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Impact on companies

Budget 2018

In his Autumn Budget speech, the Chancellor announced a number of measures which may impact on companies. The key messages in the Budget announcement are outlined below.

Digital services tax (DST)
From April 2020, the government will introduce a new 2% tax on the revenues of certain digital businesses to ensure that the amount of tax paid in the UK is reflective of the value they derive from their UK users. The tax will:

- apply to revenues generated from the provision of the following business activities: search engines, social media platforms and online marketplaces
- apply to revenues from those activities that are linked to the participation of UK users, subject to a £25 million per annum allowance
- only apply to groups that generate global revenues from in-scope business activities in excess of £500 million per annum
- include a safe harbour provision that exempts loss-makers and reduces the effective rate of tax on businesses with very low profit margins

The government remains committed to G20 and OECD discussions on potential future reforms to the international corporate tax framework, and will only apply the DST until an appropriate long-term solution is in place. The government will consult on the detailed design of the DST and legislate in Finance Bill 2019-20.

Intangible fixed assets regime
The government will seek to introduce targeted relief for the cost of goodwill (the amount paid for a business that exceeds the fair value of its individual assets and liabilities) in the acquisition of businesses with eligible intellectual property from April 2019. Not clear yet what the definition of 'eligible intellectual property' is.

With effect from 7 November 2018, the government will also reform the de-grouping charge rules, which apply when a group sells a company that owns intangibles.

Royalties withholding tax - Offshore receipts in respect of intangible property
As announced at Autumn Budget 2017, the government is introducing legislation in Finance Bill 2018-19 to tax income from intangible property held in low-tax jurisdictions to the extent that it is referable to UK sales. This measure will come into effect from April 2019. Following consultation, the government is making changes to ensure that the measure is effective, appropriately targeted and robust against abuse. These include:

- collecting the tax by directly taxing offshore entities that realise intangible property income in low-tax jurisdictions, rather than through applying a withholding tax
- broadening the income in scope of the measure to include embedded royalties and income from the indirect exploitation of intangible property in the UK market through unrelated parties
- introducing a de minimis UK sales threshold of £10 million, an exemption for income that is taxed at appropriate levels, and an exemption for income relating to intangible property that is supported by sufficient local substance
- anti-avoidance provisions will apply from 29 October 2018 to counteract arrangements entered into with a main purpose of avoiding a charge under this measure

Research and development - Preventing abuse of R&D tax relief for small and medium-sized enterprises (SMEs)

From 1 April 2020, the amount of payable R&D tax credit that a qualifying loss-making company can receive in any tax year will be restricted to three times the company's total PAYE and NICs liability for that year. This is subject to consultation.

Online gaming - Remote Gaming Duty

Following the implementation of a £2 maximum stake on B2 machine games, the rate of Remote Gaming Duty will increase to 21%. Both the reduction in maximum stake and increased duty rate will come into effect in October 2019.

Corporate capital loss restriction

To ensure that large companies pay tax when they make significant capital gains, the government will bring the tax treatment of corporate capital losses into line with the treatment of income losses. From 1 April 2020, the government will restrict the proportion of annual capital gains that can be relieved by brought-forward capital losses to 50%. The measure will include an allowance that gives companies unrestricted use of up to £5 million capital or income losses each year, meaning that 99% of companies will be unaffected.

Capital allowances

Annual Investment Allowance (AIA)

The government will increase the Annual Investment Allowance to £1 million for all qualifying investment in plant and machinery made on or after 1 January 2019 until 31 December 2020.

Structures and Buildings Allowance (SBA)

The government will introduce a new Structures and Buildings Allowance (SBA) to provide relief for qualifying capital expenditure on new non-residential structures and buildings where contracts for the physical construction are entered into on or after 29 October 2018. The rate of SBA will be 2% on a straight line basis.

Capital allowances special rate reduction (8% to 6%)

From April 2019, the capital allowances special rate for qualifying plant and machinery assets will be reduced from 8% to 6%.

Cryptoassets Taskforce

The Cryptoassets Taskforce was launched at the International Fintech Conference in March 2018. Following extensive work by HM Treasury, the Financial Conduct Authority (FCA) and the Bank of England, the Cryptoassets Taskforce report will be published alongside the Budget. The report will set out the UK's approach to cryptoassets and distributed ledger technologies in financial services, including actions that will allow innovators to thrive and the benefits of these new technologies to be realised while at the same time mitigating the risks that arise from cryptoassets. This will ensure the UK maintains its international reputation as a financial services centre with high regulatory standards.

Artificial Intelligence and data-driven innovation

The government has already taken action to ensure the UK is at the forefront of emerging digital technologies, including through the Industrial Strategy Artificial Intelligence (AI) and Data Grand Challenge, and an AI sector deal of up to £950 million. The next steps involves the Office for AI and Government Digital Service (GDS) will review how government can use AI, automation and data in new ways to drive public sector productivity and wider economic benefits. This will feed into the innovation strategy being led by the Cabinet Office

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