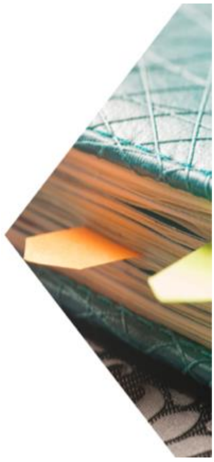

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Budget 2021

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On the 3 March 2021, the Chancellor delivered his second Budget. Please find details below of what he delivered, which have been put into sections as follows:

Section 1 – Corporate & Business Tax
Section 2 – Private Client Tax
Section 3 – Employment Tax
Section 4 – VAT
Section 5 – Real Estate & Construction Tax

1. Corporate & Business Tax

With record low corporation tax rates, it was always likely that the Chancellor would see this as an area for raising revenue, and this has proven to be the case. While the UK will still have the lowest corporate tax rate in the G7, it is more important to look at effective tax rates that take into account reliefs, allowances and other adjustments – in this respect there was also good news, with an innovative new 'super-deduction' for capital expenditure. In addition to these headline announcements, various other announcements will be relevant to businesses throughout the UK.

Corporation tax (CT) rate

The Chancellor announced that the rate of CT will increase to 25% from April 2023 where profits are in excess of £250,000. For companies with profits below £50,000, the rate will remain at 19%. There will be a tapering of the rate for companies with profits falling between £50,000 and £250,000. Close Investment Holding Companies will not be eligible for the lower rate and so will always pay CT at 25%.

Super deduction – capital allowances increase

130% first-year capital allowances for qualifying plant and machinery expenditure will be available to companies for two years from 1 April 2021, giving rise to a "super deduction" from taxable profits.

Assets that previously would have been entitled to capital allowances at the lower rate of 6% (for example integral features of a building) will be entitled to a 50% deduction for the two-year period.

Much of the expenditure eligible for this "super deduction" would have been eligible for the existing Annual Investment Allowance (AIA) of 100%. For such expenditure, the super deduction equates to a £5,700 additional corporation tax saving for every £100,000 of expenditure. Where the expenditure would not have qualified for the AIA, the benefit will be much greater.

The new rates will only apply to the purchase of new (not second-hand) equipment. Where an asset on which the super deduction has been claimed is subsequently sold, 130% of the proceeds will be included in the calculation of taxable profits for the year.

Loss relief carry-back rules extended

For two years, companies and unincorporated businesses will be able to carry back trading losses made to offset profits made in the preceding three years.

The amount of trading losses that can be carried back to the immediately preceding year will (as is currently the case) remain unlimited. After this, a maximum of £2,000,000 of unused losses will be capable of being carried back against profits of the previous two years. As this will be available for two years, a £4 million of losses may eventually be used in this way.

As far as companies are concerned, the £2 million limit will be available on a group-wide basis and will be available for accounting periods ending between 1 April 2020 and 31 March 2022. For unincorporated businesses, this will apply to losses made in 2020/21 and 2021/22.

Self-Employment Income Support Scheme (SEISS)

The Chancellor announced a further extension to SEISS to support self-employed individuals through to the end of September 2021.

The fourth grant under the scheme is designed to cover the period from February to April 2021. It was confirmed that this will be worth 80% of three months' average trading profits, with an overall cap of £7,500. The grant can be claimed from late April.

A fifth grant was also announced to cover the period from May to September 2021. The maximum grant will again be calculated as 80% of three months' average trading profits, with the same overall cap. However, the basis of this grant will be different to the previous grants, in that that the maximum grant will only be available to those whose turnover has fallen by 30% or more. Those whose turnover has fallen by less than this amount will only be entitled to receive 30% of the full amount.

Additional finance to support business recovery

With existing packages of government support coming to an end, the government announced new measures to support businesses through the next year.

It was announced that a new Recovery Loan Scheme will run from 6 April 2021. Under this scheme, the government will guarantee 80% of eligible loans made by participating banks. Businesses will be able to apply for loans even if they have received support under the existing government loan schemes, and loans from £25,000 – £10 million will be considered.

In addition to the Recovery Loan Scheme, Restart Grants will be made available for non-essential retail businesses (up to £6,000) and hospitality and leisure businesses (up to £18,000).

The Business Rates Relief holiday is to be extended for another 12 months for eligible business.

Research and development (R&D) relief

The government has announced that a review of the current R&D tax reliefs will be undertaken. They will consider several areas including the definitions, the reliefs' competitiveness, the scope of qualifying expenditure (such as cloud computing costs and purchase of datasets), and whether the schemes effectively target the right areas.

