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Tax Faculty Budget 2021 Update

5 MARCH 2021

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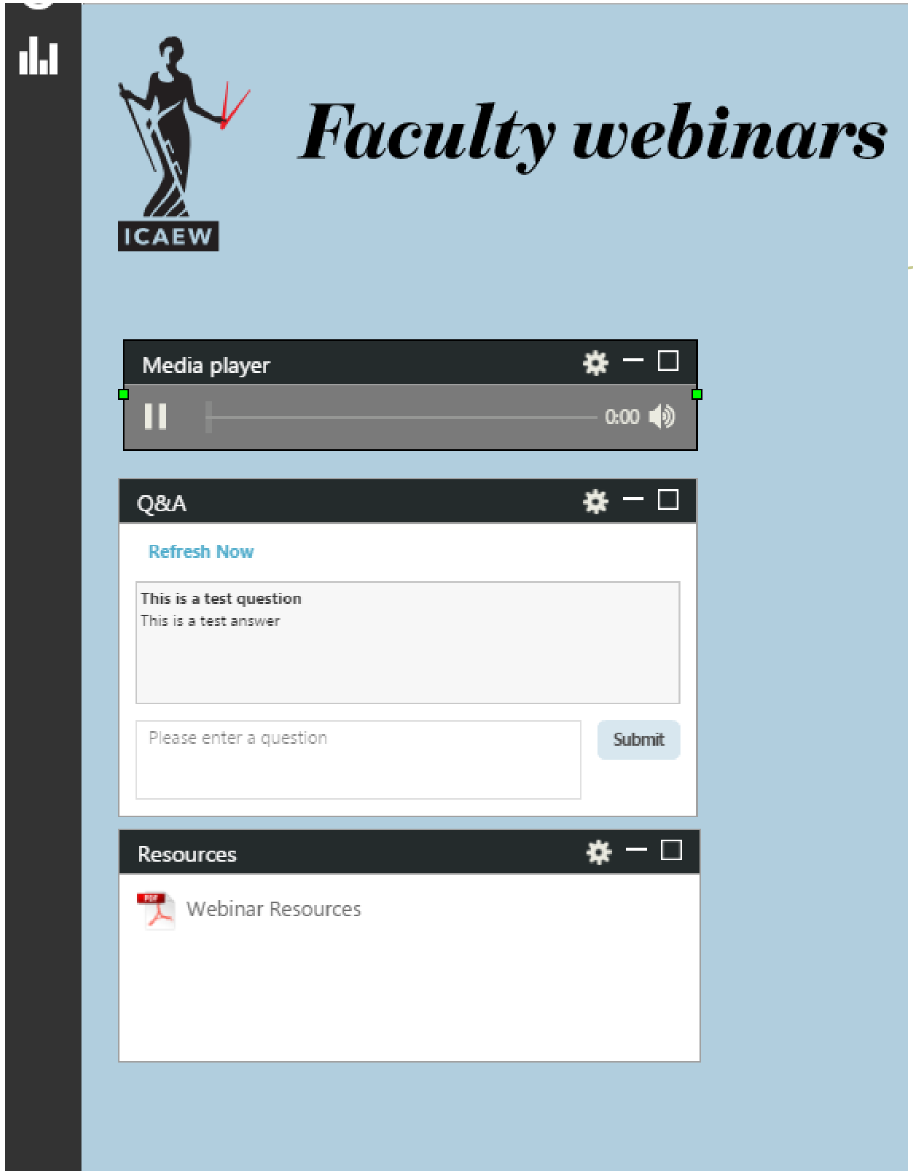

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Overview

- Chancellor’s second budget
- Treasury Select Committee Tax after coronavirus - cross party consensus on no immediate tax increases https://committees.parliament.uk/publications/4865/documents/48898/default/
- Chancellor announced he would be ‘levelling with the public on the challenges facing the public finances’
- COVID-19 support schemes remain important and will be extended
- A controversial rise in the corporation tax rate
- Freezing of many tax allowances
- Longer term tax changes to be announced on Consultation Day 23 March
- Further Budget likely in Autumn 2021

The public finances – the cost of COVID-19

- 2020 predicted extra spending of £324bn
- Further costs in this Budget totalling £74bn
- £407bn and counting
- UK deficit now over £2 trillion pounds
- First steps towards stabilising the deficit
- Chancellor for a day?
  - the tool you need to sort out the economy? https://tinyurl.com/4atak3n2

Personal tax – the big freeze

Allowances and thresholds frozen to 2026

No rate changes for IT, CGT, IHT

Personal allowance and higher rate threshold increases for 2021/22 go ahead before being frozen to 2026

Basic rate taxpayers caught by HICBC

National insurance class 1 and 4 upper limits remain aligned

National insurance lower limits increased – future alignment possible?

