Technical CONNECTION

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INTRODUCTION

It is just over a year since the last Budget on 11th March 2020, and what a year it has been.

The backdrop to this year's Budget incorporated the following realities and themes:

- That priority should be given to supporting the economy, individuals, businesses and jobs before introducing any radical tax reform.
- The pre-Election promise not to increase the *rates* of income tax, National Insurance and VAT.
- The size of Government debt, the likely continuing high level of the deficit (annual expenditure less income) and the concerns over the impact that even a small rise in the cost of borrowing could have.
- The Chancellor's concern over the need, at some point, to set about repairing "exposed" public finances and returning to "fiscal conservatism" once the economy is back on its feet; and his expressed desire to "level" with the population about this. The Institute for Fiscal Studies suggests that around £40–£60 billion a year will need to be found.
- The Office of Tax Simplification (OTS) reviews of capital gains tax and inheritance tax.
- The Government response to the Public Accounts Committee challenge on pensions tax relief in September 2020, stating that

there was no plan to review the impact of pensions tax relief within the next 12 months.

- That consultations and calls for evidence not related to tax changes to be implemented in the next Finance Bill will be published on 23 March – 20 days after the Budget.

So what did the Chancellor have to say?

He announced a “three-part plan” incorporating:

1. A commitment to continue to do “whatever it takes” to support the economy, jobs, people and businesses.

2. Fixing public finances in an honest and open way.

3. Beginning the building of our future, post pandemic, economy.

For those in the business of financial planning some of the highlights were as follows:

- The expected freezing until April 2026 of the main allowances, thresholds and exemptions for income tax, capital gains tax and inheritance tax.

- The furlough and self-employment income support schemes (SEIS) being extended through until the end of September with employers taking more responsibility for furlough payments from July and the SEIS being expanded to allow more to claim.

- The rules for how much you can invest in tax-efficient pensions and ISAs remain unaffected as does the taxation of income and gains from investments.

- The extension of the Stamp Duty Land Tax cut until the end of June, and the new Mortgage Guarantee Scheme delivering mortgages with the need for only 5% deposits, will both be of interest to those looking to buy their first (or perhaps another) home or move.

- A freeze in the Lifetime Allowance of £1,073,100 until 2025/26.

- The proposed increase in the corporation tax rate to 25% from 1st April 2023. However, this rate will only apply once profits hit £250,000, and if profits are below £50,000 the current 19% rate will continue to apply. There will be a sliding scale for profits in between.

- New provisions for all businesses to allow losses to be carried back for three years.

- A new ‘super-deduction’ for companies who incur qualifying capital expenditure. This super-deduction will allow companies to cut their tax bill by up to 25p for every £1 they invest.

Even these relatively “light “changes to the tax landscape remind us of the importance of factoring tax into our financial plans and the importance of informed advice to making smart choices to achieve optimum outcomes.

This may be only the start of the journey towards a changed tax landscape though and we may even get a better idea of what that landscape might look like with the promised consultations on 23rd March.

In this bulletin we focus on changes and consultations announced in the Spring 2020 Budget speech and supporting papers of relevance to financial advisers.

INCOME TAX

Rates of tax 2021/22

(i) The limit for the starting rate for savings income remains at £5,000 and the rate of tax on income in this band is held at zero.

(ii) The basic rate limit increases to £37,700 so that the higher rate tax threshold [i.e. the basic rate limit (£37,700) plus the basic personal allowance (£12,570)] increases to £50,270. These amounts will be frozen until April 2026.

(iii) The basic rate of tax remains at 20% and will apply to taxable income in the band £1 to £37,700. Dividends in excess of the £2,000 dividend allowance will be taxed at 7.5% if they fall within the basic rate tax band. Taxable income in excess of £37,700 will be taxed at 40% (32.5% for dividends) up to the threshold of £150,000 when the additional rate of tax applies – see (iv) below.

(iv) The additional rate of tax (which applies to taxable income in excess of £150,000) remains at 45% (38.1% for dividends).

(v) Trustees of discretionary trusts are subject to income tax at 45% (38.1% on dividend income) on income above their standard rate band (normally £1,000).

(vi) For Scotland the 2021/22 higher rate tax threshold, which covers only non-dividend and non-savings income, is £43,662. Other income is subject to the UK-wide rates shown above.

(vii) Wales has adhered to the UK bands for 2021/22.

(viii) The UK bands apply to Northern Ireland for 2021/22.

