www.doddaccountants.co.uk

dodd&co know how

Budget 2021

Please contact our tax team with any queries

Carlisle office: 01228 530913
Penrith office: 01768 864466

dodd&co WEALTHCARE

www.doddwealthcare.co.uk

Budget 2021

A Reprieve from Rishi!

As expected, several tax rises were announced in today's Budget but the good news is that they were much fewer than some had feared and their introduction has been delayed until future years.

The most significant tax change is an increase in the rate of Corporation Tax from 19% to 25%, but this will not start to bite until April 2023. The Chancellor was keen to add that a 25% tax rate is still the lowest in the G7 and furthermore many small companies will continue to pay tax at 19% where annual profits are below £50,000. The other main tax increase that was announced is the freezing of personal tax thresholds until 2026, but this stealth tax raising measure has also been deferred (until April 2022).

With the Government having recently set out its road map of businesses returning to a sense of normality by June, there was an expectation that the current support schemes would come to an end in June. Again, there was further good news when the Chancellor announced that many of the schemes (furlough; self-employed; 5% VAT for hospitality and tourism) will be extended until 30 September 2021. One slight disappointment is that the business rates holiday for the retail, leisure and hospitality sectors will only be extended until 30 June 2021, although a further 9 months extension at a heavily discounted rate helps to soften the blow as does the new Business Restart Scheme which will provide grants of up to £18,000.

There was also welcome news for individuals with the extension of the Universal Credit top-up for a further 6 months and the Stamp Duty Land Tax holiday for house purchases being extended until 30 June 2021 (with a further 3 months extension to 30 September, but at a lower threshold of £250,000 rather than the current £500,000 relief level).

As is often said, the "devil is in the detail" and one caveat to add to today's limited tax rises is that various tax consultation documents are to be issued on 23 March and we do wonder if Rishi's reprieve on higher taxes may be short-lived! Naturally we will provide an update later this month on any significant tax changes that are proposed in these consultation documents. In the meantime, we have provided detailed commentary below on the main tax changes announced in today's Budget and if you have any queries, please do not hesitate to get in touch with your usual Dodd & Co contact or ask to speak to a specialist from one of our tax teams.

dodd&co WEALTHCARE

dodd&co know how

Capital Gains Tax - No News Is Good News

Despite widespread rumour the Chancellor resisted the urge to increase the Capital Gains Tax take this year.

Many were predicting an increase in the rate of Capital Gains Tax to align it with Income Tax as well as the loss of Entrepreneurs' Relief or maybe even restrictions to other reliefs such as gift or Holdover Relief but none of these came to pass, yet. Now may be a good time for tax planning before rules do change.

Instead it was simply announced that the current level of annual exemption, the amount of capital gain that each person can make free of tax each tax year, of £12,300 will remain in place until 2025/26.

Budget 2021

Income Tax - 2021/22

Personal Allowance

The tax free personal allowance has increased rapidly in recent years up to the Government's original target of £12,500 which has been in force since 2019/20. For 2021/22, the personal allowance will be increased marginally to £12,570, but thereafter will be frozen at this level until the end of 2025/26.

For taxpayers who have income over £100,000 in a tax year, the personal allowance will continue to be withdrawn. £1 of the personal allowance is lost for every £2 of income over the £100,000 threshold, creating the infamous "60% tax band". In 2021/22 people with income over £125,140 will therefore not receive any personal allowance.

Income Tax Rates

The basic rate of income tax remains at 20% for most income and 7.5% for dividend income. These rates apply to the next £37,700 of income after the personal allowance.

The higher rate of tax remains at 40% for most income and 32.5% for dividend income. These rates apply to income in excess of £50,270.

The additional rate of tax which applies to income over £150,000, remains at 45% for most income and 38.1% for dividend income.

Scottish Tax Rates

Taxpayers north of the border will be subject to Scottish tax rates on their earned income which are slightly different to those in the rest of the UK.

The main 20%/40%/45% bands are increased across the board by 1% to 21%/41%/46% accordingly in Scotland. There are also small 19% and 20% bands in Scotland before the 21% band kicks in at £25,296 of income.

