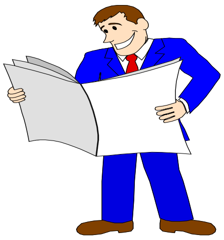

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BUDGET NEWS 2021

A word of warning

The information given below is based mainly on the Chancellor's budget speech and associated press releases. Therefore, I cannot accept responsibility for the accuracy of such information. I have covered the parts of the budget which have the widest effect on taxpayers; it is not an exhaustive account. On any individual tax problem, there is no substitute for taking specific advice.

The Budget in General

What a difference a year makes. When Rishi Sunak presented his first budget in March 2020, lockdown had not started and the government was hoping to control the spread of coronavirus while just having to provide temporary support to businesses and individuals. How naïve that seems now, as the government continues to spend to prevent economic collapse and mass unemployment.

All of that support requires money which, in the short term, can come only from borrowing. That means the government has been forced to run a budget deficit at a level which it would never have considered in normal circumstances. The big questions for the chancellor, therefore, were how much longer the government could continue to borrow money, and how and when taxes would have to rise to repay it, without breaking the Conservative manifesto commitment to not increase Income Tax, National Insurance or VAT. Those questions were only partially answered.

Most of the continuing support measures had been leaked in advance of the budget but predicted tax rises, in particular a major reform of Capital Gains Tax, did not materialise.

Income Tax for 2021/22

Income Tax allowances and thresholds are supposed to rise in line with inflation each year, but it had been widely predicted that this year's increase would be withdrawn. In the end, that did not happen, but these amounts will be frozen until 2025/26.

	Increase £	New rate £	Notes
Personal allowance	70	12,570	1
Marriage allowance	10	1,260	2
Blind person's allowance	20	2,520	
Personal Savings Allowance			3
Basic-rate taxpayer		1,000	
Higher-rate taxpayer		500	

Notes:

1. *The personal allowance is available in full only if income does not exceed £100,000. If it does, the allowance is reduced by £1 for every £2 of the excess until £125,140, when it is lost completely.*
2. *Marriage allowance can be claimed by married couples or civil partners where one partner has income below the personal allowance and the other is not a higher-rate taxpayer.*
3. *The Personal Savings Allowance applies to bank interest.*

The basic-rate of tax is still 20% and will apply to the first £37,700 of income. The next £112,300 is taxable at the higher rate of 40% and anything over £150,000 at the additional rate of 45%. There are two exceptions to these rates:

1. The first £2,000 of dividend income is exempt then anything over that is taxed at 7.5% for basic-rate taxpayers, 32.5% for higher-rate taxpayers and 38.1% for additional rate taxpayers.
2. There is a 0% tax rate up to £5,000 on the savings income (usually bank interest) of people whose taxable non-savings income is below that level.

Capital Gains Tax 2021/22

There was much speculation that Capital Gains Tax rates would be aligned with Income Tax rates as an easy way to raise money, but that did not happen. The main rates remain 10% for basic-rate taxpayers and 20% for higher-rate taxpayers, along with the special rates of 18% and 28% for sales of residential property other than the taxpayer's home. The annual exempt amount remains £12,300.

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Pensions Tax Relief 2021/22

Another easy way to raise money would have been to restrict tax relief on pension contributions but, again, that has not happened. The annual limit on contributions remains £40,000, which qualifies for relief at the taxpayer's highest rate for most people.

National Insurance 2021/22

For self-employed people, Class 2 NI remains £3.05 a week, but there is a small increase in the threshold for Class 4 NIC, which is 9% of profits from £9,568 to £50,270, then 2% above that.

Individual Savings Accounts

The contribution limits are unchanged at £20,000 for an ISA and £9,000 for a Junior ISA or Child Trust Fund.

Stamp Duty

The temporary reduction in Stamp Duty on houses purchased as a main residence has been extended and will then be withdrawn in stages. These are the rates:

Up to 30 June 2021	
Up to £500,000	0%
£500,001 to £925,000	5%
£925,001 to £1,500,000	10%
Over £1,500,000	12%

1 July to 30 September 2021	
Up to £250,000	0%
£250,001 to £925,000	5%
£925,001 to £1,500,000	10%
Over £1,500,000	12%

From 1 October 2021	
Up to £125,000	0%
£125,001 to £250,000	2%
£250,001 to £925,000	5%
£925,001 to £1,500,000	10%
Over £1,500,000	12%

All of those rates are 3% higher if the purchaser, or joint purchaser, already owns or has a share in any other residential property.

