that will apply to non-UK resident buyers of residential property located in England and Northern Ireland. The new surcharge will be included in the Finance Bill 2021 and will apply to acquisitions of property from 1 April 2021. The Finance Bill 2021 is also expected to include transitional measures that will affect those contracts that are exchanged before 11 March 2020 but are not completed or substantially performed until after 1 April 2021.

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