**Spring 2021 - Budget Guide**

The Budget included more support to help businesses survive the Covid-19 pandemic. The Chancellor also started his debt-recovery strategy by announcing an increase in corporation tax from 19% to 25%. There were also repeated warnings that the support would have to be paid for.

**2021 Tax measures**

The specific tax measures included an additional two-year loss carry-back (covering losses of up to £2m in each of 2020/21 and 2021/22), which replicates a relief given in response to the 2008 financial crisis.

The capital allowances super-deduction, though restricted to limited companies, should also help to convert cash into income generating assets, essential if productivity is to be boosted.

The increase in the Corporation Tax rate to 25% from April 2023 was hardly unexpected. While the small profits rate of 19% is welcome, it brings with it the inevitable complication of a taper effect and doubtless some interesting bonus v/s dividend calculations.

**Covid-19 business support measures**

New Restart Grants to Help Businesses Reopen

Non-essential businesses will receive grants up to £6,000 per premises

Hospitality and leisure (which includes care and gyms) can each receive grants of up to £18,000 (where they are impacted by restrictions and may not open until later this year).

Grants - export

The SME Brexit Support Fund grant provides up to £2,000 to help with training or professional advice.

Furlough scheme extended until 30 Sept 2021

Employees will continue to receive 80% of their current salary for hours not worked with no employer contribution beyond NICs and workplace pensions required in April, May and June 2021.

From July 2021, the Government will introduce an employer contribution towards the cost of unworked hours of 10% in July 2021, 20% in August 2021 and 20% in September 2021.

From 1 May 2021 on, the scheme has been amended to include newly eligible employees who were employed on 2 March 2021, as long as they were reported on an RTI submission between 20 March 2020 and 2 March 2021.

Two more self-employment income support scheme (SEISS) grants

A fourth SEISS grant worth 80% of three months' average trading profits will cover the period from February to April 2021, capped at £7,500

Self-employed recipients need to have filed a 2019/20 tax return through self-assessment by midnight on 2 March 2021 to be eligible for the fourth grant.

Taxpayers can apply for SEISS 4 grants via an online portal that will open from late April to 31 May 2021. They will need to use their government gateway ID to access the claims portal, so tax agents will not be able to on behalf of clients.

A "fifth and final" SEISS grant will cover May-September 2021. Those whose turnover has fallen by 30% or more will receive the full grant worth 80%, capped at £7,500. Those whose turnover has fallen by less than 30% will receive a 30% grant, capped at £2,850. The final grant can be claimed from late July.

SEISS grants paid during 2021/22 tax year will now be included as income in the tax year in which they are received. A further extension of legislation will be applied to raise a tax charge equivalent to the amount of a SEISS grant to be recovered, where entitlement expired.

**Note**

All traders who claim either of these new SEISS grants must still be trading in 2021, or their business must be temporarily closed due to corona virus restrictions. The taxpayer must declare, as part of the grant application, that they intend to continue trading in 2021. "This is particularly tough for individuals who started their self-employed business in 2019, but who were left with no government support in 2020. They still won't qualify for SEISS support if their new business could not survive into 2021. Only those businesses where turnover (not profits!) have fallen by at least 30% will get the full grant calculated at 80% of average trading profits. Other businesses whose turnover has fallen by less than 30% will receive a grant based on 30% of average profits, capped at £2,850.

## Business rates holiday continues until June 2021

Eligible retail, hospitality and leisure properties in England will continue to benefit from 100% relief until 30 June 2021.

The relief will be reduced to 66% from July 2021 until the end of March 2022 with a cap of £2m per business for properties required to close on 5 January 2021 or £105,000 for other eligible properties.

## Stamp Duty holiday extended to June

The Chancellor confirmed a three-month extension to the stamp duty land tax holiday until 30 June 2021. The holiday will apply to properties up to £500,000 from 31 March to 30 June 2021, and will continue with a lower zero rate band of £250,000 from 1 July to 30 September and reverting to £125,000 from October 2021.

The Welsh Government followed this lead with an extension of its LTT until 30 June.

Non-UK residents are to pay 2% surcharge SDLT on residential property purchases from April 2021.

