The Spring Budget 2021

Your guide to the Budget by Morgan Reach

Introduction

The Chancellor, Rishi Sunak, has delivered another UK Budget, in the midst of a significant economic downturn due to the pandemic, but with hope on the horizon as the roll out of the COVID-19 vaccination program gathers pace.

Here are some of the main Budget announcements in relation to taxation and in respect of the Coronavirus crisis.

Furlough Scheme

The furlough scheme to help employers and employees alike, which was due to finish at the end of April, has now been extended until the end of September 2021. Employers will be expected to contribute to f urlough pay from July (10%) and August and September (20%).

Self-employed income Support Scheme

The third round of Government support for the self-employed under the UK Self Employed Income Support Scheme (SEISS), covered the three months up to the end of January 2021. The Chancellor has now announced further assistance under SEISS covering the period up to 30th September 2021.

A fourth grant, covering the period February to April, will provide three months of support at 80% of average trading profits. The fifth and final grant, from May onwards, will be more targeted. People whose turnover has fallen by 30% or more will continue to receive the full 80% grant. Those whose turnover has fallen by less than 30% will receive a 30% grant.

Those who missed out on the SEISS because they only commenced self-employment during the 2019//20 tax year may now be eligible for the fourth and fifth grant. This is as long as they have submitted their 2019/20 Tax Return by midnight on 2nd March 2021.

Both Scotland and Northern Ireland have provided additional financial assistance, through their own version of SEISS, for those self-employed people in their countries who may not have met the eligibility criteria for the UK SEISS.

New Restart Grant (England)

Non-essential retail businesses will receive grants of up to £6,000 per premises.
Hospitality and leisure businesses, including personal care and gyms, will open later, or be more impacted by restrictions when they do, so they may be eligible for grants of up to £18,000.

Personal Allowances

It is important to note that the tax rates and thresholds are complicated by the fact that the power to vary the tax rates and thresholds of Non-Savings, Non-Dividend income for Scottish taxpayers have been devolved to the Scottish Parliament since April 2017. With the exception of the tax thresholds, similar powers have been passed over to the National Assembly of Wales since April 2019 in respect of Welsh resident taxpayers. The Income Tax Personal Allowance and all other elements of the Income Tax system remain part of the Chancellor's responsibility.

With this in mind, from April 2021 the Personal Tax Allowance (PTA) will increase to £12,570 and this is for all UK taxpayers. The PTA will remain at this level until April 2026.

The phased withdrawal of the personal allowance remains at £100,000 with it being fully removed once the income has reached £125,140.

Top Tip - it is always worth considering if there is any action which can be taken to ensure individual income is below this £100,000 threshold, as the effective tax rate for the £25,140 above this threshold is 60% or 61% (Scotland).

Income Tax Rate Bands for taxpayers in England, Wales and Northern Ireland

Starting rate for savings will remain at £5,000.

Once the individual's Personal Tax Allowance has been exceeded the balance is then taxed as follows:-

Rest of UK Income Tax Rates 2021-22

Band	Rate
£0 to £37,700	20%
£37,701 to £150,000	40%
Over £150,000	45%

The tax rate bands will remain the same until April 2026. The Welsh and Scottish Parliaments are able to change the income tax rates and thresholds on non-savings, non-dividend income in respect of Scottish and Welsh taxpayers. The Welsh Parliament, to date, has yet to do so.

The proposed 2021/22 Income Tax rates and thresholds on non-savings, non-dividend income for Scottish taxpayers set by the Scottish Parliament are:

Scottish Income Tax Rates 2020-21

Band	Rate
£0 to £2,097	19%
£2,098 to £12,726	20%
£12,727 to £31,092	21%
£31,093 to £150,000	41%
Over £150,000	46%

It is worth noting that the Dividend Allowance remains at £2,000 and the taxable rates on dividend income remain the same;

Band	Rate
Dividend ordinary rate	7.5%
Dividend upper rate	32.5%
Dividend additional rate	38.1%

Marriage Allowance

The Marriage Allowance which individuals can transfer to their spouse or civil partner, where the recipient is not a higher rate or additional rate taxpayer and they are not in receipt of the married couple's allowance, increases to £1,260.

It is possible for a claim for the Marriage Allowance to be made in respect of a deceased spouse or civil partner and for that claim to be backdated for up to four years.