CGT annual exempt amount, IHT nil rate bands, pension allowances frozen to 2026

ISA and child trust fund subscription limits unchanged

Dividend, savings, trading and property allowances unchanged

Personal tax – COVID-19 measures

Extensions of existing measures

Self assessment time to pay

£6pw working from home allowance for employee borne costs not yet extended

Cycle to work relaxation extended to April 2022

Universal credit (UC) and working tax credit (WTC) uplifts extended for six months

UC and WTC easements extended

Stamp duty land tax

SEISS grants 4 and 5

Stamp duty land tax (SDLT)

- SDLT residential nil rate band of £500,000 extended to 30 June 2021 then
- Reduced to £250,000 to 30 September before
- Returning to £125,000 from 1 October
- Applies to England and Northern Ireland
- Welsh government LTT change extended to 30 June
- Scottish government not extending LBTT change beyond 31 March
- Non-residents buying residential property - 2% supplement from 1 April.

Self-employment Income Support Scheme (SEISS)

SEISS4 grant confirmed and SEISS5 grant announced

Must have filed a 2019/20 return by 2 March 2021

Eligibility criteria now look at 2019/20 first and then average of four years 2016/17 to 2019/20 - otherwise unchanged

- SEISS4 (Feb- Apr) 80% of 3 months profits capped at £7,500
- SEISS5 (May – Sep) 80% of 3 months profits capped at £7,500 if turnover has reduced by 30% or more
- SEISS5 30% of 3 months profits capped at £2,850 if turnover has reduced by less than 30%

SEISS further points

- Average trading profits over four years 2016/17 to 2019/20
- Turnover reduction comparison 2020/21 vs 2019/20
- FB2021 change will ensure SEISS grants taxable when received rather than in 2020/21
- FB2021 will also provide for recovery of grants where no longer eligible

SEISS4: HMRC will contact potentially eligible taxpayers in mid-April

SEISS4: Applications open late-April to the end of May

SEISS5: Applications open late July

Reform of penalties and interest

HMRC consulted on a new late submission and payment penalty regime and interest harmonisation in 2016-2018

Implementation deferred when MTD start dates delayed

FB2021 will enact the new rules

Start dates

- VAT - periods starting on or after 1 April 2022
- VAT default surcharge and repayment supplement will go
- VAT interest rules will largely mirror ITSA
- MTD for income tax self assessment - accounting periods beginning on or after 6 April 2023
- Non MTD ITSA - accounting periods beginning on or after 6 April 2024

Outline of the reforms

Late submission - penalty point system

Points accrue separately for each tax

Threshold depends on obligation frequency - £200 penalty when reached

Expire after 24 months max

Can be appealed

Late payment penalty

First penalty of 2% on tax unpaid 15 days after the due date, increasing to 4% 30 days from the due date.

Second penalty at an annualised penalty rate of 4% accrues on a daily basis on tax remaining unpaid 30 days from due date

Contacting HMRC to arrange time to pay before trigger date will be crucial

COVID-19 business support schemes

- Restart Grants Scheme - £5bn for hospitality, leisure, accommodation and retail (to be distributed by Local Authorities)
  - Non essential retail £6,000 per premises
  - Others (gyms etc) £18,000
- New recovery loan scheme offers grants £25k to £10m with an 80% guarantee given to lenders
- Kickstart Scheme
- Business rates
  - business rates holiday in England extended by an additional three months
    - retail, hospitality and leisure properties in England will pay no business rates for 3 months through to 30 June
    - Further relief for remaining 9 months of year

Tax deductibility of business rates repayments

- Businesses that have returned a sum to a public authority in respect of a ‘coronavirus support arrangement’, which is outside of the definition of a Coronavirus Support Payment (CSP) within s106 Finance Act 2020
- Legislation will be introduced in Finance Act 2021 so that a business that makes a payment to a public authority to repay coronavirus support or relief, may claim an Income Tax or Corporation Tax deduction equivalent to the quantum of that payment.
- Ensures tax neutrality.

