



**UK BUDGET 2021**  
**Changes that may affect**  
**you and your business**

## Budget 2021

The Chancellor Rishi Sunak presented his second Budget on Wednesday 3 March 2021. Against the backdrop of COVID and a 10% contraction in the economy, he set out a three step plan to ‘...protect the jobs and livelihoods of the British people’.

The Budget introduced a new super deduction for capital investment, an announcement on the creation of freeports, further support for skills and a focus on job protection and creation – all of which advance the Government’s ‘levelling up’ agenda.

Our summary focuses on the tax measures which may affect you, your family and your business. To help you decipher what was said we have included our own comments. If you have any questions please contact us for advice.

### Main Budget tax proposals

Our summary concentrates on the tax measures which include:

- an increase in corporation tax rates to 25% from 2023
- new carry back of business losses for up to three years
- super tax deduction of 130% for capital investment
- freezing of income and capital gains tax thresholds

Previously announced measures include:

- the introduction of off-payroll working for the private sector from 1 April 2021
- Restrictions on R&D repayable credit relief
- SDLT surcharge for non UK residents

Some Budget proposals may be subject to amendment in the subsequent Finance Act. You should contact us before taking any action as a result of the contents of this summary.

## Business Tax

### Corporation tax rates

The main corporation tax rate will continue at 19% up to and including the financial year beginning 1 April 2022 but will rise to 25% for the year beginning 1 April 2023.

A new small profits rate of 19% will apply from 1 April 2023 for those companies with profits below £50,000. The rate of tax will be tapered for profits between £50,000 and £250,000, at which point the full rate will be payable.

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The 19% small profits rate will not apply to close investment holding companies.

**Comment**

*Commentators reacted with some surprise to the significant increase in the corporation tax rate which effectively removes the possibility of a 'Singapore' type economy to welcome foreign investors following Brexit.*

**Super Deductions - Enhanced First Year allowances**

The government has announced a new temporary first year allowance which provides a deduction of 130% for expenditure that would normally qualify for main rate writing down allowances of 18%. The allowance will be available in respect of qualifying expenditure by an incorporated business from 1 April 2021 to 31 March 2023.

Unincorporated businesses will continue to be able to access the 100% deduction in respect of annual expenditure of qualifying expenditure of up to £1m which is in place until 1 January 2022.

**Extended loss carry back**

Companies and unincorporated business will be able to carry back losses of up to £2m against profits of the prior three tax years to claim repayment of tax paid.

The temporary rules will apply to losses made by companies in accounting periods ending between 1 April 2020 and 31 March 2022 and for the tax years ending 5 April 2021 and 2022 for unincorporated businesses.

**Comment**

*Businesses hard hit during the Coronavirus outbreak will welcome the cashflow benefit of this measure.*

**Research and Development (R&D) tax relief**

The amount of payable R&D tax credit (14.5% of an R&D generated loss) that a qualifying loss-making company can receive in any tax year will be restricted from 1 April 2021 to three times the company's total PAYE and NICs liability for that year.

There have been no further changes announced in the Budget. However, the Government has launched a review and consultation on the current R&D schemes which runs until 2 June 2021, so future changes can be expected.

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## Time to Pay

The government will ensure that businesses and self-employed individuals in financial distress and with outstanding tax liabilities receive support with their tax affairs.

HMRC has set up a dedicated COVID-19 helpline (0800 0159 559) to help those in need, and they may be able to agree a bespoke Time to Pay arrangement. Time to Pay gives businesses a time-limited deferral period on HMRC liabilities owed and a pre-agreed time period to pay these back.

## Capital Taxes

### Capital gains tax (CGT) rates

The current rates of CGT are 10%, to the extent that any income tax basic rate band is available, and 20% thereafter. Higher rates of 18% and 28% apply for certain gains; mainly chargeable gains on residential properties with the exception of any element that qualifies for Private Residence Relief.

There are two specific types of disposal which potentially qualify for a 10% rate up to a lifetime limit for each individual:

- Entrepreneurs' Relief (ER). This is targeted at directors and employees of companies who own at least 5% of the ordinary share capital in the company, provided other minimum criteria are also met, and the owners of unincorporated businesses.
- Investors' Relief. The main beneficiaries of this relief are external investors in unquoted trading companies who have newly-subscribed shares.

Investors' Relief has a lifetime limit of £10 million, while the lifetime limit for ER remains at £1m.

### CGT annual exemption

The CGT annual exemption is frozen at £12,300 from 2020/21 to 2025/26.

#### **Comment**

*The Office for tax simplification suggested aligning CGT rates with income tax and it is with some surprise that we see CGT rates unchanged in this Budget. Entrepreneurs will find it welcome that no other consultations to reform CGT were announced.*

### Inheritance tax (IHT) nil rate bands

Inheritance tax nil rate bands will remain at current levels until April 2026.