The main difference however, is the level at which the higher rate tax begins. In Scotland this starts to be levied on income over £43,662 from April 2021 whereas those in the rest of the UK will not pay higher rate tax until they hit £50,270. This band of income between £43,662 and £50,270 is therefore taxed at 41% in Scotland but only 20% in the rest of the UK, meaning those north of the border will pay nearly £1,400 extra tax in this band.

...Continued overleaf

dodd&co WEALTHCARE

dodd&co know how

Income Tax - 2021/22 (Cont...)

Temporary Extension To Carry Back Of Trading Losses

As many businesses will have struggled in 2020/21 and many will continue to struggle as we enter 2021/22, a very welcome extension to the loss carry back rules has been announced.

Trading losses incurred in either 2020/21 or 2021/22 will be eligible to be carried back up to three years (from the current one year carry back allowed currently) and offset against previous years' trading profits.

Budget 2021

Corporation Tax

Corporation Tax Rate

The Chancellor announced that the Corporation Tax rate will rise from the current 19% rate to 25% with effect from the financial year starting on 1 April 2023. This means that companies with a year end which straddles 1 April 2023 will be subject to two main corporation tax rates, 19% for profits apportioned to the period to 31 March 2023 and 25% for profits apportioned from 1 April 2023.

The 25% rate will apply to companies with profits above £250,000. Companies with profits up to £50,000 will be taxed at a new "small profits" rate which will be set at 19%. Companies with profits between £50,000 and £250,000 will pay tax at the main 25% rate reduced by a marginal relief providing a gradual increase in the effective Corporation Tax rate.

For the purposes of working out if a company's profits fall within the new small profits rate or are eligible for marginal relief, associated companies under the control of the same person, persons or another company will have to be taken into account.

Carried Forward Losses

The 2017 corporation tax loss reform increased flexibility over the use of tax losses against profits, whilst ensuring that businesses pay tax in each accounting period that they make substantial profits by capping the amount of losses that could be used. Today's Budget makes some changes to ensure that the legislation works as intended and corrects or improves some administrative requirements around the group allowance statement, time limits for the statement and the loss restriction calculation.

Temporary extension to loss carry back

The Chancellor has introduced a temporary extension to the period over which businesses may carry trading losses back for relief against profits of earlier years to get a repayment of tax previously paid. Normally a company incurring a trading loss in an accounting period can make a claim to offset the loss against total profits of the previous 12 months. Today's announcement means that the loss can instead be offset against profits of the previous 3 years (being set against later years first). Losses will first of all be able to be offset against total profits of the previous 12 months. After carry back to the preceding year, unused losses will be available for carry back to the earlier 2 years. There is no cap on the amount of losses that can be carried back to the preceding year but an overall group wide cap of £2,000,000 on the loss carry back to the earlier 2 years will apply.

This measure will have effect for company accounting periods ending in the period 1 April 2020 to 31 March 2022.

....Continued overleaf

Corporation Tax (Cont...)

Off-payroll working in the private sector

The changes to off payroll working (OPW) in the private sector, which were announced in Budget 2018 and due to be introduced in April 2020 but deferred, will now apply for contracts entered into, or for payments made for work carried out, on or after 6 April 2021.

Under the new OPW rules, responsibility for operating the off-payroll working rules will shift from the individual's intermediary (personal service company or "PSC") to the client organisation or business to which the individual is supplying their services.

Medium and large-sized client organisations in the private and voluntary sectors that engage individuals working through PSCs will have to apply the new rules. However, there is an exception for small organisations, therefore if a PSC is engaged by a small engager, the "old" IR35 rules will continue to apply whereby the PSC (not the engager) will be responsible for assessing its own tax position.

Broadly, if the engager is a company or an LLP it is a "small" engager for OPW purposes if it meets two or more of the following:
- Annual turnover not more than £10.2 million
- Balance sheet total not more than £5.1 million
- Not more than 50 employees

For non-corporate engagers there is a simplified rule to assess if they are "small", which is whether their annual turnover is not more than £10.2 million.