## Annual tax on enveloped dwellings (ATED)

The ATED charges increase automatically each year in line with inflation (based on the previous September's Consumer Prices Index).

| | 2021/22 | | 2020/21 |
|---|---|---|---|
| | **£** | | **£** |
| **Annual tax on enveloped dwellings (ATED)** | | | |
| More than £0.5m but not more than £1m | 3,700 | | 3,700 |
| More than £1m but not more than £2m | 7,500 | | 7,500 |
| More than £2m but not more than £5m | 25,300 | | 25,200 |
| More than £5m but not more than £10m | 59,100 | | 59,850 |
| More than £10m but not more than £20m | 118,600 | | 118,050 |
| More than £20m | 237,400 | | 236,250 |

## Recovery Loan Scheme replaces CBILS and BBLS

A new Recovery Loan Scheme will replace existing corona virus business support loan schemes (CIBLS, CLBILS and BBLS), which all end on 31 March.

The scheme will provide lenders with a government guarantee of 80% on eligible loans between £25,000 and £10m for "any legitimate business purpose, including growth and investment" and will remain open until 31 December. • Finance terms are up to six years for term loans and asset finance facilities and up to three years for overdrafts and invoice finance facilities. • The scheme will be open to all businesses in Scotland, Wales and Northern Ireland, including those that have already received support under the existing Covid guaranteed loan schemes.

## Corporation tax New 25% and 19% rates, with tapering relief

Corporation tax will increase to 25% from 1 April 2023, but companies with profits of up to £50,000 will pay tax at 19%.

Companies with profits between £50,000 and £250,000 will pay tax at the main rate, but this will be reduced by a marginal relief creating a tapered corporation tax rate.

## Note

Marginal relief for corporation tax, is reintroduced and will apply where a company's profits fall between £50,000 and £250,000. "The return to a small profits rate corporation tax regime adds unwelcome complexity. But there is one glimmer of good news for groups, as the £50,000 and £250,000 thresholds will be calculated based on the 51% related group company definition, rather than the previous (stricter) associated company rules. Some limited planning may therefore be possible.

## Corporation tax loss relief

The corporation tax trading loss carry-back rule will be temporarily extended from the existing one year to three years. This measure will cover company accounting periods ending in the period 1 April 2020 to 31 March 2022.

After the loss has been carried back to the preceding year, a maximum of £2m of unused losses will be available to carry back against profits of the same trade to the earlier two years. This £2m cap applies separately for both 2020/21 and 2021/22.

Companies that are members of a group will be able to obtain relief for up to £200,000 of losses in both 2020/21 and 2021/22 without any group limitations.

Companies that are members of a group will be able to obtain relief of up to £2m of losses in 2020/21 and 2021/22, but subject to a £2m cap across the group as a whole.

## Note

Many companies will have made losses during the Covid-19 pandemic, and additional relief is provided for loss-making business in the form of an extended three year carry back for up to £2m of losses per group in each of the financial years 2020/21 and 2021/22. This £2m cap applies only to the extended carry back, ie there is no change to the unlimited carry back of losses to the previous 12 month accounting period. Groups will be required to nominate a company to submit a loss allocation statement where any member of the group claims to carry back a loss of more than £200,000 under the extended carry back rules. More detail of the group allocation is awaited, but the ability to make a loss carry back claim up to £200,000 without the administrative hassle of submitting a group allocation statement is helpful.

## Super deduction

A new "super deduction" of 130% of capital expenditure on new qualifying plant and machinery will apply from 1 April 2021 to 31 March 2023, when the 25% rate of CT starts.

The 130% deduction applies to assets which would be eligible for the main pool capital allowances rate of 18%.

Expenditure on new special rate pool assets will benefit from a 50% first year allowance. The super deduction is in addition to the extension of the AIA limit of £1m until 31 December 2021.

To attract the super deduction plant and machinery must be acquired new and expenditure on intangible assets is excluded.

## Research & development relief

The amount of the SME payable R&D tax credit that a company can receive in any one year will be capped at £20,000, plus three times the company's total PAYE and NICs liability. This measure will apply to accounting periods beginning on or after 1 April 2021.

Claimants may be able to gain exemption from the cap, if their direct employees create or manage intellectual property, or if the amount spent on external workers or subcontracted R&D activities does not exceed 15% of qualifying expenditure.