National Insurance

The annual National Insurance (NI) threshold for an individual where they start to pay NI on their earned income has been increased to £9,568 (£797 per month) from 6th April 2021. For a typical employee, liable to 12% Class 1 NI, this will result in an annual saving of £8 and for a self-employed person, liable to 9% Class 4 NI, the saving will be £6. The point at which the national insurance rate drops to 2%, known as the Upper Earnings Limit, will increase to £50,270. The employers annual NI threshold has only increased in line with inflation to £8,840 (£737 per month).

The temporary COVID-19 Income Tax and Class 1 National Insurance contributions (NICs) exemption for employer reimbursed expenses that cover the cost of relevant home-office equipment has been extended until 5th April 2022.

Top Tip – it is strongly advised you should review your NI records at least every 5 years, whilst it is fresh in your memory bank, to ensure they are correct and up to date. National Insurance contributions protect your rights to certain state benefits and contribute to calculating your state pension. We are happy to carry out this review for you

Top Tip – from April 2021, if an employer takes on a person who has been in the armed forces (minimum 1 day of basic training), they may not have to incur employers National Insurance in respect of the first 12 months' salary paid to that employee. An element of this National Insurance relief may still be available if the employment started within 12 months of 6th April 2021

Inheritance Tax

The tax rates and nil rate band for Inheritance Tax purposes remain the same until April 2026. The nil rate band at £325,000 and the residence nil rate band (RNRB) at £175,000 (the commencement of the tapering off of the RNRB remains at £2 million).

Top Tip – do you know the value of your Estate for Inheritance Tax purposes? Remember the tax on death, after taking account of reliefs and exemptions, is at 40%. With planning you can potentially mitigate that liability and pass more of your assets over to your loved ones rather than HMRC. Please contact us for an Inheritance Tax review

ISA's and Child Trust Funds

The ISA subscription limit from April 2021 will remain at £20,000. The annual subscription limit for Junior ISAs and Child Trust Funds (CTF) will also stay at £9,000 each for the 2021/22 tax year.

Top Tip – the Government paid between £500 and £1,000 into a CTF for those children born between 1.9.2002 and 2.1.2019. The CTF can be legally accessed when the child reaches the age of 18. It is believed that over 2 million fund holders are unaware of the CTF existence. Do you know anybody who fits the eligibility criteria?

Company Taxation

The Corporation Tax (CT) rate is to remain at 19% until 31st March 2023. From 1 April 2023, the Corporation Tax main rate for non-ring fenced profits will be increased to 25% applying to profits over £250,000. A small profits rate (SPR) will also be introduced for companies with profits of £50,000 or less so they will continue to pay Corporation Tax at 19%. The small profits rate will not apply to close investment-holding companies. Companies with profits between £50,000 and £250,000 will pay tax at the main rate reduced by a marginal relief providing a gradual increase in the effective Corporation Tax rate. The lower and upper limits will be proportionately reduced for short accounting periods and where there are associated companies.

An enhanced temporary 130% first year allowance is to come into play from 1st April 2021 for companies who invest in new plant and machinery (P&M) which ordinarily qualifies for the 18% main rate of writing down allowance (WDA) for capital allowance purposes. An enhanced first year allowance of 50% will also apply from 1st April 2021 on investment into new plant and machinery which would ordinarily qualify for 6% WDA. Certain expenditure will be excluded, such as in respect of second-hand plant and machinery, cars and on the provision of plant and machinery for leasing. This temporary allowance will remain in place until 31st March 2023.

Large multinational enterprises with business activities in the UK who enter into contrived arrangements to divert profits from the UK by either avoiding a UK taxable presence or by other arrangements, or both, will find that the diverted profit tax will increase from 25% to 31% from April 2023.

The standard and lower rates of Landfill Tax will increase in 2021 in line with the Retail Prices Index rounded to the nearest 5 pence. This impacts upon operators of landfill sites in England and Northern Ireland. The devolved Welsh and Scottish Parliaments set their own rates.

Top Tip – There are a number of different ways to legitimately mitigate your Corporation Tax liability, for example, maximising your capital allowances position, claiming Structural Buildings Allowance, Research & Development tax relief/allowance or the Patent Box relief or by way of maximising the pension opportunities for directors/employees. We are happy to offer a pre-year-end review to ensure that these types of opportunities are not missed.

Corporate losses – Trading losses

This relates to company accounting periods ending in the period 1st April 2020 to 31st March 2022.

