

Budget 2021

What it means for you



Key points



Corporation Tax
25% rate from 2023



Personal Tax
Most allowance and bands frozen from 2021 to 2026



Investment
130% in year relief for qualifying capex



Losses
Carry trading losses back 3 years



Rates
Covid reliefs continued for 2021/22



VAT
5% hospitality rate extended, then 12.5%



Covid
Furlough and SEISS extended to September



Stamp Duty
Extension of £500k exemption to 30 June





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Foreword

In the run up to the March 2021 Budget, there were several schools of thought as to what tax announcements the Chancellor would make. Would this be a ‘big bang’ fiscal event to recover the significant spending incurred in responding to the pandemic, or would Rishi Sunak decide that now was not the time to impose significant additional taxes and instead focus on economic recovery?

What we heard was a mixture of the two. A further £65bn of COVID relief support measures were announced for the coming tax year, mainly by extending existing reliefs such as Coronavirus Job Retention Scheme (CJRS), and phasing them out later in the year. This will take total spending in respect of the pandemic to £407bn. It is easy to forget that the total spending announced at the last Budget, on 11 March 2020, was a mere £12bn.

The most significant announcement was the increase in Corporation Tax from 19% to 25% to take effect from 1 April 2023, which reverses over a decade of policies to reduce the benchmark rate. For businesses making capital investments, a new 130% relief for qualifying costs may mitigate this increase to a degree.

Businesses can also temporarily carry losses back for three years, rather than one, which may give a cashflow benefit. This move will likely raise additional tax for the government, as companies carrying back losses will receive lower rates of relief than if they obtain relief at higher future rates by carrying them forward.

In the Personal Income and Capital space, there is not much change – literally. Rates, Allowances and Bands will be frozen for the life of the current parliament which means that more people will find themselves paying tax at higher rates in future years. There were no significant announcements in some key areas of focus in recent years – Capital Gains Tax, Inheritance Tax and Pensions relief.

In these areas, we are convinced that this is not the end of the story. This Budget marks a departure from previous years in that consultations on future changes and taxes were not announced. Instead, proposals will be released on ‘Tax Day’ (23 March) ensuring they receive due attention. Therefore, in some if not all of these key areas, it may be a case of ‘watch this space’.



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Personal allowances will be increased to £12,570 for 2021-22 and the basic rate band will also be increased to £37,700. These rates will be frozen from the 2021-22 tax year until and including 2025-26. These changes will increase the higher rate threshold to £50,270 for four years. The additional rate threshold remains at £150,000.

The National Insurance Contributions Upper Earnings Limit and Upper Profits Limit will stay in line with the higher rate threshold at £50,270 for the same years. The Primary Threshold/Lower Profits Limit will increase to £9,568 for 2021-22.

Not increasing the rates with inflation should result in a higher tax take for the government over the next few years. The Chancellor excused this by saying that the take home pay of employees will not change, but that ignores the effect of possible rises in inflation on the cost of living and the expected growth of the economy. However, the Budget also included freezes in fuel and alcohol duty “to help people with the cost of living as the economy recovers”!

An extension to the CJRS or ‘furlough scheme’ was also announced to protect jobs. The CJRS is to continue until the end of September 2021. Employees will continue to receive 80% of earnings for hours not worked. Employers will be required to contribute 10% towards the cost of unworked hours in July and 20% in August and September.

Fourth and fifth Self-Employment Income Support (SEISS) grants were also announced. The fourth grant will be worth 80% of three months’ average trading profits, subject to a cap of £7,500. A 2019-20 Tax Return needs to have been filed by midnight on 2 March 2021 in order to qualify; this grant is expected to include many new to self-employment who were not previously eligible. The value of the fifth grant will be calculated according to a turnover test. Those whose turnover has fallen by 30% or more will continue to receive the full grant. For those whose turnover has fallen by less than 30%, they will receive a 30% grant capped at £2,850.



2.0 Your capital

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Buying Residential Property

The government announced that they will extend the temporary increase in the residential Stamp Duty Land Tax (SDLT) nil rate band to £500,000 in England and Northern Ireland until 30 June 2021. The devolved jurisdictions set their own rates.

From 1 July 2021, the SDLT nil rate band will reduce to £250,000 until 30 September 2021 before returning to £125,000 on 1 October 2021.