The definition of intellectual property, for the purposes of potential exemption from the cap, is to be widened to include both know-how and trade secrets. This is really important for those companies that don't actively protect their IP, for example through patents.

## Note

The draft legislation contains provisions that require a straddling period to be split between that part falling before 1 April 2021 and that part falling on or after 1 April 2021, although the full period started before 1 April 2021, the cap would apply to the later period. This would have meant that periods already commenced could be impacted by this cap. "Both of these changes are very welcome and demonstrate the determination of HMRC and Treasury to introduce a cap in a manner that does not impact too much on genuine R&D activity. This is, after all, an anti-abuse measure.

## Annual investment allowance

The current temporary £1m annual investment allowance (AIA) limit remains in place until 1 January 2022, when the AIA will reduce to £200,000.

Transitional rules will apply to the AIA limit where a business has an accounting period that spans 1 January 2022.

## Apprenticeship funding

Apprenticeship incentive payments for employers will increase to £3,000 per new hire until September 2021.

## Apprenticeships

SMEs should register on the apprenticeship employer hub before the end of the month to benefit from apprenticeship levy funding.

## VAT: Hospitality VAT rate cut extended

Until 30 September 2021, the temporary 5% rate of VAT applies for the tourist and hospitality industry.

It was due to revert to 20% from 1 April 2021, but a half-way rate of 12.5% will apply from 1 October 2021 to 31 March 2022, when VAT will return to 20% for the tourist and hospitality sector.

New rates will be issued for flat rate scheme users to coincide with the introduction of the 12.5% rate.

| **Main VAT Rates** | **From 1 April 2021** | **2020** |
|---|---|---|
| Standard rate | 20% | 20% |
| VAT fraction | 1/6 | 1/6 |
| Reduced rate,(on domestic fuel) | 5% | 5% |
| VAT fraction | 1/21 | 1/21 |
| Temporary reduced rate (hospitality sector, | | |
| 1 October 2021 – 31 March 2022) | 12.5% | N/A |
| VAT fraction | 1/9 | N/A |

## New VAT penalties for late payment and late returns

A new system for late VAT returns and payments based on points for each offence will apply for VAT periods beginning on or after 1 April 2022.

Where VAT has been paid late after that date there will be no penalty for payments made within 15 days of the due date. After day 15, a penalty of 2% of the tax outstanding will be added for payments made within 30 days. The penalty increases to 4% of the tax outstanding after 30 days.

An additional penalty will be applied on a daily basis at an annual rate of 4% from day 31 on the tax that remains outstanding.

A time-to-pay arrangement will stop penalties from increasing from the day the arrangement is proposed, but interest will still be charged.

Taxpayers who fail to submit VAT returns will accumulate points based on the number of failures to submit returns or tax information.

Taxpayers will receive a point every time they miss a submission deadline and will be hit with a £200 when they pass thresholds based on the return's frequency of submission (annual returns: 2pts; quarterly returns 4pts; monthly returns 5pts).

The full details of the points system are set out in HMRC's Penalties for late submission policy paper.

## VAT thresholds

The VAT-registration threshold will be maintained at £85,000 for a further two years from 1 April 2022.

The de-registration threshold will also be frozen at £83,000 until at least 2024.

## VAT deferral

Businesses with outstanding VAT from last year may join the VAT deferral new payment scheme to spread their payments. The online service is open until 21 June 2021.

## Note

The VAT threshold has been frozen at £85,000 since 1 April 2017. This is a stealth tax because it would now have risen to £93,000 based on the retail price index method that used to be applied each year. Many small businesses will have either frozen prices or sold fewer goods or services since 2017 to keep below the magical figure of £85,000.

HMRC estimates that 19,400 extra businesses will need to register for VAT by March 2024 because of the threshold being frozen for another two years. "The de-registration threshold will also be frozen at £83,000 until at least 2024. Don't forget that this is a forward looking rather than historic test - a business can deregister if it expects taxable sales will be less than £83,000 in the next 12 months. This figure includes zero-rated sales but excludes those which are either outside the scope or exempt from VAT.

