Budget 2021

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Important information

The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to future change.

The information in this report is based on our understanding of Spring Budget 2021, in respect of which specific implementation details may change when the final legislation and supporting documentation are published.

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INTRODUCTION

> *"It's going to take this country a long time to recover from this extraordinary economic situation, but we will recover."*
>
> Chancellor, Rishi Sunak

The Chancellor has attempted to strike a balance between continuing to prop up the businesses worst affected by COVID-19, while setting out a roadmap to wean the UK economy off this emergency support.

In his second Budget and 14th fiscal announcement since succeeding Sajid Javid in February 2020, Sunak resisted the urge to start raising the main taxes in a bid to rebuild the UK economy and tattered public finances.

His hands, however, were somewhat tied by the Conservative election manifesto of 2019, which pledged not to raise the rates of income tax, National Insurance contributions or VAT until 2024.

Former chancellor Philip Hammond had said that, despite the manifesto pledges being made in good faith before the pandemic, not all of those commitments could sensibly be delivered on.

That's despite the financial fallout from COVID-19 over the last year being the fiscal equivalent of fighting a war, with more than £280 billion already committed towards protecting the UK economy since March 2020.

The Office for Budget Responsibility expects that figure to grow in the months ahead, especially with Sunak announcing a "fifth and final" taxable grant through the self-employed income support scheme and a further extension to the furlough scheme.

High-street shops and hospitality firms have also been handed a £5bn boost in the form of new grants worth up to £18,000 per business, while there are increased incentives for employers to take on apprentices.

The 12-month business rates holiday for firms in the retail, hospitality and leisure sectors, due to come to an end on 31 March 2021, has been extended until 30 June 2021. A reduced rate applies after.

For limited companies, the main rate of corporation tax on any profits they make will increase from 2023/24 to help pay for the COVID crisis. However, struggling businesses or those with annual profits below £50,000 will be spared.

For individuals, calls from the Office for Tax Simplification to align capital gains tax rates with income tax rates fell on deaf ears, allowing residential landlords to breathe a sigh of relief. This potential tax change might reappear in the autumn, with UK debt at its highest level since 1962.

'Stealth tax raids' arrive most notably in the form of a freeze to the lifetime allowance for pension contributions. This means more people risk a 25% levy on extra income from their pension pot, rising to 55% if they draw down a lump sum.

The personal allowance and higher-rate threshold will increase to £12,570 and £50,270, respectively, in April 2021. Beyond that, many taxpayers will be pushed into a higher income tax bracket over the next five years following Sunak's decision to freeze these thresholds until 2026.

Overall, the Chancellor is still clearly in spend mode, but with hints of what might be waiting down the road as the UK economy starts to recover and the national debt demands to be paid.

PERSONAL

Rates & allowances

The tax-free personal allowance throughout the UK will increase to £12,570 for the 2021/22 tax year. The basic-rate band will rise to £37,700, while the higher-rate threshold will rise to £50,270. The additional-rate band will remain at £150,000.

All of these thresholds will remain unchanged until 2025/26.

In Scotland, the starter rate will rise to £14,667 and the basic rate will increase to £25,296. The intermediate rate will also rise to £43,662. The top rate will remain frozen for income over £150,000.

National living wage

The national living wage now applicable to over-23s increases by 2.2% from £8.72 an hour to £8.91 an hour from April 2021.

National Insurance contributions

The threshold for class 1 primary contributions paid by employees and the class 4 national insurance contributions (NICs) paid by the self-employed will increase from £9,500 to £9,568 for the 2021/22 tax year.

From April 2021, the upper earnings limit and upper profits limit will increase from £50,000 to £50,270. At the same time, the class 2 NICs rate for the self-employed will remain at £3.05 a week for 2021/22, while the self-employed small profits threshold will rise to £6,515.

ISAs

All of the subscription limits will remain unchanged. For ISAs, this will be £20,000 and for Junior ISAs and child trust funds it will be £9,000.

Trading losses

At present, an unincorporated business, such as a sole trader or partner in a partnership, can claim to offset losses against their net income of the current or previous year, or both years.

