DIXON WILSON
CHARTERED ACCOUNTANTS

# 2021 Budget Update

4 March 2021

This document highlights the more important tax changes and announcements from the 2021 Budget.

## PERSONAL TAXES

### INCOME TAX

The tax-free Personal Allowance will increase from £12,500 currently to £12,570 from 6 April 2021. It will then be frozen until April 2026.

The threshold at which higher rate tax becomes payable will increase from £50,000 currently to £50,270 from 6 April 2021. It will then be frozen until April 2026.

### CAPITAL TAXES

The inheritance tax nil rate band has been frozen at £325,000 until April 2026. The residence nil rate band, which is an additional exemption from IHT related to the main residence of the deceased, has been frozen at £175,000 until April 2026.

The capital gains tax-free Annual Exempt Amount has been frozen at £12,300 for individuals and £6,150 for trusts until April 2026.

No increases in capital gains tax rates have been announced.

### PENSIONS

The pension Lifetime Allowance has been frozen at £1,073,100 until April 2026.

### NATIONAL INSURANCE (NI)

Class 1 and class 4 National Insurance thresholds will increase from 6 April 2021 to £9,568 for the Primary Threshold / Lower Profits Limit and £50,270 for the Upper Earnings Limit / Upper Profits Limit. They will then be frozen until April 2026.

### ISA FUNDS

The ISA contribution limit is frozen for 2021/22 at £20,000 for adults or £9,000 for children.

### STAMP DUTY LAND TAX (SDLT)

The temporary increase of the nil rate band, from £125,000 to £500,000, which was due to end on 31 March 2021 has been extended to 30 June 2021. From 1 July 2021 to 30 September 2021 the nil rate band will reduce to £250,000, before returning to the current threshold, £125,000, from 1 October 2021.

## BUSINESS TAXES

### CORPORATION TAX RATE

The rate of corporation tax will increase on 1 April 2023 from 19% to 25% on profits over £250,000.

The rate for small profits under £50,000 will remain at 19%.

There will be marginal relief for businesses with profits between £50,000 and £250,000.

The small profits reduced rate and marginal relief will not apply to close investment holding companies.

The profit thresholds will be split between the number of associated companies. This is where one company controls the other or they are commonly controlled by the same person or persons in the preceding 12 months.

The current 51% group company rule will also be replaced by an associated companies rule for quarterly instalment purposes.

In line with the increase in the main rate, the Diverted Profits Tax rate will rise to 31% from April 2023.

### TEMPORARY EXTENSION TO CARRY BACK OF TRADING LOSSES

Currently, trading losses can be carried back a maximum of one year. The amount that can be carried back is unlimited.

For companies with trading losses arising in tax accounting periods ending in the period 1 April 2020 to 31 March 2022, trading losses can be carried back for three years, with losses allocated to the later years first.

The losses carried back to the preceding year remain unlimited, however there is a £2million total cap on the losses that can be carried back to years two and three.

This cap applies separately for each accounting period (i.e. there are likely to be two accounting periods ending in this extension period and so two separate £2million caps).

For companies that are members of groups, the £2million cap will be apportioned between the group.

Similar rules will apply for unincorporated businesses.

## SUPER-DEDUCTION FOR CAPITAL EXPENDITURE BY COMPANIES

For qualifying capital expenditure on new plant and machinery incurred from 1 April 2021 up to and including 31 March 2023, companies can claim in the accounting period of investment:

– a super-deduction providing allowances of 130% on most new plant and machinery investments that ordinarily qualify for 18% main rate writing down allowances
– a first year allowance of 50% on most new plant and machinery investments that ordinarily qualify for 6% special rate writing down allowances

There is no cap on expenditure incurred in this time period that can qualify for these new allowances.

The rate of the super-deduction will require apportioning if an accounting period straddles 1 April 2023. The rate will be apportioned based on days falling prior to 1 April 2023 over the total days in the accounting period.

Contracts entered into prior to 3 March 2021, expenditure on certain excluded assets such as cars, and expenditure on used and second-hand assets will be excluded from the rules. The super-deduction is not available to property businesses that lease out properties.

Plant and machinery expenditure which is incurred under a hire purchase or similar contract must meet additional conditions.