Corporation Tax

1. It was widely expected that Corporation Tax would be increased to raise money, but it came as a surprise that it will come in one hit in the year 2023/24, rather than gradually. The rate will then rise to 25% for companies with profits over £250,000, but remain 19% for companies with profits up to £50,000. Profits between £50,000 and £250,000 will be taxed at a rate gradually rising from 19% to 25%.

   This will be a return to the old system of a "main" rate of Corporation Tax and a "small companies" rate, with all of the complications that brings. The major one is that profit thresholds have to be shared between companies which are "associated" with each other through, for instance, having common shareholders. Furthermore, those associations are likely to affect many more companies, because the profit limit of £50,000 is much lower than the £350,000 under the old system.

2. For two years from 1 April 2021, enhanced capital allowances will be available on purchases of new (not second-hand) plant and machinery (which includes commercial vehicles, but not cars):

   a) Items which normally qualify for a 6% writing-down allowance (such as integral fixtures in a building) will be eligible for a 50% first year allowance. In practice, this will not affect many companies as they could claim the full cost as part of their £200,000 Annual Investment Allowance.

   b) Other items will be eligible for a "super-deduction" against profits of 130% of their cost. At the Corporation Tax rate of 19%, that gives a tax saving of 24.7% of the cost of the asset.

   Note that these allowances apply only to companies, not sole traders and partnerships. That is an unprecedented divergence in the rules for calculating taxable profits for Corporation Tax and Income Tax.

Inheritance Tax 2021/22

There are no changes, so the threshold is still £325,000, plus up to £175,000 more for a residence left to family members. The rate of IHT is still 40%.

HMRC Information Requests

HMRC can currently request information about a taxpayer from third parties, such as banks, but only with the approval of a Tax Tribunal. A new power will allow HMRC to bypass the Tax Tribunal and issue a Financial Institution Notice (FIN) requiring a bank or building society to provide information. The purpose of the FIN is to allow HMRC to check the tax position of a taxpayer, or to aid in debt collection.

I can see potential problems in the latter purpose, as the amount of money in the bank can vary considerably through the month depending on the timing of receipts from customers, payment to suppliers and payment of wages. The bank balance on a particular day, therefore, is not necessarily an accurate reflection of a business's ability to pay a tax debt.

Freeports

Rishi Sunak has claimed in the past that EU rules prevented us setting up Freeports in the UK. That is not true: it is just more difficult and they have to comply with EU rules on state aid. Anyway, there are now no restrictions, so he announced eight new Freeports in his budget speech.

A Freeport is a special zone within a country where normal customs and tariff rules do not apply. That means, for instance, that goods can be imported, processed and exported without customs checks, unless they move out of the Freeport into the rest of the UK. Despite what the name implies, a Freeport does not have to be a coastal area; indeed, one of the new Freeports is East Midlands Airport, which is about as far as you can get from the sea.

Once a Freeport is set up, businesses operating within it will qualify for these benefits until 30 September 2026:

1. 100% capital allowances on plant and machinery and 10% writing down allowance for expenditure on structures and buildings.

2, No Stamp Duty on purchases of land and buildings.

3. Rates relief for new and certain other businesses for five years.

4. Relief from employer National Insurance Contributions.

Van Benefits 2021/22

The benefit charge for a van provided to an employee is increased from £3,490 to £3,500, and the fuel charge from £666 to £669. Those benefits are meant to cover private use, so do not apply if the employee is allowed to use the van only for work and driving to and from home.

HMRC Penalties

There are currently different systems in VAT and Income Tax law for penalising taxpayers who submit returns late or pay late. Briefly, VAT has a system of increasing surcharges for repeat offenders, while Income Tax has fixed and daily penalties for late returns, and interest for late payments. Now, a common system of interest and penalty charges will be introduced, starting with VAT in April 2022 and extended to Income Tax over the following two years.

Plastic Packaging Tax

From 1 April 2022, plastic packaging manufactured in, or imported into, the UK will be liable to a tax of £200 a tonne if it does not contain at least 30% recycled plastic. I can imagine that percentage will be increased in future years, to encourage more recycling or the use of other materials.

VAT

1. The current registration and deregistration thresholds of £85,000 and £83,000 respectively will be maintained until 31 March 2024. They will still be much higher than the thresholds in most other countries.