For trading losses made in 2020/21 and 2021/22, you will be able to carry back for a period of three years, with losses being carried back against later years first. Some further restrictions apply.

Capital gains tax

The current annual exempt amount for individuals and personal representatives of £12,300 and £6,150 for trustees of settlements will be maintained at these levels for each tax year up to and including the 2025/26 tax year.

Business asset disposal relief & investors' relief

The lifetime limit on qualifying gains for business asset disposal relief will remain at £1m for 2021/22. The lifetime limit for investors' relief will also be kept at the current level of £10m. The 10% tax rate remains unchanged.

Gift holdover relief

Gift holdover relief will not be available where a non-UK resident person disposes of an asset to a foreign-controlled company, controlled either by themselves or another non-UK resident with whom they are connected. This measure will apply to disposals made on or after 6 April 2021.

Company van benefit

From 6 April 2021, the company van benefit which arises where a van is made available to an employee for private use will increase to £3,500.

Company car & van fuel benefit

The company car fuel benefit multiplier increases from £24,500 to £24,600 from 6 April 2021.

The flat rate charge for the van fuel benefit will increase from £666 to £669 from 6 April 2021.

Pension lifetime allowance

The lifetime allowance for pension savings will remain at £1,073,100 until the 2025/26 tax year.

Marriage allowance

The transferable marriage allowance will increase from £1,250 to £1,260 for 2021/22.

Inheritance tax

The individual nil-rate band will continue at £325,000 and the residence nil-rate band will also remain at £175,000. The taper threshold for the residence nil-rate band continues to start at £2m.

Social investment tax relief

The previous end date of the social investment tax relief of 6 April 2021 has been extended to 6 April 2023.

This applies to investments in qualifying social enterprises and will allow income tax relief and capital gains tax holdover relief for investors to continue.

"This government is not going to raise the rates of income tax, national insurance, or VAT. Instead, our first step is to freeze personal tax thresholds... Nobody's take home pay will be less than it is now, as a result of this policy. But I want to be clear... that this policy does remove the incremental benefit created had thresholds continued to increase with inflation."

Chancellor, Rishi Sunak

Income tax bands & rates – England, Northern Ireland & Wales

Band	2021/22	Rate	2020/21	Rate
Personal allowance	Up to £12,570	Nil	Up to £12,500	Nil
Basic-rate	Over £12,570 - £50,270	20%	Over £12,500 - £50,000	20%
Higher-rate*	Over £50,270 - £150,000	40%	Over £50,000 - £150,000	40%
Additional-rate*	Above £150,000	45%	Above £150,000	45%

*The personal allowance is reduced by £1 for every £2 of income from £100,000 to £125,140.

BUSINESS

Corporation tax

The main rate of corporation tax will remain at 19% for the financial years beginning 1 April 2021 and 1 April 2022.

From 1 April 2023, the main rate will increase to 25% on profits over £250,000.
A small profits rate will be introduced for companies with profits of £50,000 or less, which will continue to be charged at 19%. It will not be available to close investment-holding companies. Companies with profits between £50,000 and £250,000 will pay tax at the main rate, but this will be reduced by a marginal relief creating a tapered corporation tax rate.

The lower and upper limits will be proportionately reduced for short accounting periods and where there are associated companies, while the related 51% group company test will also be repealed and replaced by associated company rules.

These rules will also be used in determining whether a company is large or very large for quarterly instalment payment purposes, or for assessing whether a company can use the small claims treatment for the patent box, and so on.

'Super deduction'

From 1 April 2021 until 31 March 2023, companies investing in new qualifying plant and machinery will benefit from a 130% first-year capital allowance. This 'super deduction' might allow companies to cut their tax bill by up to 25p for every £1 invested.

The rate of the super deduction will require apportioning if an accounting period straddles 1 April 2023.
Additionally, a 50% first-year capital allowance will be available for qualifying special-rate assets. Certain exclusions will apply including used and second-hand assets.

New disposal rules will apply to assets that have claimed these allowances.

Disposal receipts should be treated as balancing charges, instead of being taken to pools and, for assets claimed under the super deduction, the disposal value for capital allowance purposes should take the disposal receipt and apply a factor of 1.3, except where disposals occur in accounting periods straddling 1 April 2023 resulting in a lower factor.