Freeport tax incentives - Eight freeports were unveiled in the 2021 budget, to be located at East Midlands Airport, Felixstowe & Harwich, Humber, Liverpool, Plymouth and South Devon, Solent, Teesside and Thames.

Businesses setting up in these zones will benefit from tax reliefs, including:

Enhanced 10% structures and buildings allowance rate for constructing or renovating non-residential structures within freeport areas.

Enhanced capital allowance of 100% for investing in plant and machinery, applying to main and special rate assets within the zone.

Full relief from stamp duty land tax on land and property within freeport tax sites in England purchased and used for qualifying commercial purposes.

Full business rates relief in freeport tax sites in England, applying for five years from the point at which each beneficiary first receives relief.

Subject to parliamentary approval, employer NICs relief for eligible employees in freeport tax sites from April 2022.

Personal tax and NICs

Income tax and national insurance rates and thresholds already announced for 2021/22 will not be increased for the next four years.

A summary of the figures is shown below:

## Income tax rates – England, Wales and Northern Ireland

| Non-savings and non-dividend taxable income | Rate | Tax | Cumulative |
|---|---|---|---|
| **£** | **%** | **£** | **£** |
| **2021/22** | | | |
| **Savings: 0–5,000** | 0 | Nil | Nil |
| 0–37,700 | 20 | 7,540 | 7,540 |
| 37,701–150,000 | 40 | 44,920 | 52,460 |
| Over 150,000 | 45 | - | - |
| **2020/21** | | | |
| **Savings: 0–5,000** | 0 | Nil | Nil |
| 0–37,500 | 20 | 7,500 | 7,500 |
| 37,501–150,000 | 40 | 45,000 | 52,500 |
| Over 150,000 | 45 | - | - |

## Income tax

The personal allowance will rise by £70 to £12,570 and then frozen at that level until April 2026.

The basic rate band will widen by £200 in 2021/22, from £37,500 to £37,700.

The additional-rate band will remain at £150,000 for the next four years.

In Scotland, the starter rate will rise to £14,667 and the basic rate will increase to £25,296. The intermediate rate will also rise to £43,662.

| Band | 2021/22 | Rate | 2021/21 | Rate |
|---|---|---|---|---|
| **Personal allowance** | **Up to £12,570** | **Nil** | **Up to £12,500** | **Nil** |
| **Basic-rate Over** | **£12,570 - £50,270** | **20%** | **Over £12,500 - £50,000** | **20%** |
| **Higher-rate*** | **Over £50,270 - £150,000** | **40%** | **Over £50,000 - £150,000** | **40%** |
| **Additional-rate*** | **Above £150,000** | **45%** | **Above £150,000** | **45%** |

*** The personal allowance is reduced by £1 for every £2 of income from £100,000 to £125,140**

## National Insurance Contributions

The rates and thresholds applying for 2021/22 were announced prior to the Budget. From April 2021, the upper earnings limit and upper profits limit will increase from £50,000 to £50,270.

The class 2 NICs rate for the self-employed will remain at £3.05 a week for 2021/22, while the self-employed small profits threshold will rise to £6,515.

## Note

The planned increases in the personal allowance to £12,570 and the 20% tax band will remain but then will be frozen until 5 April 2026. "This is a huge relief operationally for both HMRC and employers, given that all the PAYE tax codes for 2021/22 have now been issued and payroll software updated to apply the personal allowance increases to suffix codes L, M and N.

## Off-payroll working rules from 6 April 2021

HMRC is making late revisions to the legislation for individuals working for a medium or large-sized client organisation outside of the public sector through their own personal services companies (PSC).

The party paying the individual's PSC (the fee-payer or deemed employer) is treated as an employer for the purposes of Income Tax and Class 1 National Insurance contributions.

The amount paid to the individual's PSC for the individual's services is deemed to be a payment of employment income, or of earnings for Class 1 National Insurance contributions for that individual.

The party paying the worker's intermediary (the fee-payer) is liable for secondary Class 1 NICs and must deduct tax and NICs from the payments they make to the worker's intermediary in respect of the services of the worker.

The person deemed to be the employer for tax purposes is obliged to remit payments to HMRC and to send HMRC information about the payments using RTI returns.

