UK GOVERNMENT BUDGET
March 2021

Budget Announcements – 3rd March 2021

Updated: 4th March 2021

INTRODUCTION

The aim is to summarise the main points of interest from the budget and make this available to our clients and contacts. This is not a comprehensive review of all the measures announced in the budget, this paper focuses on the points we believe will be of most interest to our clients and contacts.

This publication has been written in general terms and may not include all relevant information. It is recommended that you obtain professional advice before acting or refraining from action on any of the contents of this publication. There are areas where further clarification is expected in the coming weeks.

BUDGET HIGHLIGHTS

The Chancellor has delivered some targeted new tax increases and tax reliefs as he attempts to help struggling sectors whilst stabilising the national debt. Income tax, CGT and national insurance rates remain unchanged, but the personal allowance and the higher rate threshold will be frozen from 2021/22 to 2025/26. Businesses will be able to make use of a new 'super deduction' on capital investments and a temporary three-year carry back on losses. However, the corporation tax rate will be increased to 25% from April 2023. Smaller businesses will be protected from this corporation tax burden by a new small profits rate.

There will be further tax announcements that will be made on 23 March. On that date the Chancellor will lay out new tax consultations and calls for evidence. These may provide some more insight into the direction of the Government's future tax policy for the UK.

BUSINESS TAXES

HIGHLIGHTS	*DETAILS & COMMENTS*
THE MAIN RATE OF CORPORATION TAX WILL INCREASE TO 25% IN APRIL 2023 A NEW SMALL PROFITS CORPORATION TAX RATE OF 19% WILL BE INTRODUCED IN APRIL 2023	The main corporation tax rate for company profits over £250,000 will be 25%, with companies with profits under £50,000 continuing to be taxed at 19%. Profits in between these limits will be taxed at a tapered rate. This will come into effect for the financial year starting 1 April 2023. The main corporation tax rate will remain at 19% until 1 April 2023, when it will increase to 25% for companies with profits over £250,000. A new small profits rate of 19% will also come into effect on 1 April 2023 for companies with profits lower than £50,000. Companies with profits between £50,000 and £250,000 will be charged corporation tax at a tapered rate. Profit limits will be proportionately reduced for short accounting periods or where a company has one or more associated companies. This will make both profit limit bands smaller for companies under common control and corporate groups, bringing more companies within the tapered or higher rate of tax. Businesses will need to give more consideration to group structuring, the payment of dividends compared to bonuses, and the use of group relief when looking to reduce taxable profits to access the 19% rate. Close investment holding companies will become liable to corporation tax at 25% from 1 April 2023 regardless of their profits.

BUSINESS TAXES

HIGHLIGHTS	*DETAILS & COMMENTS*
TRADING LOSSES CAN TEMPORARILY BE CARRIED BACK FOR THREE YEARS	The corporation tax and income tax trading loss carry back rules will be temporarily extended. This amendment will allow relief to be carried back to the previous three years rather than the usual one year. This is an extension to the carry back of trading losses for corporation tax made in accounting periods that end between 1 April 2020 and 31 March 2022. In addition to the normal one-year carry back against total profits, the losses may be carried back a further two years against profits of the same trade. Losses are carried back against later years in preference to earlier years. There is a cap of £2m for trading losses being carried back more than one year. Losses carried back one year are unlimited, as usual. A further, separate, £2m cap is applied for each period of 12 months within the duration of the extension. So, for example, a company with a 31 March year end will have one £2m cap for its 2021 year end and a second £2m cap for its 2022 year end. If the amount of the claim is not (and could not be) more than £200,000, the claim can be made outside of the tax return. In calculating if the £200,000 threshold is exceeded, a company must consider all capital allowances or any other claim or reliefs that are available to it. The £2m cap applies to groups of companies, unless all group companies' claims are individually below the threshold, so loss-making groups will need to decide how best to utilise losses amongst members. Groups subject to the £2m cap must submit an allocation statement showing how it has been allocated between its members. This relief **does not** apply to **property businesses**. **For unincorporated businesses** (for income tax), trading losses made in the 2020/21 and 2021/22 tax years are subject to these new rules. Sole traders must offset losses against profits of the same trade. As with companies, losses are carried back against later years in preference to earlier years. There is a separate cap of £2m for each tax year of loss. A sole trader therefore has a £2m cap for 2020/21 and another £2m cap for 2021/22. Sole traders can make a claim in their tax return, or if the claim affects more than one tax year, a standalone claim may be made. For sole traders, these new rules mean they may be able to reduce their marginal rates of income tax in the earlier years. **HMRC will not give effect to claims and make repayments until Finance Bill 2021 receives Royal Assent.** **For companies, this relief will apply to losses made in accounting periods ending between 1 April 2020 and 31 March 2022.** **For unincorporated businesses, it will apply to basis periods ending in the 2020/21 and 2021/22 tax years.**