Note that if there is a group structure, or connection with another entity or joint venture arrangements, then the financial position of the engager needs to be aggregated together with its relevant connected parties to assess whether it is "small" or not.

Extension to Social Investment Tax Relief ("SITR")

SITR is extended from April 2021, when it was due to end, to April 2023. SITR encourages individuals to invest in third sector organisations by offering them tax incentives on their investment and this extension continues the availability of Income Tax relief and Capital Gains Tax hold-over relief for investors in qualifying social enterprises.

Budget 2021

Research & Development and Enterprise Management Incentives

Research and Development (“R&D”) tax reliefs: Consultation

The Government has launched an open consultation on R&D tax reliefs. It will explore the nature of private-sector R&D investment in the UK, and how that is supported or otherwise influenced by the two current R&D relief schemes, the SME scheme (for small and medium sized enterprises) and the RDEC (research and development expenditure credit) scheme. The consultation closes on 2 June 2021 after which the responses will be considered to determine if and where changes may be appropriate.

In Budget 2020 it was announced that the Government would consult on whether expenditure on data and cloud computing should qualify for R&D tax relief. That consultation closed in October and a summary of responses has just been published today. The decision on whether data and cloud computing costs will be brought into the scope of qualifying expenditure will be taken alongside the wider 2021 review of R&D.

PAYE cap for Research and Development SME scheme

For accounting periods beginning on or after 1 April 2021, the amount of SME payable R&D tax credit that a business can receive in any one year will be capped at £20,000 plus three times the company’s total PAYE and NICs liability. This PAYE cap was going to be introduced from 6 April 2020 (with slightly different limits) but was deferred.

...Continued overleaf

Research & Development and Enterprise Management Incentives (Cont...)

Enterprise Management Incentives ("EMI"): call for evidence

HMRC are seeking views on how the Enterprise Management Incentives ("EMI") scheme is operating and whether it should be expanded. EMI is a tax advantaged HMRC approved scheme to incentivise management via company share options. The Government want to ensure that EMI provides support for high-growth companies to recruit and retain the best talent so they can scale up effectively, and will examine whether more companies should be able to access the scheme. Responses to the call for evidence should be made by 26 May 2021.

Enterprise Management Incentives: exception to working time requirements Legislation was introduced in Finance Act 2020 to ensure that EMI participants were not forced to exercise their options earlier than planned because they no longer met the working time requirement due to being furloughed or having their working hours reduced as a result of COVID 19. Today's measure extends this working time exception until April 2022 and ensures that affected individuals do not lose the tax advantages of their EMI options. Finance Bill 2021 will legislate to ensure that new EMI options issued by employers to employees who have not met the working time requirement as a result of coronavirus will be qualifying EMI options.

Budget 2021

Capital Allowances and the Super Deduction

The Chancellor announced a new 130% “Super Deduction” for expenditure on qualifying plant and machinery. This relief will only be available for companies, not sole traders and partnership businesses.

From 1 April 2021 until 31 March 2023, companies investing in qualifying new plant and machinery assets will be able to claim a 130% super-deduction capital allowance on their investment in those assets, and a 50% First Year Allowance (FYA) for qualifying special rate assets. The 130% super-deduction for qualifying items will allow companies to cut their tax bill by 24.7p for every £1 spent for the relevant period, even though the corporation tax rate remains at 19%.

The 50% FYA for special rate assets will have limited value in 2021 whilst we have a 100% Annual Investment Allowance (AIA) of £1Million until this runs out on 31 December 2021. However, it is more likely to be of benefit for expenditure between 1 January 2022 and 31 March 2023, given that the AIA is currently expected to reduce to £200,000 on 1 January 2022. The short government announcement does not make it clear what qualifying special rate assets are. However, it is not expected that high emission cars will qualify.