Personal allowances 2021/22

(i) The personal allowance increases to £12,570. Where an individual's adjusted net income exceeds £100,000, the level of the basic personal allowance will be reduced by £1 for each £2 over £100,000 until it reaches zero. This means that in 2021/22 the basic personal allowance will reduce to zero where adjusted net income is £125,140 or more. The personal allowance will be frozen until April 2026.

(ii) The married couple's allowance (MCA), which is only available provided at least one spouse was born before 6 April 1935, is increased to £9,125. There is a reduction in the MCA of £1 for every £2 additional income in excess of the total income threshold which is increased to £30,400. The MCA will not reduce below £3,530 (the "minimum amount").

(iii) Relief in respect of the MCA and maintenance payments continues to be given as a tax reduction at the rate of 10%.

(iv) Spouses and registered civil partners will be entitled to transfer £1,260 of their personal allowance (called the "marriage allowance") to their spouse or registered civil partner provided that after the transfer neither spouse pays tax at above the basic rate.

The personal savings allowance

This allowance is unchanged for 2021/22. Broadly speaking, this means that if an individual is a:

– basic rate taxpayer, the first £1,000 of savings income will be untaxed;

– higher rate taxpayer, the first £500 of savings income will be untaxed;

– additional rate taxpayer, they will not receive any personal savings allowance.

The dividend allowance

This allowance will remain at £2,000 for 2021/22 for all individual taxpayers and the dividend tax rates will remain at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

There is no £2,000 dividend allowance for trusts. The dividend rate for trusts matches the individual additional rate of 38.1%. Dividend income that falls within the trust's £1,000 standard rate band is taxed at 7.5%.

NATIONAL INSURANCE CONTRIBUTIONS

Rates and thresholds

The Upper Earnings and Upper Profits Limits (beyond which employee/self-employed NICs are charged at 2%) for 2021/22 will be £50,270, in line with the increased higher rate tax threshold.

The main rates for 2021/22 are as follows: -

- The Employee's Primary Class 1 National Insurance rate is 12% on earnings between the Primary Threshold (£184 per week - £9,568 pa) and Upper Earnings Limit (£967 per week - £50,270 pa).

- Employees, in addition, pay 2% Primary Class 1 National Insurance on all earnings above the Upper Earnings Limit (£50,270 pa).

- The Employer's Secondary Class 1 contribution rate on earnings above the Secondary Threshold (£170 per week - £8,840 pa) is 13.8%. This rate applies also to Class 1A and Class 1B contributions.

- The self-employed Class 4 rate on profits between the Lower Profits Limit (£9,568 pa) and Upper Profits Limit (£50,270 pa) is 9% and 2% above £50,000 pa.

- The self-employed Class 2 voluntary flat rate contribution is £3.05 per week when profits are above £6,515 pa.

Employment allowance

The Employment Allowance is held at £4,000 pa for 2021/22 but will be restricted to employers with an employer NIC bill for 2020/21 below £100,000.

CAPITAL GAINS TAX

The annual exemption

The capital gains tax annual exemption will be frozen at £12,300 from 2021/22 until the end of 2025/26. The annual exemption available to trustees will be frozen at £6,150 from 2021/22 until the end of 2025/26 – although this "per trust" limit is diluted where the settlor has created more than one trust subject to a minimum of £1,230 per trust.

The rates of capital gains tax remain unchanged at 10% (basic rate taxpayers) and 20% (other taxpayers), and 18% and 28% for residential property and carried interest respectively.

Business asset disposal relief (BADR)

BADR provides for a lower rate of capital gains tax (10%) to be paid on a gain arising as a result of disposing of all or part of a business where certain criteria are met, subject to an unchanged lifetime limit of £1,000,000 of qualifying gains.

INHERITANCE TAX

The inheritance tax nil rate band will remain at £325,000 and the residence nil rate band will remain at £175,000 from 6 April 2021. These limits are frozen until April 2026.

The residence nil rate band taper will continue to begin at £2m.

SAVINGS AND INVESTMENTS

Individual Savings Accounts (ISAs)

The ISA annual subscription limit will remain at £20,000 for 2021/22.

Junior ISA and Child Trust Funds

The annual subscription limit for 2021/22 remains at £9,000.

SOCIAL SECURITY BENEFITS

Universal Credit and Working Tax Credit

- The Government is extending the temporary £20 per week increase to the Universal Credit standard allowance for a further six months in Great Britain, on top of the planned uprating. This measure will apply to all new and existing Universal Credit claimants. The Northern Ireland Executive will be funded to match this increase.