BUSINESS TAXES

HIGHLIGHTS	*DETAILS & COMMENTS*
A 130% 'SUPER DEDUCTION' WILL BE INTRODUCED FOR CAPITAL INVESTMENTS IN QUALIFYING NEW PLANT AND MACHINERY	A 130% super-deduction for expenditure on new, qualifying plant and machinery will be introduced for two years from 1 April 2021. A first-year allowance of 50% will also be available for expenditure which ordinarily qualifies for special rate relief (of 6%). These reliefs **will not be available for expenditure in connection with contracts entered into prior to 3 March 2021.** Used and second-hand assets will be excluded and the general first year allowances exclusions will apply. Companies will also be required to recognise disposal proceeds as balancing charges, where the super-deduction has been claimed. These reliefs only apply to companies, excluding sole traders, partnerships and LLPs who will need to rely on the extended £1 million Annual Investment Allowance and will not benefit from enhanced deductions above this amount. Companies will need to carefully consider the interaction between these temporary reliefs and existing reliefs, such as the Annual Investment Allowance, and Research and Development allowances, to make the best use of the allowances available to them. **The measure applies from 1 April 2021 for two years.**
EXTENSION OF THE £1M ANNUAL INVESTMENT ALLOWANCE LIMIT	The chancellor confirmed that the temporary increase in the Annual Investment Allowance (AIA) for plant and machinery to £1m has been extended by a year. This limit will have effect from 1 January 2021 to 31 December 2021. This increase was originally intended to be for two years, but it has now been extended by a further 12 months to 31 December 2021.
INCREASE IN THE RATE OF DIVERTED PROFITS TAX	The rate of Diverted Profits Tax (DPT) is set to increase from 25% to 31%, from 1 April 2023. The current rate of DPT is 25%, 6% higher than the main rate of corporation tax, which is currently 19%. Given the proposed increase in the main rate of corporation tax to 25% for the financial year beginning 1 April 2023, the rate of DPT is being increased. The result is an increase of 6% for DPT, to 31%, for the financial year beginning 1 April 2023. DPT mostly applies to large multinational enterprises, and therefore this change is unlikely to impact most businesses. However, businesses should ensure that their transfer pricing policies are robust, supportable and controls exist to ensure they are adhered to in practice.

BUSINESS TAXES

HIGHLIGHTS	*DETAILS & COMMENTS*
CORONAVIRUS JOB RETENTION SCHEME EXTENSION	The Coronavirus Job Retention Scheme (CJRS) is being extended until 30 September 2021. The operation of the CJRS will not change for the months of May and June. In broad terms this means that employers will receive a grant equal to 80% of furloughed employees' remuneration for the hours they do not work. This allows employees to be furloughed flexibly, as business activity returns to normal. The amount that can be claimed by businesses will be gradually reduced from July onwards. For the month of July, employers will only receive 70% of furloughed employees' remuneration. For August and September, the figure will be reduced to 60%. This reduction will be made up by increased employer contributions. For the month of July, the Government will introduce an employer contribution of 10% towards the pay for unworked hours, up to a monthly cap. For August and September this will be 20%.

CAPITAL TAXES

HIGHLIGHTS	*DETAILS & COMMENTS*
THE CURRENT CGT ANNUAL EXEMPT AMOUNTS OF £12,300 FOR INDIVIDUALS AND £6,150 FOR MOST TRUSTEES ARE TO REMAIN THE SAME UP TO AND INCLUDING THE 2025/26 TAX YEAR	The Government has announced that the capital gains tax (CGT) annual exempt amount (AEA) will remain at its current rate up to and including the 2025/26 tax year. The AEA is the annual amount below which capital gains realised by an individual or by trustees in a particular tax year are not subject to CGT. The AEA for the 2020/21 tax year is £12,300 for individuals and a maximum of £6,150 for trustees.

CAPITAL TAXES

HIGHLIGHTS	*DETAILS & COMMENTS*
THE IHT NIL-RATE BAND AND RESIDENCE NIL-RATE BAND HAVE ALSO BEEN FROZEN AT THEIR CURRENT LEVELS OF £325,000 AND £175,000 RESPECTIVELY, UNTIL 5 APRIL 2026	The inheritance tax nil rate band and the residence nil rate band will remain at their current level up to and including the 2025/26 tax year. The nil-rate band (NRB) threshold, above which inheritance tax becomes payable, will remain at £325,000 until April 2026. The residence nil-rate band (RNRB), which applies when taxpayers pass their main residence to their direct descendants on death, will also be kept at £175,000 for this period. The RNRB is reduced by £1 for every £2 that an estate exceeds £2 million in value and this £2 million threshold will also remain fixed until April 2026. The combined effect of the NRB and RNRB means that, in some circumstances, an estate worth up to £1 million can be passed on, without any charge to inheritance tax, on the death of a surviving spouse or civil partner.