The nil rate band has remained at £325,000 since April 2009 and is set to remain frozen at this amount until April 2026. The residence nil rate band (RNRB) will continue at £175,000 and the RNRB taper will continue to start at £2m.

### **Comment**

*The RNRB was introduced in April 2017 to allow the family home to be passed more easily to direct descendants on death without incurring a charge to IHT. There are, however, a number of conditions that must be met in order to obtain the RNRB, which may involve redrafting an existing will. Following the Budget, 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 IHT liability.*

### **Stamp Duty Land Tax (SDLT)**

A SDLT surcharge on non-UK residents purchasing residential property in England and Northern Ireland is to go ahead. The 2% surcharge is to take effect from 1 April 2021. Where contracts were exchanged before 11 March 2020 but complete or are substantially performed after 1 April 2021, transitional rules may apply.

The SDLT holiday for purchasers of homes of up to £500,000 is extended to 30 June 2021 and a new nil rate band of up to £250,000 will apply from 1 July 2021 to 30 September 2021.

## **Employment Taxes**

### **Off-payroll working in the private sector**

The changes to the off-payroll working rules (commonly known as IR35), which came into effect in April 2017 for the public sector, will be extended to the private sector from April 2021.

The off-payroll working rules apply where an individual (the worker) provides their services through an intermediary (typically a personal service company) to another person or entity (the client). The client will be required to make a determination of a worker's status and communicate that determination. In addition, the fee-payer (usually the organisation paying the worker's personal service company) will need to make deductions for income tax and NICs and pay any employer NICs.

Only medium and large businesses will be subject to the 2021 rules, so small businesses will not need to determine the status of the off-payroll workers they engage. A small company is one which meets two of these criteria: its annual turnover is not more than £10.2 million: it has not more than £5.1 million on its balance sheet: it has 50 or fewer employees. For unincorporated organisations it is only the annual turnover test that applies.

## Employer provided cars

The scale of charges for calculating the taxable benefit for an employee who has use of an employer provided car is computed by reference to bands of CO<sub>2</sub> emissions multiplied by the original list price of the vehicle. The maximum charge is capped at 37% of the list price of the car.

The government announced in Budget 2017 that CO<sub>2</sub> emissions for cars registered from April 2020 will be based on the Worldwide Harmonised Light Vehicles Test Procedure (WLTP). Legislation has been issued to amend the previously planned benefit percentages for 2020/21 through to 2022/23:

- All zero emission cars will attract a reduced percentage of 0% in 2020/21 and 1% in 2021/22, before returning to the planned 2% rate in 2022/23.
- For cars registered before 6 April 2020, the current test procedure will continue to apply and there are no further changes to percentages previously set for 2020/21. These rates will be frozen at the 2020/21 level for 2021/22 and 2022/23.
- For cars first registered from 6 April 2020 most rates will reduce by 2% in 2020/21 before returning to planned rates over the following two years, increasing by 1% in 2021/22 and 1% in 2022/23.

### **Comment**

*WLTP aims to be more representative of real world driving conditions, compared to the current test known as the New European Driving Cycle. The government estimates that reported CO<sub>2</sub> values may be on average about 20 – 25% higher under WLTP compared to the current test.*

## Employment Allowance

The Employment Allowance provides businesses and charities with relief from their employer NICs bill. Regulations have been issued to restrict the Employment Allowance, from 6 April 2020, to those employers whose employer NICs bill was below £100,000 in the previous tax year. Employers who are connected to other employers (such as companies within a group) will need to add together all of their employer Class 1 NICs liabilities incurred in the tax year prior to the year of claim to determine eligibility.

The maximum Employment Allowance remains at £4,000 with effect from 6 April 2021.

Since 6 April 2020 the Employment Allowance has operated as de minimis State aid. This means it contributes to the total aid a business is entitled to under the relevant de minimis State aid cap.

### **Comment**

*De minimis State aid rules apply if a business engages in economic activity, providing goods or services to the market. Most businesses will not have received de minimis State aid before so will not need to do further checks to determine if they are eligible for the Employment Allowance.*

### **National Living Wage (NLW) and National Minimum Wage (NMW)**

As previously announced increases in minimum wage rates take effect from 1 April 2021. The new hourly rates of NLW and NMW are:

- £8.91 for those over 25 years old
- £8.36 for 21-24 year olds
- £6.56 for 18-20 year olds
- £4.62 for under 18s
- £4.30 apprentice rate for apprentices under 19, and those 19 and over in their first year of apprenticeship.

### **Flat rate deduction for homeworking**

The maximum flat rate income tax deduction available to employees to cover additional household expenses will remain at £6 per week where they work at home under homeworking arrangements.