As previously announced, the government will introduce a PAYE cap on the payable tax credit in the SME R&D scheme for expenditure from 1 April 2021. The cap will be subject to certain exemptions for companies managing IP and will be set at £20,000 plus three times the client's PAYE and NIC liability.

Repeal of provisions relating to the Interest and Royalties Directive

Following the end of the Brexit transition period, UK companies no longer have the benefit of the EU Interest and Royalties Directive when they receive interest and royalties from the EU. The UK has implemented the EU Directive into UK law which currently enables payments to the EU from the UK to be made without deduction of tax. It was announced that this measure is to be repealed for payments made after 1 June 2021. This means that EU recipients no longer receive more favourable treatment than recipients based elsewhere in the world. The obligation of UK businesses to deduct withholding tax will be determined by the relevant double tax treaty with the country concerned.

Tax incentives for Freeports

A number of generous tax reliefs will be available to businesses operating within set areas within Freeports, which should begin operating from late 2021. The Freeports that have so far been announced are East Midlands Airport, Felixstowe & Harwich, Humber, Liverpool City Region, Plymouth and South Devon, Solent, Teesside and Thames.

The enhanced tax reliefs have been announced as follows:

1. A 10% rate of Structures and Buildings Allowance will be available for companies and unincorporated businesses that construct or renovation non-residential structures and buildings within Freeport tax sites. This contrasts with the standard rate of 3%.

2. An enhanced capital allowance of 100% will be available for companies acquiring plant and machinery to use in Freeport tax sites.

3. The purchase of land or property for a qualifying commercial purpose within Freeport tax sites in England will attract full relief from stamp duty land tax until 30 September 2026.

4. Full business rates relief will be available for a period of five years to all new businesses in Freeport tax sites and to certain existing businesses which expand.

5. The government intends to provide for relief from employer national insurance contributions for eligible employees in all Freeport tax sites.

Enterprise Management Incentives (EMI)

The government published a call for evidence on EMI share options, with a view to ensuring the scheme will provide the right support for high-growth companies.

A particular objective of the call for evidence is to understand whether the EMI scheme should be extended to include more companies. One frustration of the current rules is that share options cannot be granted under the scheme when the company or group has more than 250 employees at the date an option is granted. This can be particularly problematic for high-growth companies and may well be one of the issues that the government looks to address.

Tax avoidance

As is typical, several measures designed to tackle fraud and tax avoidance were flagged, with some of the key points being:

- HMRC will be setting up a ‘taxpayer protection taskforce’ to combat fraudulent CJRS and SEISS claims. 1,265 staff are to be allocated to the taskforce, with 100 of these being trained investigators.
- Various measures will be announced to target the serial promoters of abusive tax avoidance schemes. These will include measures to enable HMRC to obtain information about tax schemes at a much earlier stage and stop the promotion of an abuse scheme.
- The government will invest a further £180 million in HMRC in 2021-22, to include IT systems and to recruit new compliance staff to target tax avoidance and evasion.

Interest harmonisation and penalty reform for late submission and payment of tax

A new penalty regime will be introduced for VAT and income tax, dealing with both late submissions and late payments.

The regime for late submissions will be points-based, with penalties kicking in for each missed submission after specified points thresholds have been reached. Under the new late payment penalty regime, penalties will be charged in proportion to both the amount of tax owed and how overdue tax payments are, with “penalty interest” of 4% per annum being due on the total amount unpaid from day 31.

The government will also introduce measures to ensure that interest charges and repayment interest for VAT are aligned with other tax regimes.

For VAT, these measures will come into effect for periods starting on or after 1 April 2022, and for income tax, they will begin to be introduced for accounting periods beginning on or after 6 April 2023.

Social Investment Tax Relief (SITR)

SITR was due to expire on 5 April 2021 but the Chancellor has announced a two-year extension until 5 April 2023.

The purpose of SITR was to encourage investment in qualifying social enterprises (such as charities and community interest companies) by giving investors income and capital gains tax reliefs. In many respects, its design is similar to that of the Enterprise Investment Scheme, which gives similar tax reliefs to those who invest in qualifying businesses.

OECD reporting rules for digital platforms

Rules will be introduced – to take effect from January 2023 at the earliest – requiring certain UK digital platforms to report to HMRC information about the income of the sellers using the platform. HMRC will then exchange this information with tax authorities in the jurisdictions in which the sellers are resident. There will be a consultation during the summer on the implementation of these rules. At this stage, this measure is intended to be restricted to sellers of services, such as food delivery services, taxi hire and short-term accommodation lettings. The measure is likely to involve the operators of digital platforms collating and then verifying a significant amount of information on their sellers and providing this to HMRC in a specific format.