- The Government is also making a one-off payment of £500 to eligible Working Tax Credit claimants across the UK, to provide continued extra support over the next six months. The Government will continue to treat Working Tax Credit claimants across the UK who have been furloughed, or experienced a temporary reduction in their working hours as a result of COVID-19, as working their normal hours for the duration of the Coronavirus Job Retention Scheme (CJRS). This allows these claimants to remain eligible for Working Tax Credit. The Government will maintain the higher surplus earnings threshold of £2,500 for Universal Credit claimants for a further year until April 2022, when the threshold will revert to £300.

- From April 2021, the period over which Universal Credit advances will be recovered will increase to 24 months, while the maximum rate at which deductions can be made from a Universal Credit award will reduce from 30% to 25% of the standard allowance. These measures were previously due to be implemented from October 2021.

- **Support for mortgage interest -** The Government will help Support for Mortgage Interest claimants in Great Britain to move home by allowing them to add the legal costs associated with transferring their claim to a new property to the value of their loan from 15 March 2021.

- **Shared accommodation rate -** From June 2021, care leavers up to the age of 25 and those under the age of 25 who have spent at least three months in a homeless hostel will be exempt from the Shared Accommodation Rate (SAR) in Universal Credit and Housing Benefit.

PENSIONS

- ## Lifetime allowance

The lifetime allowance (LTA) will remain at £1,073,100 until 2025/26.

The change has little immediate impact as due to low inflation the LTA was only expected to increase by around £5,800 in 2021/22.

A much bigger issue will be the removal of future increases. If the LTA had continued to be uplifted with inflation it would be around £1.2m by April 2026. This means clients would miss out on up to £31,725 of extra tax free cash (£126,900 at 25%).

Advisers with clients who have funds close to or exceeding the LTA may need to review any previous decisions in respect of them continuing to fund their pensions. Also, those who have chosen to defer crystallising their benefits based on the expectation of future inflationary increases in the LTA will need to review that decision.

Individual Protection 16 and Fixed Protection 16 are still available where the client is eligible and satisfies the various conditions. This can offer a protection LTA of up to £1.25m.

The good news is that all the other tax benefits of pensions remain. Personal contributions can benefit from income tax relief at the client's highest marginal rates, employer contributions can benefit from corporation tax relief, the funds grow free of income tax and capital gains tax, 25% tax free cash is still available and the values of most pension funds sit outside of the estate for inheritance tax purposes.

When the corporation tax rates increase from April 2023 the benefits of making employer contributions will be even greater for those companies subject to 25% corporation tax and those who pay corporation tax in the margin. Pension contributions may also be able to keep profits below relevant thresholds and ensure the company pays a lower rate of corporation tax.

LIFE POLICY TAXATION

There were no new announcements.

TRUST TAXATION

The annual CGT exemption available to trustees remains at the current level of £6,150 from 6 April 2021 – although this limit will be diluted according to the number of trusts created by the same settlor but will not be less than £1,230 per trust. It was also announced that the annual exemption will remain at the present level until April 2026.

EMPLOYEE BENEFITS

COVID-related Statutory Sick Pay (SSP) – The Government expanded statutory sick pay in order that employees can claim if they are asked to self-isolate and changed the rules so that COVID-19 related SSP is payable from day one rather than day four. This measure applies to England, Scotland and Wales, with similar provisions in Northern Ireland.

The income tax and NIC exemptions for the cost of home office equipment expenses reimbursement has been extended for the 2021/22 tax year as has the income tax exemption and NICs disregard for COVID-19 antigen tests provided by, or reimbursed by, employers. The Government has also relaxed the qualifying journeys condition for the cycle to work scheme.

CORPORATION TAX AND BUSINESS MATTERS

Corporation tax rate

The Chancellor announced that the corporation tax rate would rise to 25% for some businesses from 1 April 2023.

Small businesses, with profits of up to £50,000, will continue to pay corporation tax at 19%. The rate of corporation tax will be tapered "upwards" on profits between £50,000 and £250,000 after which the full 25% tax rate will apply.

Close investment companies will pay corporation tax at 25% irrespective of the level of profit.

Extended loss carry back

To help otherwise-viable UK businesses which have been pushed into a loss-making position, the trading loss carry-back rule will be temporarily extended from the current one year period to three years. This will be available for both incorporated and unincorporated businesses.

(i) Companies (incorporated businesses)

The existing one year carry back rule (which continues) is, broadly, unlimited.

Under the new rule, losses incurred for accounting periods ending between 1 April 2020 and 31 March 2022 can be carried back for up to three years, with losses required to be set against profits of most recent years first before carry back to earlier years. The maximum loss that can be used under these new rules is £2 million for each of the two periods. Groups will be subject to a group cap of £2 million for each relevant period.