### **Enterprise Management Incentives (EMI) scheme**

It was announced that, until April 2022, individuals who are furloughed or who have their statutory required hours for EMI reduced as a result of Covid-19 will retain access to the scheme's tax advantages.

The government announced that it will review the EMI scheme to ensure it provides support for high-growth companies to recruit and retain the best talent so they can scale up effectively, and examine whether more companies should be able to access the scheme.

### **Van benefit charge nil-rating for zero emission vans**

From April 2021, the government will apply a nil rate of tax to zero-emission vans within the van benefit charge.

## Other Matters

### VAT

#### Reduced rate for hospitality, hotel and holiday accommodation

The government will introduce an extension to the temporary reduced rate of VAT at 5% for a further period until 30 September 2021. A new reduced rate of 12.5% will apply until 31 March 2022

#### VAT Thresholds

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

The threshold for the purpose where a person may apply for deregistration will remain at £83,000 until 31 March 2024

#### Making Tax Digital for VAT

From April 2022, smaller VAT registered business under the VAT threshold will be required to report VAT under Making Tax Digital.

#### **Comment**

*Making Tax Digital for smaller micro business will be an added administrative burden.*

### Plastic Packaging Tax

From April 2022 a new tax will apply to plastic packaging produced in or imported into the UK that does not contain at least 30% recycled plastic. The tax rate will be £200 per tonne of non-compliant plastic packaging.

## Personal Tax

### The personal allowance

The personal allowance and basic rate limit will rise to £12,570 and £37,700 respectively from 6 April 2021. These rates will then be frozen up to and including the 2025/26 tax year.

### Tax bands and rates

The basic rate of tax is 20%. Up to and including the 2025/26 tax year the band of income taxable at this rate is £37,700 so that the threshold at which the 40% band applies is £50,270 for those who are entitled to the full personal allowance.

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Individuals pay tax at 45% on their income over £150,000.

### **Tax on savings income**

Savings income is income such as bank and building society interest.

The Savings Allowance applies to savings income and the available allowance in a tax year depends on the individual's marginal rate of income tax. Broadly, individuals taxed at up to the basic rate of tax have an allowance of £1,000. For higher rate taxpayers the allowance is £500. No allowance is due to additional rate taxpayers.

Some individuals qualify for a 0% starting rate of tax on savings income up to £5,000. However, the rate is not available if taxable non-savings income (broadly earnings, pensions, trading profits and property income less allocated allowances and reliefs) exceeds £5,000.

### **Tax on dividends**

The first £2,000 of dividends is chargeable to tax at 0% (the Dividend Allowance). Dividends received above the allowance are taxed at the following rates:

- 7.5% for basic rate taxpayers
- 32.5% for higher rate taxpayers
- 38.1% for additional rate taxpayers.

Dividends within the allowance still count towards an individual's basic or higher rate band and so may affect the rate of tax paid on dividends above the Dividend Allowance.

To determine which tax band dividends fall into, dividends are treated as the last type of income to be taxed.

### **Child Trust Funds (CTFs)**

Junior ISAs and its precursor CTFs allow tax free savings to be made for children under 18. There is no access to the investments until the child is 18. CTF accounts started to mature in September 2020 when the first children reached 18. Without regulatory change the investments would have lost their tax advantaged status. CTF and ISA regulations have therefore recently been made which:

- make sure that investments in CTF accounts retain their tax advantaged status post maturity, pending instructions from the account holder
- allow savings transferred from a matured CTF to be disregarded for the annual ISA subscription limit.

### **Comment**

*Around six million children hold a CTF and approximately 800,000 will mature each year from September 2020. A significant proportion of these accounts are thought to be 'dormant' - holding just the contributions made by the government. Government contributions are not made to Junior ISAs. This government webpage: [bit.ly/2s8ceyz](https://bit.ly/2s8ceyz) allows a check to be made as to where a CTF is held but a Government Gateway user ID is required first.*

### **Junior ISA and CTF annual subscription limits**

The annual subscription limit for Junior ISAs and CTFs remains at £9,000 for 2021/22.

### **Pensions changes**

There are no changes proposed to the lifetime limit or contributions thresholds for pension saving.

The pensions annual allowance (currently £40,000) is the maximum amount of tax-relieved pension savings that can be accrued in a year. However, for those on higher incomes, the annual allowance is reduced by £1 for every £2 that an individual's 'adjusted income' exceeds £240,000, to a minimum annual allowance of £4,000 on reaching £300,000 of adjusted income.

Adjusted income is broadly net income before tax with the addition of any pension accrual. The taper potentially applies to an individual with income before tax, without the addition of the pension accrual, above £200,000. This is known as the 'threshold income'.

Individuals with threshold income below £200,000 are not affected by the tapered annual allowance. The annual allowance will begin to taper down for individuals who also have an adjusted income above £240,000.

### **Next Step**

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