The amount of trading losses which can be carried back to the preceding year remains unlimited for companies. After carry back to the preceding year, a maximum of £2,000,000 of unused losses will be available for carry back against profits of the same trade to the earlier 2 years. This £2,000,000 limit applies separately to the unused losses of each 12 month period within the two year period ended 31st March 2022.

Self-employed – Trading losses

This relates to trading losses made by unincorporated businesses in tax years 2020/2021 and 2021/2022. Trade loss carry back will be extended from the current one year entitlement to a period of 3 years, with losses being carried back against later years first.

The amount of trading losses that can be carried back by individuals to set against profits of the preceding year remains unlimited. The current restrictions to carry back losses from a trade against general income will remain.

A separate £2,000,000 cap will apply to the extended carry back of losses made in each of the tax years 2020/2021 and 2021/2022.

Top Tip – There are already a number of different ways to utilise trading losses, not just against trading profit for tax purposes but also for mitigating Class 4 National Insurance. One should look at not only this option in respect of the utilisation of losses but also review the rules for losses arising in the first four years of trading as well as terminal loss on cessation of the business. We can help you review the most appropriate option.

Employment Allowance

The Employment Allowance, which can be set off against the employer's National Insurance liability, will remain at £4,000 from April 2021.

Research and Development (R&D) and Patent Box

The 230% R&D tax relief on expenditure incurred in respect of R&D work remains in place as does the 100% R&D allowance on capital expenditure incurred on cost of a building used for R&D purposes.

The 10% Corporate Patent Box relief in respect of profits arising from a patent you hold or where you have an exclusive licence over it has also been untouched.

The Government has opened up a consultation to look into how best to incentivise innovative companies.

Top Tip – If you are a company which is creating, developing or enhancing a product, whatever it might be, then you may be entitled to the R&D tax relief. Potentially you can go back 2 accounting periods. It could be any business sector (for example - software, clothing, manufacturing, engineering, marine, aerospace, rail, cosmetics, packaging, construction, medical devices, pharmaceuticals etc.). Please contact us if you would like to see whether you eligible or not.

VAT

The taxable turnover threshold for determining whether a person must register for VAT will remain at £85,000 and the point at which a person can apply to deregister will also remain at £83,000 until 31st March 2024. The temporary VAT rate cut from 20% to 5% for the hospitality, hotel and accommodation sectors which was due to finish on 31st March 2021 has now been extended for a further six-month period at 5% until 30th September 2021.
A new reduced rate of 12.5% will then be introduced which will end on 31st March 2022.

Top Tip – if you have voluntarily registered for VAT, starting from April 2022, you will be required to keep digital records and, using compatible software, digitally file VAT Returns. If you are not already doing this, it would be wise to prepare for these changes now rather than leave it to the last minute.

Stamp Duty Land Tax (SDLT)

The present Stamp Duty Land Tax (SDLT) COVID-19 concession which affects house purchases in England and Northern Ireland was due to come to an end on 31st March 2021. This has now been extended until 30th June 2021. This means that the first £500,000 (previously £125,000) of a residential property purchase will continue to attract a standard SDLT rate of 0%. For the period 1st July 2021 to 30th September 2021 the first £250,000 will be a 0%. After that date SDLT rate at 0% will revert back to pre-COVID-19 times on the first £125,000.

The 3% SDLT surcharge when acquiring a second residential property remains as it is.

A non-UK resident purchasing a residential property in England or Northern Ireland will, from 1st April 2021, be charged a further 2% SDLT above and beyond what a UK resident person would pay.

It was announced in the Scottish Budget in January, that their Land and Buildings Transaction Tax (LBTT) COVID-19 concession, regarding residential property purchases, will end on 1st April 2021. Unless the purchaser is a first time buyer, the LBTT rate of 0% will revert back to the first £145,000 (presently £250,000).

Wales Land Transaction Tax (LTT) COVID-19 concession for residential purchases will also finish on 1st April 2021. The LTT rate of 0% will go back down to £180,000 (presently £250,000). Note that the LTT threshold of £180,000 has always been in place where the purchaser is acquiring a second home or buy to let property in Wales.

Top Tip – On many occasions when acquiring either commercial or residential properties, the incorrect amount of SDLT (England and Northern Ireland), Land Transaction Tax (Wales) and Land and Buildings Transaction Tax (Scotland) is paid over. If you would like our Land Transaction Tax specialist to review the property acquisitions, which have taken place over the past 12 months, please contact us. If they believe a refund is due they are happy to carry out the claim on a 'no win no fee' basis.