For plant and machinery assets that have been claimed under the super deduction and are then disposed in the period, Disposal receipts should be treated as balancing charges (taxable profits), instead of being taken to pools. The disposal value for capital allowance purposes will take the disposal receipt and apply a factor of 1.3, or lower factor if an accounting period straddles 1 April 2023.

These enhanced allowances are not available to unincorporated businesses.

## ANNUAL INVESTMENT ALLOWANCE

As announced in November 2020 the annual investment allowance available on capital expenditure, which allows 100% same year tax relief will remain at the level of £1million per annum until 31 December 2021, at which point it will reduce down to £200,000 per annum.

This applies to companies and unincorporated businesses.

Companies will need to consider the interaction between super-deductions and annual investment allowance.

## REPEAL OF INTEREST AND ROYALTIES DIRECTIVE

The government will legislate in Finance Bill 2021 to repeal the domestic legislation that gives effect to the EU Interest and Royalties Directive. This legislation currently provides an exemption from withholding tax on intra-group interest and royalty payments between UK and EU companies.

Repeal will mean that from 1 June 2021 withholding taxes will apply to payments of annual interest and royalties made to EU companies, subject to the terms of the relevant double taxation agreement.

For withholding tax on interest, all EU residents need to apply for prior clearance from HMRC for relief under the relevant double taxation agreement. Companies that were previously under the Interest and Royalties Directive scheme are also required to contact HMRC but this is a simpler process and can be done by e-mail.

For withholding tax on royalties the relevant double taxation agreement rate can be applied without prior clearance from HMRC. The condition is that the company reasonably believes that at the time the payment is made the beneficial owner of the payment is entitled to claim relief under a double taxation agreement. The 'reasonable belief' test enables the payer to pay at the treaty rate even when it is not in a position to know beyond doubt the status of the recipient. The payer can therefore act on the basis of assurances given by the recipient or by an intermediary if it considers these assurances to be sufficient grounds for reasonable belief.

## OTHER CORPORATION TAX CHANGES

The hybrid mismatch rules and the carry forward loss rules will be subject to minor legislative changes to remove unintended consequences of previous legislation.

## RESEARCH AND DEVELOPMENT EXPENDITURE

There will be a wide-ranging consultation on the R&D tax credit schemes to encourage investment in R&D with the aim of making the scheme attractive and relevant to the current economic environment.

# COVID-19 MEASURES

The Budget announcements this year have been driven by the financial impact of the COVID-19 pandemic. A number of measures were announced at the start of the first lockdown in March 2020, and these have been revised over the past year. Further announcements were made in this Budget in relation to a number of the measures.

The coronavirus job retention scheme (CJRS) will be extended for a further five months from May to the end of September 2021. Employees will continue to receive 80% of their current salary for hours not worked (subject to a maximum salary of £2,500 a month). Until the end of June employers are required to contribute only the NIC and pension contribution costs in relation to that salary. Employers will contribute 10% of the salary for unworked salary for July, and 20% for August and September.

Self-employed individuals will be able to claim a fourth SEISS grant equivalent to 80% of three months' average profit, capped at £7,500 for the period February to April, so long as they have filed their 2019/20 tax return. A fifth grant will be available for the period May to September, but this is subject to a turnover test. If turnover has fallen by 30% or more the same 80% grant applies. If turnover has fallen less than 30% there will be a 30% grant capped at £2,850.

Businesses will be further supported with a Recovery Loan Scheme, available from 6 April 2021, which will provide a government guarantee of 80% of eligible loans between £25,000 and £10m.

Restart Grants will be available for non-essential retail businesses of up to £6,000 per premises, and up to £18,000 per premises for hospitality, accommodation, leisure, personal care and gym businesses.

100% business rates relief will continue until 30 June 2021, thereafter there will be a discount of up to 66% until 31 March 2022, capped at £2m per business for properties that were required to be closed on 5 January 2021, or £105,000 for other eligible properties.

## VAT DEFERRAL NEW PAYMENT SCHEME AND DETERRANT

Businesses which deferred VAT payments until 31 March 2021 can opt into a new payment scheme and pay the amount owed in up to 11 interest-free instalments, rather than paying the full balance before the 31 March 2021. Businesses can opt into the scheme between March and June 2021.