## National living wage

The national living wage now applicable to over-23's, increases by 2.2%, from £8.72 an hour, to £8.91 an hour, from April 2021.

## Note

As the highest rate drops to age 23 from 25, employers will need to take care that there is still headroom for salary sacrifices such as pensions to be operated without pay dropping below NMW. "The government's target is for the top rate of national living wage to be two thirds of median earnings, and extended to those aged 21 and over, by 2024.

## Inheritance tax bands unchanged

The nil-rate band of £325,000 and residence nil rate band of £175,000 will also remain unchanged.

The taper threshold for the residence nil-rate band continues to start at £2m.

This increase in line with income tax expectations suggests that there are no immediate plans to increase the IHT take which estate planners may see as welcome and the Government is known to want to clamp down on IHT abuse, so that may change.

## Capital gains tax

No change, but are rates set to rise?

The current annual exempt amount for individuals and personal representatives of £12,300 and £6,150 for trustees of settlements will be maintained at these levels for each tax year up to and including the 2025/26 tax year.

## Note

The CGT annual exemption doesn't change at all for 2021/22 and will remain £12,300 until 2025/26, but it is CGT that the Government expects to produce the greatest percentage increase in tax receipts? At first sight a whopping 42.6%, although much of that may be attributed to the severe restrictions in business asset disposal relief (nee entrepreneurs' relief) introduced last year but that increase may yet indicate that CGT rate increases are waiting in the wings and some narrowing of the gap between CGT and income tax rates may be on the way.

## Business asset disposal relief & investors' relief

The lifetime limit on qualifying gains for business asset disposal relief will remain at £1m for 2021/22.

The lifetime limit for investors' relief will also be kept at the current level of £10m.

The 10% tax rate remains unchanged.

## Trading losses

Unincorporated businesses can currently claim to offset losses against their net income of the current or previous year, or both years.

For trading losses made in 2020/21 and 2021/22, however, can now be carried back for a period of three years, with losses being carried back against later years first.

## Company van and car benefits in kind

From 6 April 2021, the company van benefit which arises where a van is made available to an employee for private use will increase to £3,500.

The van benefit charge is reduced to zero in 2021/22 for company vans that produce zero carbon emissions and which are available for an employee's unrestricted private use.

Where fuel is provided for private journeys in a company van, the fuel benefit charge is set at £669 for 2021/22.

A separate benefit-in-kind charge arises where fuel is provided for private motoring in a company car. This is found by multiplying the appropriate percentage used to work out the company car benefit by the multiplier for the year. The company car fuel benefit multiplier increases from £24,500 to £24,600 from 6 April 2021.

The appropriate percentages for cars registered before 6 April 2020 remain unchanged for 2021/22. The appropriate percentages for cars first registered on or after 6 April 2020 are increased by one percentage point (subject to the maximum charge of 37%) for 2021/22 as part of the process of bringing them into line with those applying to cars first registered before that date. The appropriate percentages will be aligned from 2022/23.

The diesel supplement remains at 4% for cars not meeting the RDE2 emissions

## Marriage allowance

The transferable marriage allowance will increase from £1,250 to £1,260 for 2021/22.

## Savings and pensions Individual Savings Accounts

All of the subscription limits will remain unchanged. For ISAs, this will be £20,000 and for Junior ISAs and child trust funds it will be £9,000.

## Pension lifetime allowance

The lifetime allowance for pension savings will remain at £1,073,100 until the 2025/26 tax year.

## Social investment tax relief

The previous end date of the social investment tax relief of 6 April 2021 has been extended to 6 April 2023. This applies to investments in qualifying social enterprises and will allow income tax relief and capital gains tax holdover relief for investors to continue.

## Mortgage Guarantee Scheme

This will be introduced in April 2021 to 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.

All buyers will have the opportunity to fix their initial mortgage rate for at least 5 years should they wish to.

## Interest relief for landlords

Landlords will be able to obtain relief as follows:

| | Finance cost allowed in full | Finance cost allowed at basic rate |
|---|---|---|
| Year to 5 April 2020 | 25% | 75% |
| Year to 5 April 2021 | 0% | 100% |

## Time to pay

Taxpayers can set up a payment plan online via GOV.UK.