Pensions

The pension lifetime allowance limit (PLTA) normally increase in line with the consumer price index. However, the Chancellor has decided to freeze the PLTA at £1,073,100 until April 2026. Any excess attracts a tax charge of 25% if it is withdrawn as an income (for instance from an annuity or a drawdown arrangement) or 55% if it is withdrawn as a cash lump sum.

When calculating whether or not an individual is liable to suffer a pension tax charge the two threshold criteria will remain in line with the present tax year. The threshold income limit will be £200,000 and the adjusted income limit will rise to £240,000.

Top Tip – It is worth having an annual pension review, to ensure you maximise the use of all the pension allowances which may be available to you and to do so in the most tax efficient way. Also it is important to check that you have not breached the very onerous lifetime allowance pension limit nor the pension tax charge itself. We are happy to carry out this review for you.

Capital Gains Tax

The annual exempt amount for individuals for gains on the disposals of assets will remain at £12,300 until April 2026. As regards Trusts and Personal Representatives the exemption will also be frozen at £6,150 until April 2026.

From 6th April 2021, Gift Hold-Over 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.

Top Tip – if you dispose of a residential property which triggers a Capital Gains Tax liability, you will need to fill in a Capital Gains Tax Return within 30 days of completing on the sale and pay the tax over at the same time. Failure to do so could result in penalties being imposed. We have a Residential Property Review Service which can deal with the Return and the tax calculation, ensuring that all the relevant reliefs and exemptions, where applicable, are claimed. As part of the service we can also provide pre and post-sale tax advice.

Help to Grow Scheme

This scheme aims at helping SMEs (small and medium enterprises) to become more productive by providing access to some of the UK's top business schools.
Businesses will receive expert technology advice and discounted software, with the aim to spark innovation as the UK plots its recovery out of the pandemic. It will aim to help businesses to save time, reduce costs, and reach more customers. Eligible SMEs will also be given vouchers to get up to 50 per cent off the purchase of new productivity-enhancing software, up to £5,000 each.

Community Ownership Fund (COF)

The Government is setting up a £150 million Community Ownership Fund to enable community groups to for up to £250,000 to help them take over struggling pubs in their local area.

The COF will also provide funds to local people to buy into endangered sports clubs, sports grounds, theatre s, music venues and post office buildings that have been hit hard by the pandemic. In exceptional cases, up to £1 million matched funding will be available.

Business Rates (England)

Business rates in Northern Ireland, Scotland and Wales are set by the devolved Governments.
Eligible businesses in the retail, hospitality and leisure sectors will continue to receive a 100% business rates holiday for the first three months through to the end of June.
For the remaining nine months of the year, business rates will still be discounted by two thirds, up to a value of £2 million for closed businesses, with a lower cap for those who have been able to stay open.

Low Deposit Mortgage Guarantee Scheme

Rishi Sunak has announced that the Government will back a new 95% mortgage scheme which aims to help people with low deposits to purchase a residential property. It relates to property purchases of up to £600,000. It is not linked solely to first time buyers or restricted to new build homes.

Green policies

Rishi announced the first ever UK Infrastructure Bank. Located in Leeds, the Bank will invest across the United Kingdom in public and private projects to finance the green industrial revolution.
Beginning this spring, it will have an initial capitalisation of £12 billion and is expected to support at least £40 billion of total investment in infrastructure.

Traineeships (England)

Currently, businesses in England are given £2,000 for every new apprentice they take on under the age of 25, and £1,500 for those over 25. The cash incentives for employers who take on an apprentice will increase to £3,000 - regardless of age.

Van benefits

Vans which emit CO_2 emissions - benefit charge will be £3,500 for 2021/22 (£3490 - 2020/21)). Van fuel benefit charge £669 (2020/21 - £666).
Vans which emit **no** CO_2 emissions – zero benefit charge for 2021/22 (£2,792 – 2020/21) Van fuel benefit charge is zero.

Top Tip – the Court of Appeal recently found in favour of HMRC that certain 'vans' were, for tax purposes deemed to be 'cars'. By winning the case, it significantly increased the tax and national insurance burden on both the company and the employees concerned. In light of this ruling, is it worth reviewing the tax position regarding your company 'vans'?

Car benefits

The car benefit charge is broadly calculated by applying a certain percentage to the list price of the car. That 'percentage' can be based upon a number of factors, such as when the car was first registered, the CO_2 emissions emitted and whether it is a petrol, diesel, electric or hybrid car. That 'percentage' has been increased by 1% for the 2021/22 tax year.