Corporation tax loss relief

The corporation tax trading loss carry-back rule will be temporarily extended from the existing one year to three years. This measure will cover company accounting periods ending in the period 1 April 2020 to 31 March 2022.

After the loss has been carried back to the preceding year, a maximum of £2m of unused losses will be available to carry back against profits of the same trade to the earlier two years. This £2m cap applies separately for both 2020/21 and 2021/22.

Companies that are members of a group will be able to obtain relief for up to £200,000 of losses in both 2020/21 and 2021/22 without any group limitations. Companies that are members of a group will be able to obtain relief of up to £2m of losses in 2020/21 and 2021/22, but subject to a £2m cap across the group as a whole.

Research & development relief

The amount of the SME payable R&D tax credit that a company can receive in any one year will be capped at £20,000, plus three times the company's total PAYE and NICs liability. This measure will apply to accounting periods beginning on or after 1 April 2021.

Annual investment allowance

The current temporary £1m annual investment allowance (AIA) limit in respect of capital allowances remains in place for one year from 1 January 2021.
The AIA will reduce to £200,000 on or after 1 January 2022.

Transitional rules will apply to the AIA limit where a business has an accounting period that spans 1 January 2022.

Hiring new apprentices

Employers who hire a new apprentice between 1 April 2021 and 30 September 2021 will receive £3,000 per new recruit.

Employer reimbursed COVID-19 tests and home office expenses

The income tax and NICs exemption for COVID-19 antigen tests provided, or reimbursed by, an employer, along with employer reimbursed expenses covering the cost of home office equipment will be extended to the 2021/22 tax year.

Enterprise management incentive (EMI)

Employers can continue to issue new EMI share options to individuals who have been furloughed, have taken unpaid leave or have had their working hours reduced below the current statutory working time requirement for EMI as a result of COVID-19. EMI participants must ordinarily meet a minimum working time commitment of 25 hours per week or 75% of working time. This relaxation will apply until 5 April 2022.

Diverted profits tax

In line with the increase in the main rate, the diverted profits tax rate will rise to 31% from 1 April 2023, in order to continue to act as a deterrent against diverting profits out of the UK.

Tax sites in freeports

The Government will legislate for powers to create tax sites in freeports in Great Britain, and bring forward legislation to apply this in Northern Ireland at a later date. Businesses in these tax sites will benefit from tax reliefs, including:

- Enhanced 10% structures and buildings allowance rate for constructing or renovating non-residential structures and buildings in Great Britain.
- Enhanced capital allowance of 100% for investing in plant and machinery, applying to main and special rate assets in Great Britain.
- Full relief from stamp duty land tax on land and property within freeport tax sites in England purchased and used for qualifying commercial purposes.
- Full business rates relief in freeport tax sites in England, applying for five years from the point at which each beneficiary first receives relief.
- Subject to parliamentary approval, employer NICs relief for eligible employees in freeport tax sites from April 2022.

Further rules and restrictions will apply to the various reliefs.

Interest & royalties

From 1 June 2021, payments of interest and royalties made by UK companies to companies resident in EU member states will cease to benefit from UK withholding tax exemptions. It will instead be governed by the respective double taxation treaty between the two countries.

VAT

Extended VAT discount for hospitality

The current 5% VAT rate for the hospitality sector, holiday providers and attractions will be extended by six months to 30 September 2021. This was due to expire on 31 March 2021.

Perhaps more surprising was the introduction of a new 12.5% rate to cover supplies with a tax point between 1 October 2021 and 31 March 2022.

This intermediate rate is to ease these businesses back to the application of the standard rate of VAT on their supplies.

Unpaid VAT sanctions

New sanctions were announced for late payment of VAT and failure to submit returns.

The new rules will replace the current default surcharge regime. Where VAT has been paid late for VAT return periods beginning on or after 1 April 2022, the following penalty regime will apply:

- No penalty for payments made within 15 days of the due date
- 2% of the tax outstanding for payments made after day 15 but within 30 days
- 4% of the tax outstanding for payments made after day 30

An additional penalty will be applied on a daily basis at an annual rate of 4% from day 31 on the tax that remains outstanding.
A time-to-pay arrangement will stop the penalties as the tax is treated (for penalty purposes) as being paid on the day the arrangement is proposed to HMRC, although interest will still be charged.