If businesses have not paid in full, opted into the new payment scheme or made an alternative arrangement to pay by 30 June 2021, a penalty of 5% of the deferred VAT still outstanding will take effect from 1 July 2021. This will be a penalty outside of the normal Default Surcharge penalty regime.

## VAT REDUCTION FOR TOURISM AND HOSPITALITY EXTENDED

The temporary reduced rate of 5% VAT for goods and services supplied by the tourism and hospitality sector will be extended until 30 September 2021. To help businesses manage the transition back to the standard 20% rate, a 12.5% rate will apply for the six months to 31 March 2022.

The three main supplies affected are hospitality supplies in the course of catering, the provision of accommodation in hotels and holiday accommodation and admission to attractions not covered by the cultural exemption.

## MAKING TAX DIGITAL EXTENDED TO SMALLER BUSINESSES

Making Tax Digital (MTD) will be extended to smaller VAT registered businesses from April 2022. From 1 April 2022 VAT registered businesses under the £85,000 VAT threshold, that are not already required to operate MTD, will have to keep their records digitally and provide their VAT return information to HMRC through MTD compatible software.

## VAT THRESHOLDS

The VAT registration threshold, which determines whether a person must be registered for VAT, will remain at £85,000 until 31 March 2024.

The VAT deregistration threshold, which determines whether a person may apply for deregistration, will remain at £83,000 until 31 March 2024.

## FREEPORTS

The Government announced new legislation to designate tax sites within Freeport locations in Great Britain, for the purpose of claiming Freeport specific tax reliefs.

The Government announced eight new freeports in England including East Midlands Airport, Felixstowe & Harwich, Humber, Liverpool City Region, Plymouth and South Devon, Solent, Teesside and Thames. They will begin operation from late 2021 and will contain areas where businesses will benefit from more generous tax reliefs, customs benefits and wider government support.

The beneficial tax reliefs announced include the following:

- An enhanced 10% rate of Structures and Buildings Allowance for constructing or renovating non-residential structures and buildings within Freeport tax sites;
- Enhanced capital allowances of 100% for companies investing in qualifying plant and machinery for use in Freeport tax sites;

- Full relief from Stamp Duty Land Tax on the purchase of land or property within Freeport tax sites for use within a qualifying commercial purpose;
- Full Business Rates relief in Freeport tax sites for all new businesses for five years;
- An Employer National Insurance contributions relief available in all Freeport tax sites from April 2022 up to at least April 2026;

## OTHER TAX CHANGES

### REFORM OF PENALTIES

Penalties in relation to the late-submission of VAT and Self-Assessment tax returns will be reformed. The new penalty regime will be points-based, with a financial penalty of £200 issued for every missed submission on and after the relevant points threshold has been reached. The level of points threshold depends on how frequently the taxpayer is required to submit a return: two points for annually, four points for quarterly and five points for monthly. Penalty points will expire after 24 months provided the taxpayer remains below the points threshold.

Penalties in relation to late-payment of VAT, income tax and capital gains tax will also be reformed. No penalty will be charged on tax paid up to 15 days after the due date. If tax remains unpaid, a 2% penalty will be charged for tax paid 16-30 days after the payment deadline, or 4% for tax paid more than 30 days late. A second penalty, at the annualised rate of 4%, will become payable from day 31 onwards and will be calculated on a daily basis.

These changes will be introduced for periods beginning 1 April 2022 for VAT. For individuals within Self-Assessment, the changes will begin on 6 April 2023 for those who have self-employment or property income in excess of £10,000, or 6 April 2024 for all other individuals within Self-Assessment.

### CONSULTATIONS

The government will publish a number of tax-related consultations and calls for evidence on 23 March, announced through a Command Paper, "Tax policies and consultations Spring 2021".

There will be a consultation on the Enterprise Management Incentive (EMI) scheme to help further encourage employee participation through options and shares.

The Command Paper may shed further light on recently mooted changes to capital taxes.



Dixon Wilson
22 Chancery Lane
London
WC2A 1LS

T: +44 (0)20 7680 8100
F: +44 (0)20 7680 8101
DX: 51 LDE

www.dixonwilson.com
dw@dixonwilson.co.uk