Budget 2021

Business Rates

The 100% business rates discount applied to eligible retail, hospitality and leisure properties in England was due to end on 31 March 2021, however the Government has today announced that this 100% discount will be extended by three months up to 30 June 2021. From 1 July 2021, the discount will reduce to 66% for nine months to 31 March 2022.

It is estimated that 750,000 eligible businesses in the retail, hospitality and leisure sectors in England will benefit from business rates relief.

The ‘Budget documentation also stated that the Government will legislate to ensure that the business rates relief repayments that have been made by certain businesses are deductible for corporation tax and income tax purposes. This will ensure that these businesses are no worse off from a tax perspective than if they had paid the business rates in the first place. This will apply for repayments made to the devolved administrations as well as to those made in relation to England.

Budget 2021

VAT

VAT in the Hospitality and Tourism Sector

Rishi Sunak has today promised to continue help the one of the hardest hit sectors as a result of the ongoing pandemic, the Hospitality and Tourism sector. It has been announced that the temporary VAT rate of 5% will be extended for a further 6 months until 30 September 2021, after which an interim VAT rate of 12.5% will be introduced from 1 October 2021 to manage the transition back to the full rate of VAT that is expected to return on 1 April 2022. The scope of the policy remains unchanged to that previously announced.

VAT Thresholds and Rates

The VAT registration threshold will remain set at £85,000 for a further 2 years and the VAT deregistration threshold of £83,000 will also remain unchanged.

There will be no increase in UK VAT rates.

Making Tax Digital

After the success of the previous Making Tax Digital roll out in 2019, the scheme has now been extended to draw in all VAT registered businesses with a taxable turnover below the current VAT threshold. These businesses will be required to operate Making Tax Digital for their VAT reporting and record keeping obligations from 1 April 2022.

...Continued overleaf

Budget 2021

VAT (Cont...)

VAT Penalties and Interest

A new points-based penalty regime will replace the existing VAT penalty regime for accounting periods on or after 1 April 2022 and will affect all those required to submit a VAT return and who fail to submit and / or pay on time. It has been designed to make the system both fair and simple and will penalise the small majority that consistently do not comply whilst being lenient on those that make the occasional slip up.

In summary, when a VAT liability is paid late the new penalty scheme will see no penalty applied if paid within 15 days of the due date. The first penalty is set at 2% and will be applied if the late VAT is paid between 16 – 30 days after the due date or a 4% penalty applied if paid over 30 days after the due date. A second penalty will be applied and charged at 4% per annum rate, calculated daily from day 31. Penalties can be avoided if a 'Time to Pay Arrangement' is agreed with HMRC.

When a VAT return is submitted late the tax payer will incur a point. Upon reaching the points threshold (Annually = 2 points / Quarterly = 4 points / Monthly = 5 points) the taxpayer will then be liable to a £200 fixed penalty. Individual penalties will expire after 24 months provided the threshold is not breached. Should the threshold be breached and the fixed penalty applied, all points will expire on the basis that reporting requirements are met for a set period. This change to the penalty regime appears to suggest that taxpayers may be issued with fixed penalties for late submission of both payment and repayment VAT returns.

VAT interest rules are also set to change so that interest will be charged from the date payment is due until the date the payments is received.

Budget 2021

Fuel & Alcohol Duties

For the 2nd consecutive year the planned increased in alcohol duties have been cancelled, and for the 11th consecutive year the planned increase in fuel duties have also been cancelled.

The Chancellor has today announced that the duties levied on all alcohol and fuel will be frozen in 2021-22.

Vehicle Excise Duty will however see an update in line with the Retail Price Index from 01/04/2021. The uprate will affect the owners of cars, vans and motorcycles.

It was announced in the Budget 2020 that the entitlement to red diesel and rebated biofuels would be removed from April 2022, with the exception of use within the agricultural sector (including fish farming, forestry and horticulture), for rail vehicles and non-commercial heating. It is now expected that there will be further exceptions to the red diesel ban including the use of red diesel to power commercial vessels, for travelling funfairs and circuses, amateur sports clubs (including golf clubs) and non-commercial power generation.