2. A reduced VAT rate of 5% was introduced on 15 July 2020 to help the hospitality, hotel, holiday and leisure industries. It was originally intended to end on 12 January 2021, but was extended to 31 March 2021 and will now be further extended to 30 September 2021. It will then be changed to 12.5% until 31 March 2022, before reverting to 20%.

3. One of the first coronavirus measures introduced last year was to allow businesses to defer one quarter's VAT payment until 31 March 2021. That payment can now be settled in monthly instalments by applying to join the New Payment Scheme by 30 June 2021, with the final payment in January 2022.

Off-payroll Working

Rules, commonly known as IR35, were introduced some years ago for subcontractors who provided their services through a limited company. They required the subcontractor to assess whether he would be an employee of the contractor if the company were not there and, if so, to tax himself as an employee. Then, from April 2017, public sector organisations paying such companies had to make the assessment themselves and deduct tax and NI where they concluded that the subcontractor was an employee.

It was planned to extend that requirement to private sector organisations last year, but it was postponed because of the pandemic and will now apply from 6 April 2021. It remains to be seen whether this will make any difference to large contractors, particularly in construction and IT, who have been very good at drafting their contracts to avoid the IR35 rules.

Tax Losses

There is a temporary extension of the tax relief available for trading losses incurred by companies in the two years 1 April 2020 to 31 March 2022, or by sole traders/partnerships in the tax years 2020/21 and 2021/22. Those losses will be able to be carried back three years instead of one. The loss still has to be set first against the latest of those three years so, in practice, the new relief will operate only where the income for that year is not enough to fully cover the loss.

Annual Investment Allowance

Traditionally, tax allowances on plant and machinery were given by a writing down allowance (WDA) which spread the cost over a number of years. For some time now, businesses have been able to claim the full cost in the year of purchase, up to a limit called the Annual Investment Allowance (AIA). The amount of AIA has been changed quite often, most recently in January 2019, when it was temporarily increased from £200,000 to £1,000,000 for two years. That higher level has now been extended to 31 December 2021.

Most businesses would never spend more than £200,000 in a year, so the benefit of this change will be quite limited.

SEISS Grants

Legislation introduced last year provided for payments under the Self-Employed Income Support Scheme to all be taxed in the year 2020/21. Now that the scheme has been extended and some grants will be paid in 2021/22, the law will be changed to provide for each grant to be taxed in the year when received.

Excise Duties

One surprise was that the Chancellor announced no increases in excise duties on tobacco, alcohol or road fuel (although an increase in tobacco duty was included in the autumn statement in November 2020). Road tax for cars, vans and motorcycles, however, will be uprated for inflation.

Coronavirus Tests

Where an employer pays for, or reimburses, the cost of a coronavirus test for an employee, it would normally be caught under the benefits-in-kind legislation and be taxable. A temporary exemption was introduced last year and will now be extended.

SEISS

The Self-Employed Income Support Scheme has been extended, so a fourth grant will be available in April/May 2021 and a fifth after that. The rules are largely the same, but will now take into account the 2019/20 tax return, provided that it was filed by 2 March 2021. That will be good news to those who missed out on the earlier grants because they did not start self-employment until after 5 April 2019, but they will be subject to extra checks to confirm identity and business activity.

The fourth grant will be set at 80% of three months' average profits and will be capped at £7,500. The fifth grant will be the same for those whose turnover has dropped by 30% or more, but others will receive only 30% of profits, capped at £2,850.

CJRS

The Coronavirus Job Retention Scheme (CJRS) has also been extended up to September 2021, but will no longer cover employer's NI and pension contributions.

1. Up to 30 June 2021, CJRS will cover 80% of wages, up to a cap of £2,500 a month.

2. For July, CJRS will cover 70% of wages, up to a cap of £2,187.50 a month.

3. For August and September, CJRS will cover 60% of wages, up to a cap of £1,875.

The employee must still be paid at least 80% or usual wages, even where the employer is claiming less than that under CJRS.

Mortgage Guarantee Scheme

The government Help-to-Buy Scheme operated from 2013 to 2016 to allow house purchases with as little as a 5% deposit, at a time when lenders would generally require more. A new scheme will be launched in April 2021 and will run until December 2022, with broadly similar conditions:

1. An owner-occupier mortgage, not second home or buy-to-let.

2. Not a company borrower.

3. Properties costing up to £600,000.

4. 91 – 95% mortgages.

5. Repayment mortgages, not interest only.

6. Satisfy usual assessment of the borrower's ability to repay.

The scheme works by providing a government guarantee on part of the mortgage, to cover a lender's losses if the property has to be repossessed and sold.

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