Confirming a commitment made in last year's Budget, a 2% SDLT surcharge will apply to non-UK residents purchasing residential property in England and Northern Ireland from 1 April 2021.

Following consultation on draft legislation over the summer, the government will introduce a new relief from the 15% rate of SDLT for certain qualifying housing co-operatives. The relief can be claimed for land transactions where the effective date of the transaction is on or after 3 March 2021.

To further assist first-time buyers the government will launch a scheme in which it will guarantee 95% mortgages. The scheme is intended as a temporary measure. It will be open for new mortgage applications from April 2021 to December 2022.

Inheritance Tax (IHT)

The IHT basic and residence nil rate bands will remain at their existing levels until April 2026. Freezing the basic IHT threshold until 2026 will mean that it will have remained unchanged for 17 years. The nil rate band will remain at £325,000 and the residence nil rate band will remain at £175,000. The residence nil rate band taper will continue to start at £2m. Qualifying estates can continue to pass on up to £500,000 and the qualifying estate of a surviving spouse or civil partner can continue to pass on up to £1m without an inheritance tax liability.

No mention was made of previously mooted simplifications and reforms of IHT for individuals and trusts. For those attempting estate planning, the future remains uncertain.

Capital Gains Tax (CGT)

Fears of CGT rates being aligned with income tax rates were not realised. The rates are unchanged and the Annual Exemption (the value of gains that a taxpayer can realise before paying Capital Gains Tax) will be maintained at the present level of £12,300 until April 2026. This applies for individuals, personal representatives and some types of trusts. For most trusts, the exemption is £6,150.

Pensions

The government will retain the Lifetime Allowance at its current level of £1,073,100 until April 2026. However, there was no mention of the Annual Allowance, which may indicate this could be changed in the intervening years.

Savings

Up to £5,000 of savings income can be subject to a 0% starting tax rate in certain limited circumstances. That remains unchanged for 2021-22.

The adult Individual Savings Account (ISA) annual subscription limit for 2021-22 will remain unchanged at £20,000. The annual subscription limit for Junior ISAs and Child Trust Funds for 2021-22 will remain unchanged at £9,000.

Annual Tax on Enveloped Dwellings (ATED)

As a reminder, ATED applies where enveloped residential property valued above £500,000 is held by certain non-natural persons. These include companies, partnerships with corporate partners and certain collective investment schemes. Enveloped dwellings must be revalued every five years, and the most recent valuation date was 1 April 2017. This applies to all properties owned at that date even if acquired within the previous five years.

Properties purchased after this date are valued at the purchase date. The due date for both filing returns and paying the ATED charge for 2021-22 is 30 April 2021. The ATED bands for 2021-22 are yet to be released.

Genuine business activity and property run as a business or provided to employees are excluded from the ATED charge. From 1 April 2021, housing co-operatives will also be exempt.



3.0 Your business

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Corporation Tax

From 1 April 2023, the Corporation Tax rate will increase from 19% to 25% for companies with taxable profits of over £250,000. Companies with taxable profits of £50,000 or less will see no change in their tax rate, thanks to the reinstatement of a small profits rate. Even with the increase to 25% for the largest companies, the UK's rate of Corporation Tax will remain the lowest in the G7. In line with these changes, the rate of Diverted Profits Tax will increase to 31% from 1 April 2023.

With immediate effect, the rate of capital allowances has increased. From 1 April 2021 until 31 March 2023, a 130% First Year Allowance will be available for any plant and machinery that would have otherwise qualified for relief of 18% on a reducing balance basis. Integral features, long-life assets and other special rate assets which would have qualified for capital allowances of only 6% on a reducing balance basis will benefit from a 50% First Year Allowance.

Unfortunately, any expenditure already planned before Budget Day will be excluded from this super-deduction. Companies that have already entered into contracts to buy fixed assets will be caught by anti-avoidance, and relief will be blocked where contracts have been signed before 3 March 2021, even if payments are not due and settled until after 1 April 2021.