Points-based VAT sanctions regime

New rules will be introduced where a taxpayer fails to submit VAT returns. These will again apply to VAT return periods beginning on or after 1 April 2022. Taxpayers will accumulate points in respect of the number of failures to submit returns or tax information.

A penalty of £200 will be applied when specific thresholds are exceeded and for every failure to submit thereafter. The thresholds will be:

- Two points for annual VAT returns
- Four points for quarterly VAT returns
- Five points for monthly VAT returns

There will be adjustments to the points system for circumstances where a business changes the frequency of its VAT return submissions.

With each failure, the taxpayer will incur one point. These individual points will expire after 24 months unless the thresholds have been breached.

If the threshold has been breached, the taxpayer will have to meet specific compliance conditions before their points will be reset.

> *"Many struggling hospitality businesses will welcome this extension... We now think the Government should go on to take a closer look at the complicated and often confusing rules which govern how VAT is charged on food and drink."*
>
> – Jeremy Coker,
> Association of Tax Technicians

Deferred VAT payments

When COVID-19 first hit, the Government allowed businesses to defer payment of VAT returns due between 20 March 2020 and 30 June 2020. Originally, this VAT was due to be paid back by 31 March 2021.

Businesses will be able to spread the payment of this VAT over a maximum of 11 monthly payments. However, the business itself must apply to spread the cost and it cannot be done by an accountant or adviser.

Taxpayers can sign up through their online account and they have until 21 June 2021 to do so, though the later they wait, the fewer payments they can make. The new legislation will also introduce a new penalty of 5% if payment is not made by 30 June 2021 and the taxpayer has not opted into the scheme to spread payment by that time, or otherwise entered into an agreement with HMRC.

Making Tax Digital (MTD)

MTD will soon apply to all VAT-registered businesses. From 1 April 2022, businesses which are VAT-registered but below the VAT-registration threshold will have to keep their VAT records digitally and submit their VAT return via MTD-compatible software.

VAT thresholds

The VAT-registration threshold will be maintained at £85,000 for a further two years from 1 April 2022. On this basis, the VAT-registration and deregistration threshold will remain unchanged until at least 31 March 2024.

Main VAT rates	From 1 April 2021	2020
Standard rate	20%	20%
VAT fraction	1/6	1/6
Reduced rate, eg on domestic fuel	5%	5%
VAT fraction	1/21	1/21
Temporary reduced rate (hospitality sector, 1 October 2021 – 31 March 2022)	12.5%	N/A
VAT fraction	1/9	N/A

Taxable turnover limits	From 1 April 2021	2020
Registration over*	£85,000	£85,000
Deregistration under**	£83,000	£83,000

* Last 12 months or next 30 days

** Next 12 months

COVID-19

Recovery loan scheme

The recovery loan scheme ensures businesses can access loans and other finance of up to £10m per business once existing COVID-19 loan schemes close. The Government guarantees 80% of the finance to the lender. The scheme launches on 6 April 2021 and is open until 31 December 2021. Finance terms are up to six years for term loans and asset finance facilities and up to three years for overdrafts and invoice finance facilities. No personal guarantees will be taken on facilities up to £250,000, and a borrower's principal private residence cannot be taken as security.

Businesses that have received support under existing COVID-19 guaranteed loan schemes will still be eligible to access this scheme.

Furlough scheme

The Government is extending the furlough scheme until the end of September 2021.

Employees will continue to receive 80% of their current salary for hours not worked with no employer contribution beyond NICs and workplace pensions required in April, May and June 2021.

From July 2021, the Government will introduce an employer contribution towards the cost of unworked hours of 10% in July 2021, 20% in August 2021 and 20% in September 2021.

Restart grants

Non-essential retail businesses in England will be eligible for grants of up to £6,000 per premises, while hospitality, accommodation, leisure, personal care and gym businesses may get up to £18,000.