INCOME TAXES / EMPLOYEE INCENTIVES

HIGHLIGHTS	*DETAILS & COMMENTS*
PERSONAL ALLOWANCE TO BE FROZEN AT £12,570 FROM 2021/22 TO 2025/26. BASIC AND HIGHER RATE INCOME TAX THRESHOLDS TO BE FROZEN AT £37,700 AND £50,270, RESPECTIVELY, FROM 2021/22 TO 2025/26.	The personal allowance and basic rate tax band will increase in line with inflation from 6 April 2021, to £12,570 and £37,700 respectively, but thereafter remain frozen at these levels until 5 April 2026. Income tax rates remain unchanged. The respective upper earnings limit and upper profits limit for Class 1 and Class 4 national insurance contributions will also increase in line with inflation and will remain aligned with the higher rate threshold of £50,270 until April 2026. Income tax rates remain unchanged. As this is an area of devolved tax policy, this does not apply to Scotland. Scotland applies its own Income Tax rates and bands, for more information on the rates and bands as set out for 2021/22 see here: Scottish Income Tax: 2021-2022 - gov.scot (www.gov.scot) *Please note, links will direct you to third party website(s). The FD Centre is not responsible for the content of third party websites.*

INCOME TAXES / EMPLOYEE INCENTIVES

HIGHLIGHTS	*DETAILS & COMMENTS*
PENSIONS LIFETIME ALLOWANCE FROZEN AT CURRENT LEVEL OF £1,073,100 FROM 2021/22 TO 2025/26	The pension lifetime allowance of £1,073,100 has been frozen until 5 April 2026. Those with accumulated pension funds nearing or above £1million will find themselves reaching or breaching the lifetime allowance sooner than otherwise anticipated. The lifetime allowance (LTA) is the value of a pension fund an individual can accrue before suffering additional tax charges when benefits are taken. The current LTA of £1,073,100 was due to increase with inflation on 6 April 2021. This announcement sees the inflation linking removed until at least 2026. This will increase the number of people who will be affected by lifetime allowance charges, whether in defined contribution pensions, like SIPPs and group schemes, or defined benefit schemes, such as the final salary schemes within the public sector.
RELIEFS FOR HOME OFFICE EXPENSES, COVID TESTS AND CYCLE EXEMPTIONS HAVE BEEN EXTENDED	The temporary income tax and Class 1 National Insurance contributions (NICs) exemption, for the reimbursement by employers of expenses incurred by employees in acquiring relevant home office equipment, will be extended until 5 April 2022. This temporary measure was originally due to end on 5 April 2021 and was introduced to provide certainty that employees could receive reimbursement for relevant expenses free of income tax and NICs. The exemption will now apply until 5 April 2022. For the exemption to apply, the reimbursement must be available to all employees on similar terms and the expenditure must have been on equipment acquired for the sole purpose of making it possible to work from home because of the COVID-19 pandemic. It also needs to have been tax exempt if the cost were incurred directly by the employer. Home office equipment includes anything that is deemed necessary for the employee to work from home because of the COVID-19 pandemic. This includes the cost of a laptop, desk, office chair and other necessary computer accessories. The existing provision will continue until 5 April 2022.

VAT & INDIRECT TAXES

HIGHLIGHTS	*DETAILS & COMMENTS*
THE STAMP DUTY LAND TAX HOLIDAY ON PROPERTY UP TO £500,000 WILL BE EXTENDED BY THREE MONTHS TO 30 JUNE 2021, THEN TAPERED OFF UNTIL 30 SEPTEMBER	On 8 July 2020, the Chancellor announced that the SDLT nil rate band, being the first slice of consideration on which the SDLT rate is 0%, would increase from £125,000 to £500,000. This was a temporary measure and was planned to end on 31 March 2021. The Government has now confirmed that the nil rate band will remain at £500,000 until 30 June 2021. It will then reduce to £250,000 from 1 July 2021 before returning to £125,000 from 1 October 2021. As this is an area of devolved tax policy, this does not apply to Scotland. The Scottish Land and Buildings Transaction Tax holiday is due to end in March. For more information on this area please see: New Land and Buildings Transaction Tax (LBTT) nil rate band | Revenue Scotland *Please note, links will direct you to third party website(s). The FD Centre is not responsible for the content of third party websites.*
THE VAT REGISTRATION THRESHOLD WILL REMAIN FIXED AT £85,000 UNTIL 31 MARCH 2024	The VAT registration and deregistration thresholds, £85,000 and £83,000 respectively, will remain unchanged until 31 March 2024.
THE TEMPORARY 5% REDUCED RATE OF VAT FOR HOSPITALITY AND TOURISM BUSINESSES WILL BE EXTENDED BY SIX MONTHS, FOLLOWED BY A 12.5% RATE FOR SIX MONTHS	The 5% reduced rate of VAT for the hospitality and tourism sectors has been extended to 30 September 2021. A reduced rate of 12.5% will then apply until 31 March 2022, before reverting to the standard rate from 1 April 2022. These measures apply to supplies of restaurant services, hot takeaway food, holiday accommodation and admission to many attractions. It is worth noting that the scope of these measures has not been expanded, so the sale of alcoholic beverages will continue to be subject to VAT at the standard rate of 20%.