(ii) Unincorporated businesses

No change is proposed to the current rules, which allow a trade loss for a tax year to be set against general income of the loss-making year and/or the previous year. There is a limit on the amount of certain income tax reliefs, including trade loss relief against general income, that can be used to reduce total taxable income – this is the higher of £50,000 and 25% of adjusted total income. This limit does not apply to losses used against profits of the same trade. Therefore, losses set against profits of the same trade of the previous year, as part of a claim for trade loss relief against general income, are not subject to a limit.

For trade losses of tax years 2020/21 and 2021/22 it is intended to provide additional relief by allowing unrelieved losses to be carried back and set against profits of the same trade for three years before the tax year of the loss. The maximum loss that can be used under these new rules is £2 million for each of the two periods. However, unlike with companies in groups, there is no partnership level cap.

When does this extended loss carry back come into effect?

Under the new rules, losses incurred for accounting periods ending between 1 April 2020 and 31 March 2022 (companies), or for tax years 2020/21 and 2021/22 (unincorporated businesses), can be carried back for up to three years.

The Self-Employment Income Support Scheme and the Coronavirus Job Retention Scheme

The Coronavirus Job Retention (Furlough) Scheme has been extended until September, and the Government has also set out details of the Self-Employment Income Support Scheme (SEISS) grant covering 1 February 2021 to 30 April 2021 – the fourth grant.

It should be noted that to be eligible for the fourth Self-Employment Income Support Scheme grant the individual must be a self-employed sole trader or a member of a partnership. The Government announced that there will be a fifth and final SEISS grant covering May to September.

Grants, Loans and Business Rates

Restart Grants of between £6,000, for non-essential retail, and £18,000, per premises, for hospitality, accommodation, personal care, gym and leisure business will be available to assist with re-opening businesses in England. The Government is also providing all local authorities in England with an additional £425 million of discretionary business grant funding, on top of the £1.6 billion already allocated. The Restart Grants will be available from 1 April 2021 for qualifying business owners.

The application period ends on 31 March 2021 for the Bounce Back Loan, Coronavirus Business Interruption Loan Scheme (CIBLS) and Coronavirus Large Business Interruption Loan Scheme (CLBILS). Recovery loans from £25,000 up to £10m will then be available through the Recovery Loan scheme from 6 April to the end of this year. The Government will guarantee 80% of these loans for the lenders. The new scheme will be open to all businesses, including those who have already received support under the existing COVID-19 guaranteed loan schemes. The loans will be available through a network of accredited lenders, whose names will be made public in due course.

The Government will also raise awareness of enforcement action in order to deter fraud, and will significantly strengthen law enforcement for Bounce Back Loans.

It was announced that the 100% Business Rate Holiday will continue until the end of June 2021. This will be followed by 66% business rate relief from the period 1 July 2021 to 31 March 2022, capped at £2 million per business for properties that were required to be closed on 5 January 2021, or £105,000 per business for other eligible properties. Nurseries will also qualify for relief in the same way as other eligible properties.

An interim report on the Government's review of business rates will be published on 23 March 2021 and a final report will be published in the Autumn.

PROPERTY TAX

Extension of the SDLT holiday

The Chancellor confirmed that the Government will extend the temporary increase in the residential SDLT 'nil rate band' to £500,000 in England and Northern Ireland until 30 June 2021. From 1 July 2021, the 'nil rate band' will reduce to £250,000 until 30 September 2021 and then revert to £125,000.

When does this come into effect?

The temporary increase in the residential SDLT nil rate band was due to end on 31 March. Instead, in order to help those people who have purchases "in the pipeline" the current holiday from the standard rate of SDLT on the first £500,000 of a residential property purchase price will now continue until 30th June this year. From 1 July 2021, the SDLT residential nil rate band will reduce to £250,000 until 30 September 2021 before returning to £125,000 on 1 October 2021.

Mortgage Guarantee Scheme

The Chancellor announced the introduction of a new Government-backed mortgage guarantee scheme designed to increase the availability of high loan-to-value mortgage products to those with small deposits. Under the scheme, the Government will provide a guarantee to lenders across the UK who offer mortgages with a loan-to-value of 95% to buyers of UK residential properties with a purchase value of £600,000 or less. The scheme will also give all buyers the opportunity to fix their initial mortgage rate for at least five years should they wish to do so.

While the scheme is not restricted to first-time buyers, mortgages taken out by companies or by individuals to acquire second homes or buy-to-let properties will not be eligible for a guarantee under the scheme.

The scheme will come into effect in April 2021 and apply to new mortgage applications made before 31 December 2022.