CJRS

- Coronavirus Job Support Scheme (CJRS)
  - Was due to end 30 April, extended to 30 September 2021
  - 10% employer contribution required in July, 20% August and September 2021
- From 1 May 2021 onwards scheme newly eligible employees
  - Who were employed on 2 March 2021, but MUST have had a payment of earnings reported on RTI between 20 March 2020 and 2 March 2021

NB

Employee must receive at least 80% of usual wages (up to £2,500) throughout the period they are on furlough

Employer continues to pay all employers' NIC and auto enrolled pension contributions. Will now also be contributing to salary in July, August and September

Overview: furlough cost to employer through 2021

Furlough periods within:	1 Nov 2020 to 30 June 2021	1–31 July 2021	1–30 September 2021
Employee wages covered by grant *	80% of usual	70% of usual	60% of usual
Maximum wages/month covered by grant	£2,500	7/8 x £2,500 =£2,187.50	6/8 x £2,500 =£1,875
Employer must pay amount of furlough wages per month	–	10% of usual up to £312.50	20% of usual up to £625

* Employee must receive at least 80% of usual wages up to £2,500 per month

Business tax changes

1. Corporation tax rate
2. Loss carry back
3. Super deduction for capital allowances
4. A few employment tax changes to note
5. A few points for business on our digital journey

Corporation tax rate

- Financial year 2023 (1 April 2023 onwards)
  - Small profits rate 19%
  - Main rate 25%

Wef 1 April 2023	Profit limit	Rate
	Up to £50,000	19%
Profits earned between lower and upper limits		Effective rate 26.5%
	Over £250,000	25%

- Profits between £50,000 and £250,000 will be charged corporation tax at a tapered rate.
- Anti avoidance measures inevitable
  - Limits reduced pro rata for associated companies
  - Short accounting periods
- Close investment holding companies will become liable to corporation tax at 25% regardless of their profits.

Loss carry backs

- Corporation tax and income tax losses
  - company accounting periods ending in the period 1 April 2020 to 31 March 2022
  - tax years 2020/2021 and 2021/2022 for unincorporated businesses.
- Trading losses can be carried back for up to 3 years
  - Against later years first (LIFO)
- Amount which can be carried back beyond one year
  - Carry back one year, unlimited as usual
  - Carry back further, £2m cap
- A separate £2m cap applies for each period of 12 months
- Partnerships
  - Income tax payers will not be subject to a partnership-level £2m limit.
- Groups
  - £2m cap applies to group (unless every group companies' claim is individually below the threshold)
  - 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.

Capital allowances 1
Annual Investment allowance

- £1m allowance continues until 31 December 2021
    - Companies and unincorporated businesses
- Cliff edge remains on the return to £200,000 AIA from 1 January 2022

Capital allowances 2

- NEW** Super deduction allowing 130% of expenditure
- Companies only
- Expenditure on new, qualifying plant and machinery
- Incurred in the 2 years from 1 April 2021
- Deduction is for 130% of cost

ALSO

- A First Year Allowance of 50% will be available for 'special rate pool' expenditure (the 6% rate pool)
- NB Anti avoidance will apply re contracts entered into pre 3 March 2021
- Where the super deduction has applied, disposal proceeds must be recognised as balancing charges

Tax planning for corporation tax?

- New higher rate of corporation tax will create a desire to avoid profit levels between £50k and £250K
- New £50,000 profit threshold will influence the incorporation decision for many
- Timing of loss relief?
  - Relief through carry back gives cash earlier
  - Carry forward gives relief at a higher tax rate
- Claiming a super capital allowance creates different scenarios

Employer changes

- Employer subsidy for apprenticeships and portable apprenticeships
  - Previously employer received £1,500/new hire (£2,000 for those under 24)
  - For hires 1 April 2021 until 30 September, £3,000 regardless of age
  - Portable apprenticeships will allow experience across multiple projects. Employers will need to submit proposals
- Vehicles for private use
  - Van benefit charge and van and car fuel benefit charges increase in line with inflation
  - **No longer any income tax or NIC for private use by employees of employer-owned zero emission vans**
  - Company car benefit percentage will increase by 1% in 2021/22 and again in 2022/23
- IT & NIC extension for employer reimbursed expenses on home office equipment

A few points for business to watch for on our digital journey

- Contactless chip and pin limit to increase to £100
- Digital platforms will be required to send information about the income of their sellers to HMRC as well as to the seller themselves
  - will affect digital platforms in the UK
  - facilitating the provision of services by UK and/or other taxpayers, individuals and companies, eg private hire, taxis, accomodation, food delivery, freelance work
  - won't currently apply to the sale of goods
  - not before 1 January 2023, with reporting not due until January 2024
  - will be subject to consultation