Ordinarily, trading losses for continuing trades can only be carried back 12 months. However, a temporary extension will allow losses to be carried back three years. This will be available for both incorporated and unincorporated businesses:

- Unincorporated businesses and companies that are not members of a corporate group will be able to obtain relief for up to £2m of losses in both 2020-21 and 2021-22.
- Companies that are members of a corporate group will be able to obtain relief for up to £200,000 of losses in each of 2020-21 and 2021-22 without any group limitations. Exceptionally, they will be able to file such a claim outside of the Corporation Tax return.
- Companies that are members of a corporate group will be able to obtain relief for up to £2m of losses in each of 2020-21 and 2021-22, but subject to a £2m cap across the group as a whole. Further details on the group cap will be announced in due course.



Innovation and Talent

As previously announced, the amount of payable cash tax credit for SMEs will be capped at £20,000 plus three times the company's total PAYE and NIC liability with effect for accounting periods beginning on or after 1 April 2021. This will disadvantage companies carrying out research and development (R&D) via overseas branches. There will be an improved and modernised visa process to help the UK attract and retain the most highly skilled, globally mobile talent, as part of the government's strategy to create British jobs for British people and keep innovation in the UK.

A wide-ranging consultation has been launched on R&D reliefs, to which we will be responding.

Another consultation document has also been published on Enterprise Management Incentives (EMIs) to establish how this relief is helping employers recruit and retain talent and whether the scheme should be widened to more companies.

Brexit

The Finance Bill will repeal the EU Interest and Royalties Directive, and from 1 June 2021, all permissions, including existing letters of exemptions that companies have to pay EU companies gross, will cease to apply.

Exemption or reduction of the withholding tax on interest and royalties will now only be available under the Double Taxation Agreement with the relevant jurisdiction.

VAT and Customs Duties

The 5% reduced VAT rate for the hospitality sector has been extended for six months to 30 September 2021, followed by an interim rate of 12.5% for another six months to 31 March 2022.

The VAT registration threshold will remain at £85,000 until 31 March 2024.

Any business that took advantage of the original VAT deferral on VAT returns from 20 March to the end of June 2020 can now opt to use the VAT Deferral New Payment Scheme to pay that deferred VAT in up to 11 equal payments from March 2021, rather than one larger payment due by 31 March 2021, as originally announced.

The government will reform the penalty regime for VAT to make it fairer and more consistent. This will be points-based, and a financial penalty will only be issued when the relevant threshold is reached. The new late payment regime will introduce penalties proportionate to the amount of tax owed and how late it is paid.

Fuel duty has been frozen for the 11th year in a row, and alcohol duties frozen for the second year in a row.

Supporting Recovery

There will be an extension of the apprenticeship hiring incentive in England to September 2021, whereby employers who hire a new apprentice will receive a payment of £3,000 per new hire. This is on top of the existing £1,000 payment already made in relation to new 16 to 18-year-old apprentices and under 25s with an Education, Health and Care Plan.

New Restart Grants will provide a one-off cash grant of up to £18,000 per premises for hospitality, accommodation, leisure, personal care and gym businesses in England. Non-essential retail businesses will receive grants of up to £6,000 per premises.

A new UK-wide Recovery Loan Scheme will make available loans between £25,000 and £10m, and asset and invoice

finance between £1,000 and £10m, to help businesses of all sizes through the next stage of recovery. The scheme will be open to all businesses, including those that have already received support under the existing COVID-19 guaranteed loan schemes.

The government will continue to provide eligible retail, hospitality and leisure properties in England with 100% business rates relief from 1 April 2021 to 30 June 2021. This will be followed by 66% business rates relief for the period from 1 July 2021 to 31 March 2022, capped at £2m per business for properties that were required to be closed on 5 January 2021, or £105,000 per business for other eligible properties. A total of 750,000 retail, hospitality and leisure properties in England will pay no business rates for three months from 1 April 2021, with the vast majority of eligible businesses receiving 75% relief across the year.

Help to Grow: Management and Digital programmes will be offered by the government to upskill and help SMEs grow and transform the way they do business.

Freeports will benefit from several attractive tax reliefs such as enhanced rates of capital allowances, relief from Stamp Duty Land Tax, business rates relief and a special National Insurance relief.

Social Investment Tax Relief will be extended to April 2023.



■ Our expert team can help you understand the impact of the Budget on you and your business

To find out more please contact us.



Get in touch today to see how we can help...



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