

Budget October 2021

29 October 2021

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

PERSONAL TAXES

RESIDENTIAL PROPERTY DISPOSALS

The deadline for submitting a land disposal return to HMRC and paying any capital gains tax was 30 days from the date of completion for most UK and non-UK resident sellers of UK residential property. That deadline has now been extended to 60 days from the date of completion for all transactions completing on or after 27 October 2021.

INCREASES TO DIVIDEND TAX RATES

In line with increases to National Insurance in respect of the Health and Social Care Levy, dividend tax rates have also been increased by 1.25% with effect from 6 April 2022. The new basic rate is 8.75%, the higher rate is 33.75%, and the additional rate is 39.35% (this is also the trust dividend rate).

MAKING TAX DIGITAL – SOLE TRADERS AND LANDLORDS

The previously announced extension of Making Tax Digital to sole traders and landlords with gross business and property income in excess of £10,000 will now be a requirement from 6 April 2024 rather than 6 April 2023.

CHANGES TO LATE SUBMISSION AND PAYMENT PENALTIES

As previously announced, penalties in relation to the late submission of VAT and Self-Assessment tax returns, and payment of liabilities, will be reformed. Please see our Spring 2021 Budget Update for further details.

For individuals within Self-Assessment, the changes to late Self-Assessment submission and payment penalties are being pushed back. They will now be introduced from 6 April 2024 for those who have gross self-employment and property income in excess of £10,000, and from 6 April 2025 for all other individuals within Self-Assessment. This is in line with the delayed introduction of Making Tax Digital for sole traders and landlords.

NATIONAL INSURANCE (NI)

In 2022 and 2023 only, National Insurance contributions will be at temporarily increased levels to accommodate the Health and Social Care Levy. The Main and Additional rates of Class 1 and Class 4 NICs will be increased by 1.25%.

	Tax year 2021/22	Tax year 2022/23
Employee's Primary Class 1 Contributions		
From Primary Threshold to Upper Earnings Limit	12%	13.25%
Above Upper Earnings Limit	2%	3.25%
Employer's Secondary Class 1 Contributions		
Above Secondary Threshold	13.8%	15.05%
Self-employed Class 4 Contribution		
From Lower Profits Limit to Upper Profits Limit	9%	10.25%
Above Upper Profits Limit	2%	3.25%

BUSINESS TAXES

BASIS PERIOD REFORM

Businesses are usually required to prepare annual accounts to the same date each year, called their 'accounting date'. A business's profit or loss for a tax year is usually the profit or loss for the year up to the accounting date in the tax year.

There are relatively complex rules which apply in opening and closing years of trade, or when a business elects to change its accounting date.

Basis period reform will require all businesses to operate a year end of 5 April. This will have effect from 6 April 2024, with the transitional year being the year ending 5 April 2024. Any accrued overlap profits will be relieved in the 2023/24 tax year.

The change will affect any businesses which do not currently draw up their accounts to 31 March or 5 April.

ANNUAL INVESTMENT ALLOWANCE EXTENSION

The planned reduction due to come in to effect on 1 January 2022 has been cancelled and the Annual Investment Allowance will remain at £1 million per annum from 1 January 2022 to 31 March 2023.

RESIDENTIAL PROPERTY DEVELOPER TAX

A new 'Residential Property Developer Tax' will apply to companies from 1 April 2022 with profits exceeding £25 million per year arising from residential property development. Each UK corporate group will have a £25 million annual allowance available to use against the groups residential property development profits each year which can be allocated between group companies.

The tax will be at a rate of 4% and any tax due from residential property development will be reported and paid as part of the company's Corporation Tax return.

REFORM TO RESEARCH & DEVELOPMENT TAX RELIEFS

Qualifying expenditure on which companies can claim Research & Development tax relief has been extended to include data and cloud computing costs.

Further reforms to R&D tax reliefs are expected later in the Autumn and are expected to take effect from April 2023.

ABOLITION OF CROSS-BORDER GROUP RELIEF

Currently, in specific circumstances a subsidiary of a UK group which is established in the European Economic Area (EEA) can surrender losses as group relief to a UK company group member. This will no longer be available for company accounting periods ending on or after 27 October 2021.

CORPORATION TAX SURCHARGE ON BANKS

The bank Corporation Tax Surcharge on the profits of banks, payable in addition to Corporation Tax will be reduced to 3% from 1 April 2023 from 8%. The Surcharge allowance available before banks pay the Surcharge will rise from £25 million to £100 million.

NOTIFICATION OF UNCERTAIN TAX TREATMENT FOR LARGE BUSINESSES

HMRC has introduced new requirements for large businesses to notify HMRC where they experience a tax advantage of over £5million, the tax treatment is uncertain or not in accordance with HMRC's known position and the uncertainty is provided for in the company's account.

Only large businesses with either a turnover of £200 million per annum or a balance sheet total over £2billion will be effected. The rules apply to Corporation Tax, VAT and Income Tax returns (included amounts collected via PAYE) of large businesses that are due to be filed on or after 1 April 2022.

CONSULTATION ON CORPORATE RE-DOMICILATION

HMRC have started a consultation open until 7 January 2022 seeking the views on the introduction of a UK re-domiciliation regime which would make it possible for companies to re-domicile and therefore easier to relocate to the UK.

The consultation looks to seek views on the advantages of enabling companies to re-domicile, the level of demand, appropriate checks and entry criteria and any tax implications associated with this potential regime.

VAT

CHANGE TO VAT RULES IN FREE ZONES

It was announced in March 2021 that businesses selling goods within specified free zones will be able to zero rate their supplies, and services carried out on goods in these zones may also be zero-rated. From October 2021 there will be a VAT exit charge for goods where they leave a free zone having benefited from a zero-rated supply and where there is no qualifying onward supply of the goods within three months of leaving the free zone and entering free circulation.

EXEMPTION FOR DENTAL PROSTHESES IMPORTS

With retrospective effect from 1 January 2021 the importation into the UK of dental prostheses will be exempt from VAT.

SECOND HAND MARGIN SCHEME AND CARS IN NORTHERN IRELAND

Motor vehicles first registered in the United Kingdom prior to 1 January 2021 will now be available to sell under the VAT margin scheme in Northern Ireland, meaning VAT does not need to be accounted for in full on sales of such vehicles only on the margin.

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