CAPITAL ALLOWANCES

Super-deduction and 50% first-year allowances

The Chancellor announced a 'super-deduction' for companies when they undertake investment in their business. The effect of this measure will mean that companies investing in qualifying new plant and machinery assets will benefit from a 130% first-year capital allowance. This upfront super-deduction will allow companies to cut their tax bill by up to about 25p for every £1 they invest.

Investments in assets qualifying for special rate relief (including long-life assets) will also benefit from a 50% first-year allowance. Legislation will be included in the Spring Finance Bill 2021 to implement these measures, including amendments to the Capital Allowances Act 2001.

This relief will apply to qualifying capital expenditure for corporation tax incurred from 1 April 2021 up to and including 31 March 2023.

Annual investment allowance (AIA) extension

As a reminder, and as announced in the Spending Review on 12 November, the temporary £1,000,000 limit for the AIA will be extended by one year.

Companies, individuals, and partnerships consisting only of individuals, are able to claim the AIA in respect of their qualifying expenditure on plant and machinery.

The cap was originally due to revert to £200,000 on 1 January 2021 and legislation will be included in Finance Bill 2021 to implement this.

This change will have effect from 1 January 2021 to 31 December 2021.

TAX AVOIDANCE

It wouldn't be a Budget without a raft of new targeted anti-avoidance provisions. But this year is a relatively light one – especially in relation to the financial planning sector. Given the Chancellor's commitment for the restoring of public finances over time one might have expected to see more. Tax increases and restricting reliefs are one thing but a significant positive contribution can be made to the "effort" by gathering in the tax anticipated by the legislation. And that means continuing to focus on shutting down avenues for "tax leakage" through deployment of targeted anti-avoidance measures to work ahead of and alongside the General Anti-Abuse Rules (GAAR).

Interest harmonisation and reform of penalties for late submission and late payment of tax

The Government will reform the penalty regime for VAT and Income Tax Self-Assessment (ITSA) to make it fairer and more consistent. The new late submission regime will be points-based, and a financial penalty will only be issued when the relevant threshold is reached. The new late payment regime will introduce penalties proportionate to the amount of tax owed and how late the tax due is. The Government will introduce a new approach to interest charges and repayment interest to align VAT with other tax regimes.

These reforms will come into effect: for VAT taxpayers, from periods starting on or after 1 April 2022; for taxpayers in ITSA, with business or property income over £10,000 per year, from accounting periods beginning on or after 6 April 2023; and for all other taxpayers in ITSA, from accounting periods beginning on or after 6 April 2024.

Powers to tackle electronic sales suppression (ESS)

The Government will introduce new powers to make the possession, manufacture, distribution and promotion of ESS software and hardware an offence. This will enable HMRC to tackle tax evasion undertaken by those businesses that use software and hardware to hide or reduce the value of transactions and the corresponding tax liabilities. New ESS-specific information powers will allow HMRC investigators to identify developers and suppliers in the ESS supply chain and access software developers' source codes.

OECD reporting rules for digital platforms

The Government will consult on the implementation of OECD rules that will require digital platforms to send information about the income of their sellers to both HMRC and the sellers themselves. This will help taxpayers in the sharing and gig economy get their tax right, and help HMRC detect and tackle non-compliance.

OECD mandatory disclosure rules

The Government will consult on the implementation of OECD rules to combat offshore tax evasion by facilitating global exchange of information on certain cross-border tax arrangements.

Tackling promoters of tax avoidance

The Government is publishing a summary of responses following the recent consultation 'Tackling Promoters of Tax Avoidance'. This sets out a package of measures to strengthen existing anti-avoidance regimes and tighten the rules designed to tackle promoters and enablers of tax avoidance schemes.

Follower Notice penalties

The Government is reducing the penalties that may be charged to people receiving Follower Notices as a result of using tax avoidance schemes, from 50% to 30% of the tax under dispute. A further penalty of 20% will be charged if the Tax Tribunal decides that the recipient's continued litigation against HMRC is unreasonable.

Preventing abuse of the Research and Development (R&D) relief for small and medium-sized enterprises (SMEs)

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, in order to deter abuse. This change comes into effect for accounting periods beginning on or after 1 April 2021.

INCOME WITHDRAWAL RATE FOR MARCH 2021

The appropriate gilt yield, used to determine the 'relevant annuity rate' from HMRC's tables for an adult member commencing income withdrawals (or reaching an income withdrawal review date), in March 2021 is 0.75%.

The contents of this Budget bulletin are based on the proposals put forward by the Chancellor in his Budget speech on 3 March 2021. These need to be approached with caution as the details may change during the passage of the Finance Bill through Parliament.