From 6th April 2021 the car fuel benefit multiplier will increase to £24,600 (from £24,500).

Top Tip – if you are considering your options regarding a company car, leasing or purchasing a vehicle or taking a cash allowance from your business for mileage, why not ask us to review the most cost effective option for you?

Top Tip – if you are using your own electric car for business, you can claim 45p per mile for business mileage. If it is a company electric car then you can claim 4p per mile for business mileage.

Car Tax

Vehicle Excise Duty (VED) rates will be increased from 1st April 2021 in line with the Retail Price Index (RPI).

Fuel duty is to be frozen for the 10th year in a row. Fuel duty is a tax on fuel and currently stands at 57.95p per litre of petrol, diesel, biodiesel and bioethanol.

Top Tip – the VED rates for fully electric vehicles have been reduced to nil until at least 2025. Where the vehicle costs exceed £40,000 there is no VED expensive car supplement.

Capital Allowances for business cars

The existing 100% First Year Allowance (FYA) for low CO_2 emission cars, zero emission goods vehicles and equipment for gas refuelling stations will be extended to April 2025. The CO_2 emission threshold for First Year Allowance will be reduced in April 2021 from 50g/km to 0g/km. The CO_2 emission threshold for business cars entitled to main rate capital allowances (18%) will be reduced from 100g/km to 50g/km, with those cars exceeding these limits only entitled to special rate allowances of 6%.

The new 50g/km threshold will also apply from April 2021 to the lease rental restriction where business cars are leased for more than 45 consecutive days.

A new penalty regime for late Returns

A new penalty regime is to be phased in over the next few years where there has been a late submission of Tax Returns based upon a points system. Once a point's threshold has been reached a fixed penalty of £200 will be imposed.

This penalty will come into effect from:

- VAT taxpayers for accounting periods beginning on or after 1st April 2022

- Income Tax Self-assessment (ITSA) taxpayers with business or property income over £10,000 per year (who are required to submit digital quarterly updates through Making Tax Digital(MTD) for ITSA) for accounting periods beginning on or after 6th April 2023, and to all other ITSA taxpayers for accounting periods beginning on or after 6th April 2024.

Top Tip – if you are a taxpayer who will need to be MTD compliant either from April 2022 or April 2023, now is the time to ensure that your records are kept digitally and that you have HMRC compatible software to digitally file your Returns at the appropriate time. We are happy to give you advice and training in this respect.

Airport Duty Rates

The long haul rates of Air Passenger Duty for the tax year 2022 to 2023 will increase in line with the Retail Price Index as forecast at Budget 2021. Short haul rates will not rise.

Wine, Cider and Beer Duty

This has been frozen for the second year running.

HMRC Civil Information Powers

A new Financial Institution Notice (FIN) will be introduced that will be used to require financial institutions to provide information to HMRC when requested about a specific taxpayer, without the need for approval from the independent tribunal that considers tax matters.

Freeports

The Chancellor announced the location of 8 Freeport sites in England where businesses can benefit from tax reliefs such as capital allowances, Structural Buildings allowance, tariffs and land taxes, to incentivise investment and boost employment.

The intention is to roll this out across the whole of the UK.

Recovery Loan Scheme

The Recovery Loan Scheme ensures businesses of any size can continue to access loans and other kinds of finance up to £10 million per business once the existing COVID-19 loan schemes close, providing support as businesses recover and grow following the disruption of the pandemic and the end of the transition period.
The government guarantees 80% of the finance to the lender to ensure they continue to have the confidence to lend to businesses.
The scheme launches on 6th April and is open until 31st December, subject to review. Loans will be available through a network of accredited lenders, whose names will be made public in due course.

- Term loans and overdrafts will be available between £25,001 and £10 million per business.

- Invoice finance and asset finance will be available between £1,000 and £10 million per business.

Finance terms are up to six years for term loans and asset finance facilities. For overdrafts and invoice finance facilities, terms will be up to three years.
No personal guarantees will be taken on facilities up to £250,000, and a borrower's principal private residence cannot be taken as security.

Universal Tax Credits (UTC)

The COVID-19 concession of an extra £20 a week for UTC claimants has been extended until 30th September with those claiming working tax credits receiving a one-off additional payment of £500.

Increased funding for the Devolved Governments

Through the Barnett formula, there is increased funding for the devolved administrations by:
£1.2 billion in Scotland;
£740 million in Wales;
And £410 million for the Northern Ireland executive.