2. Private Client Tax

Before the Budget, it was not entirely clear how many revenue-raising measures would be announced. Capital taxes were thought to be at risk of change, due to the triple lock being in place on rates for income tax, national insurance and VAT. In the end, no significant changes were announced for personal taxes, although several consultations relating to the longer-term position are expected to be published on 23 March.

Changes to income tax bands

While income tax rates are covered by the triple lock, tax bands are not. The chancellor has taken advantage of this to announce that, while the personal allowance and higher-rate bands will be indexed from April 2021 to £12,570 and £50,270 respectively, they will be frozen for the following five years.

Capital gains tax and inheritance tax rates

No changes were announced to any of the tax rates or allowances relating to either capital gains tax or inheritance tax.

Pensions and savings tax

The starting rate for savings tax band (£5,000), the annual ISA allowances for adults (£20,000) and children (£9,000), and the pension lifetime allowance (£1,073,100) will all be frozen at current rates. The pensions lifetime allowance is, in fact, due to stay at its current level until April 2026.

3. Employment Tax

There were several employment tax measures in the Budget, with the most significant of these relating to the government’s continued support for businesses in light of the impact of Coronavirus.

Coronavirus Job Retention Scheme extension

The Coronavirus Job Retention Scheme (CJRS) was previously due to end on 30 April 2021 and has now been extended for a further five-month period to 30 September 2021.

Throughout the remaining life of the scheme, employees will continue to receive 80% of their current salary for hours not worked, and employers will continue to pay national insurance contributions (NICs) and pension contributions on the amounts employees receive. Employers will be required to make a 10% contribution towards the cost of unworked hours in July 2021, and a 20% contribution in each of August and September 2021.

Extension to income tax exemptions for Coronavirus tests and home office expenses

It was announced that employers can continue to provide – or reimburse employees for the cost of – Coronavirus antigen tests without any tax or NIC implications until 5 April 2022.

Similarly, the temporary rules which allow employers to reimburse employees for home office costs (providing certain conditions are met) without tax or NIC implications will be in place until 5 April 2022.

Increasing national insurance thresholds

NIC thresholds only increase in line with CPI in 2021/22, with the primary threshold set to increase by £1 to £184 per week, and the upper earnings limit set to increase by £5 to £967 per week.

Company vehicles benefit charges

From 6 April 2021, fuel benefit charges and the van benefit charge will increase in line with CPI.

The flat-rate van benefit charge will increase from £3,490 to £3,500; the multiplier for the car fuel benefit will increase from £24,500 to £24,600; and the flat-rate van fuel benefit charge will increase from £666 to £669.

4. VAT

As is often the case, the Budget contained various VAT-related measures that will be important to certain businesses and other organisations.

These include those described below, as well as others – such as the change in corporation tax rate, the new capital allowances super deduction, and the extension of furlough – which are covered elsewhere in our Budget analysis.

VAT reduction for the UK's tourism and hospitality sector

The temporary 5% VAT rate that applies to certain goods and services supplied within the tourism and hospitality sector, which was due to end on 31 March 2021, will continue until 30 September 2021. The rate for these supplies will only revert to the standard 20% rate on 1 April 2022, and in the meantime a 12.5% rate will apply.

Paying VAT deferred in 2020 and associated penalties

As announced previously, any business that deferred VAT payments due between 20 March and 30 June 2020 can use a further deferral scheme to pay that VAT in up to eleven equal payments from March 2021, rather than in one payment due by 31 March 2021 as would otherwise be the case. A penalty of 5% will be chargeable on the deferred VAT that is outstanding after 31 March 2021 if the business has not opted into the new deferral scheme or made an alternative arrangement to pay by 30 June 2021.

Maintain the VAT registration threshold for two years

As part of the general freezing of rates and allowances, the VAT registration threshold (£85,000) and deregistration threshold (£83,000) will remain at their current levels for a further period of two years from 1 April 2022.

5. Real Estate & Construction Tax

There were several measures and announcements which will have direct and immediate implications for the real estate and construction sector.

Stamp duty land tax holiday extension

The increase in the nil rate band threshold for SDLT on residential property transactions to £500,000 was due to end on 31 March 2021, with the threshold then falling back the previous level of £125,000. The current "holiday" has now been extended to 30 June. From 1 July, the threshold will be £250,000 until 30 September 2021, and thereafter the previous threshold of £125,000 will apply. The Chancellor has therefore removed the forthcoming cliff-edge and lessened the effects of the rates returning to normal later in the year.

Capital Gains Tax

The much-trailed raise in CGT has not materialised nor are there any new indications that this is in the pipeline.

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