Budget 2021

Inhertiance Tax

The Inheritance Tax nil-rate bands will remain at existing levels until April 2026. The nil-rate band (NRB) will continue at £325,000, the residence nil-rate band (RNRB) will continue at £175,000. There is a tapered withdrawal of the RNRB for estates with a value of more than £2m (before reliefs and exemptions) of £1 for every £2 of assets held over this threshold. Any unused NRB and RNRB can be transferred to a surviving spouse or civil partner. The RNRB is also available when a person downsizes or ceases to own a home on or after 8 July 2015 and assets of an equivalent value, up to the value of the additional nil-rate band, are passed on death to direct descendants.

Inheritance tax brings out strong emotions, often being paid on income that has already been taxed during one's lifetime, and often at sensitive times. The tax is sometimes labelled a "voluntary tax", paid by those who have not planned their tax affairs adequately. However, there is the conflict between paying capital gains tax during lifetime or inheritance tax on death, or if timing has not worked as planned, a double whammy of both!

It is widely anticipated that the Chancellor will announce a range of significant reforms regarding inheritance tax in the near future, potentially as part of the additional papers due to be issued on 23 March 2021, so if you are thinking of succession planning and passing on assets you may only have a small window of opportunity available to you.

Budget 2021

Personal Financial Planning

A relatively low-key budget when it comes to personal pensions and investments, with many of the predicted changes to pension tax relief etc not coming to fruition.

ISA allowances remain as was, with a maximum annual adult contribution limit of £20,000. Junior ISA's and Child Trust Funds will continue to have a subscription limit of £9,000.

Turning to Pensions, the Lifetime Allowance for pensions will be frozen at £1,073,100 until April 2026. The Lifetime Allowance is a limit on the amount of pension benefit that can be drawn from pension schemes – whether lump sums or retirement income – and can be paid without triggering an extra tax charge. No changes were made to Annual Allowance, Money Purchase Annual Allowance or Tapered Annual Allowance figures or rules.

Some good news for those wishing to get on to or move up the property ladder with the announcement of the Mortgage Guarantee introduction from April 2021. This scheme will provide 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. Under the scheme all buyers will have the opportunity to fix their initial mortgage rate for at least five years should they wish to. The scheme, which will be available for new mortgages up to 31 December 2022, will increase the availability of mortgages on new or existing properties for those with small deposits.

Budget 2021

Stamp Duty Land Tax

As was expected, The Chancellor announced that the temporary increase in the SDLT 0% band to £500,000 would remain in place until 30 June 2021, having been scheduled to come to an end this month. The temporary increase has been very valuable to buyers, providing potential relief of up to £15,000 on the purchase of a residential property.

He acknowledged that bringing the current "holiday" to an end on 31 March 2021 would mean that a significant number of transactions would not be completed in time to benefit from the current measures, and could therefore collapse.

This is very welcome news, which has come in response to lobbying from various sectors of the property industry, as well as prospective buyers and sellers.

In addition, The Chancellor announced a phased return to previous SDLT rates and bands, with the 0% band being set at £250,000 for transactions completing between 1 July 2021 and 30 September 2021, giving a potential saving of £2,500. It will then return to its previous level of £125,000 from 1 October 2021.

The expectation is that this will further stimulate the property market, although it is perhaps reasonable to expect a further "bottle neck" as we approach 30 June 2021 and The Chancellor may again come under pressure to extend the current relaxation.

Whilst the measures announced will mean that many buyers of residential property in the coming months will pay no SDLT, regard still needs to be had to the higher rates of SDLT which can apply on the purchase of second and additional properties.

Budget 2021

Universal Credit & Working Tax Credits

The Chancellor has today announced the £20 per week uplift payment to Universal Credit claimants, (which was previously announced at the start of the pandemic in March 2020), is set to continue to be paid for another six months.

The £20 per week increase was originally intended to be a temporary 12 months measure to support families on benefits and is worth £1,040 per year.

Whilst the 6 months extension is a welcome announcement today and it has been described as a lifeline to many struggling families, many feel it does not go far enough and leaves uncertainty for the difficult months ahead when it will be withdrawn in the Autumn of 2021.