Business rates

Eligible retail, hospitality and leisure properties in England will continue to benefit from 100% relief until 30 June 2021.

The relief will be reduced to 66% from July 2021 until the end of March 2022 with a cap of £2m per business for properties required to close on 5 January 2021 or £105,000 for other eligible properties.

Self-employment income support scheme (SEISS)

The Government confirmed that the fourth SEISS grant will be worth 80% of three months' average trading profits, paid out in a single instalment and capped at £7,500 in total.

It will cover the period from February to April 2021 and can be claimed from late April. Self-employed individuals must have filed a 2019/20 tax return through self-assessment by midnight on 2 March 2021 to be eligible for the fourth grant.

A "fifth and final" SEISS grant will cover May to September 2021. Those whose turnover has fallen by 30% or more will receive the full grant worth 80%, capped at £7,500. Those whose turnover has fallen by less than 30% will receive a 30% grant, capped at £2,850. The final grant can be claimed from late July. Following the extension of the SEISS into the 2021/22 tax year, grants will now be included as income in the tax year in which they are received.

The rule will continue not to apply to any payments made to a partner distributed across the partnership, which is treated as income of the partnership.

A further extension of legislation will be applied to raise a tax charge equivalent to the amount of a SEISS grant to be recovered, where entitlement expired.

Statutory sick pay (SSP)

Small and medium-sized employers across the UK will be able to continue claiming up to two weeks of eligible SSP costs per employee. No closure date has been announced.

OTHER ANNOUNCEMENTS

Stamp duty land tax (SDLT)

Due to COVID-19, the Chancellor previously announced a temporary increase to the nil-rate band for residential property before SDLT was due, from £125,000 to £500,000, for the period 8 July 2020 to 31 March 2021.

Budget 2021 announced a staged withdrawal of this measure by extending it to 30 June 2021, then introducing a nil-rate band of £250,000 from 1 July 2021 to 30 September 2021.

This will apply to transactions in England and Northern Ireland with an effective date between 1 April 2021 and 30 September 2021.

Mortgage guarantee scheme

A new mortgage guarantee scheme will apply from April 2021, providing a guarantee to lenders across the UK who offer mortgages to people with a deposit of just 5% on homes with a value of up to £600,000. The scheme will be available for new mortgages up to 31 December 2022.

Late payments & late submissions

A new points-based penalty regime is coming in for regular tax return submission obligations, which will replace the existing penalties for VAT, income tax and self-assessment.

Those who persistently do not comply by missing filing deadlines will be issued fixed financial penalties of £200 once a points threshold has been breached. If they continue to miss submission deadlines after this point, they will become liable for a further fixed-rate penalty for each additional missed obligation.

The late-payment penalty regimes across the main taxes will also be aligned, with the new late-payment penalty consisting of two separate charges.

As was previously the case, a taxpayer will not be liable to a point or penalty if they had a reasonable excuse for late filing, and will have a right to appeal against both points and penalties.

Duties

Fuel duty and short-haul air passenger duty remain unchanged, as do alcoholic duties for beer, cider, wine and spirits.

Landfill tax

Landfill tax is charged in England and Northern Ireland on material disposed of at a landfill site. Standard and lower rates are being increased on 1 April 2021 to £96.70 per tonne and £3.10 per tonne, respectively.

Vehicle excise duty (VED)

The Government has announced VED rates for cars, vans and motorcycles will increase in line with the Retails Prices Index (RPI) from 1 April 2021.

Red diesel

From 1 April 2022, the use of red diesel and rebated biofuels will be restricted to qualifying purposes only. The measure is aimed at incentivising business to move to more energy-efficient alternatives.

Tobacco duty

The rates of duty previously announced will be consolidated into Finance Bill 2021, increasing the duty rates on all tobacco products by RPI plus 2% and on hand-rolling tobacco products by RPI plus 6% with effect from 16 November 2020.

Gaming duty

Gross gaming yield bands for gaming duty will increase in line with inflation from 1 April 2021.

Aggregates levy

The Government will freeze the aggregates levy rate for 2021/22, but intends to return to index-linking in future.

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