Indirect taxes - VAT

- UK withdrawal from the EU provides an opportunity to consider VAT reform
- In the event, there were few VAT changes in the Budget
- VAT registration threshold frozen for two years
- MTD for VAT to be extended to all VAT registered traders
- Temporary reduced rates of VAT on tourism and hospitality
- VAT deferral – new instalment payment scheme

Indirect taxes - Environmental Taxes

- Plastic Packaging Tax
  - Starts on 1 April 2022
  - Legislation with be in the Finance Bill
  - Tax will apply to any plastic packaging which doesn't include 30% or more recyeled plastic
  - Tax is £200 per tonne
  - 10 tonne exemption
- Climate Change Levy
  - Rebalancing of rates

Freeports & designated tax sites

- The UK is to revive the designation of Freeports
- Last used in 2012, there are conflicting views about their efficacy
- Eight new Freeports were announced on 3 March

  East Midlands Airport, Felixstowe & Harwich, Humber, Liverpool, Plymouth and South Devon, Solent, Teesside and Thames
- Designated tax sites within Freeports will qualify for generous set of reliefs
  - 10% structures and buildings allowance
  - 100% capital allowances on plant and machinery
  - Reliefs from SDLT and business rates until September 2026
  - Proposed employers’ NIC relief from April 2022

Tackling Tax Avoidance etc.

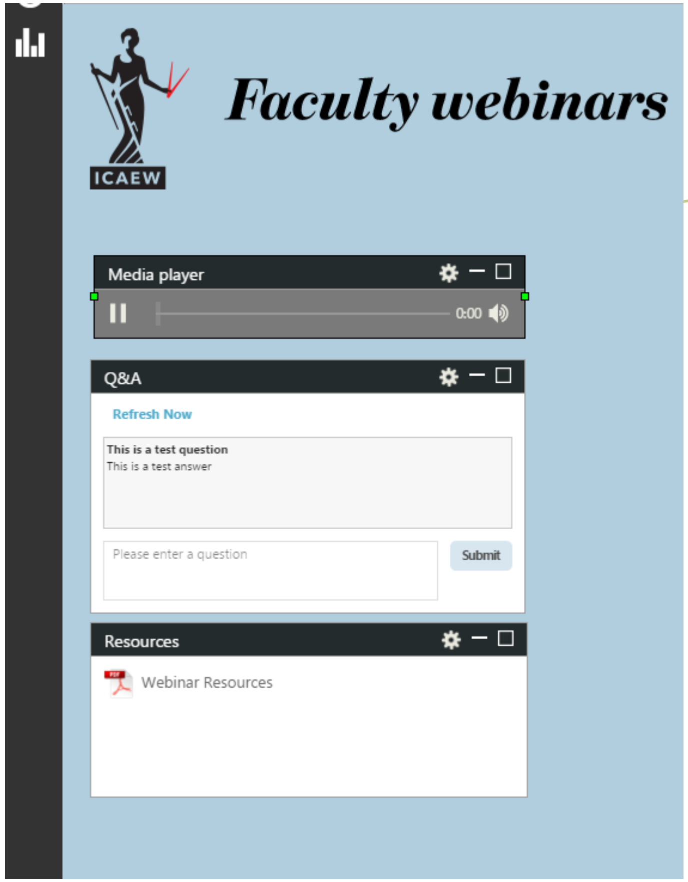
- Extra investment in HMRC
  - 1,265 strong team to undertake compliance checks on COVID-19 support
- Further measures to tackle promoters of tax avoidance schemes
- Changes to the follower notice penalty rules
- Conditionality (tax clearances)
  - Certain license renewals (taxis, private hire & scrap metal) require tax clearance from HMRC
  - Provision modelled on more extensive regime in Ireland
  - Due to come into effect in England & Wales on 4 April 2022
- Electronic sales suppression

Coming next

- Finance Bill 2021 will be published on 11 March
- ‘Consultation Day’ or ‘Tax Day’ on 23 March may spring surprises
- We expect
  - Consultation on mandating Professional Indemnity Insurance
  - Call for evidence on the Tax Administration Framework Review.
- Might we also get something on
  - CGT reform
  - Taxation of work

Any questions?

Ask a question or download resources



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Future events and schedule

- Upcoming Events
  - 15 April 2021: Making Tax Digital and tax system transformation
- Events Schedule
  - Topics updated regularly
  - **For further details visit www.icaew.com/taxfacevents**
- Webinar Archive
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