The extra £20 per week is paid to all Universal Credit claimants regardless of what elements they are eligible for.

The effects of the pandemic have seen an increase in the number of people applying for Universal Credit. The number of people claiming was 2.8million in January 2020 but the last 12 months has seen a staggering increase, with 6million claiming the benefit as at January 2021.

In a similar measure, the Chancellor also announced that current Working Tax Credits claimants would receive an equivalent one off payment of £500, intended to cover the same six month period. Due to significant operational differences in the way the two systems work, this payment will be made as a one off lump sum to people who are currently in receipt of Working Tax Credits.

It is not possible to claim both Universal Credit and Working Tax Credit at the same time. A new application for Universal Credit will terminate any existing claim for Working/Child Tax Credits that the applicant has in place. It is no longer possible to make a new claim to receive Tax Credits. Consideration and advice should be sought to ensure you are claiming under the most favourable system depending on your circumstances as the two systems are significantly different.

Budget 2021

COVID Related Grants and Furlough Scheme Extended

1. Furlough Scheme

The furlough scheme has once again been extended, this time to the end of September 2021. There will be no change to the terms for employees but the scheme will return to a tapered arrangement for employers from the summer.

This means the Government will continue to pay 80% of wages up to a monthly cap of £2,500 until 30 June, with employers covering Employer NICs and pensions from May. From 1 July this will reduce to 70% up to a cap of £2,187.50 and from 1 August to 30 September 2021 the government will pay 60% of wages up to a cap of £1,875.

2. Self Employment Income Support Scheme (SEISS)

We have seen three periods of grants available via the Self Employment Income Support Scheme (SEISS) so far, with the fourth grant covering the period February to April 2021 set to open in April. The Chancellor has confirmed that this fourth grant will be based on 80% of average monthly profits, capped at £7,500 in total.

Importantly, as the 2019/20 tax return deadline has now passed, those previously ineligible may now be eligible for the fourth and fifth grants, particularly those that are newly self employed and didn't have a 2018/19 tax return.

A fifth and final grant has also been announced, covering the period May to July 2021 and will open for applications in late July. A grant based on 80% of average monthly trading profits will be available to those that can prove their turnover has fallen by more than 30%. If turnover has fallen by under 30% then a grant will be available covering a significantly lower amount of 30% of average monthly trading profits.

3. Restart Grants

A further round of cash grants are being made available for businesses with premises that will be reopening in the coming months, as part of the Government's roadmap out of the pandemic.

Non-essential retail businesses are set to open first and can access grants of up to £6,000 per premises.

Hospitality and leisure businesses are due to open up later and can access grants of up to £18,000. Local Authorities will also receive funding to make further discretionary grant pots available.

Continued overleaf...

Budget 2021

COVID Related Grants and Furlough Scheme Extended (Cont...)

4. Apprentice Payments

Apprentice hiring incentives are being extended to September 2021 and payments will be doubled to £3,000 for all new apprenticeship hires of any age. A flexi-apprenticeship programme is also being introduced, which will allow people to work for a number of different employers in the same sector.

5. Recovery Loan Scheme

Bounce Back Loans and the Coronavirus Interruption Loan Scheme will come to an end on 31 March 2021 as planned.

At this point, a new ‘Recovery Loan Scheme’ will become available. This scheme will provide loans of between £25,000 and £10m for businesses of any size through to the end of this year. Lenders will be given a Government guarantee of 80%.

6. Culture Recovery Fund

£300m extra funding has been made available for the Culture Recovery Fund, to support theatres, museums, heritage sites, festivals, and music venues.

7. Help to Grow

A new MBA style management training course will be available at business schools across the UK, offering 50 hours of tuition, mentoring and peer learning. This will cost businesses £750 which is 10% of the unit cost. The Government will cover the remaining 90%.

Assistance will also be given to small businesses to enable them to develop digital skills by giving them free advice, and a 50% contribution towards the purchase of new productivity-enhancing software, up to £5,000 each.