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BUDGET BULLETIN 2021

Sunak set out Budget to protect businesses

Chancellor Rishi Sunak set out a Budget to protect businesses through the pandemic, fix the public finances and begin building the future economy.

The Chancellor once again pledged to do 'whatever it takes' during the COVID-19 pandemic and confirmed that the furlough scheme would be extended until September 2021 to support jobs through the crisis.

Mr Sunak also confirmed that the Self-Employment Income Support Scheme (SEISS) has also been extended, with two further grants this year. Claimable by the self-employed, including the newly self-employed from 6 April 2019, provided they have filed their 2019/20 tax return for by midnight on 2 March 2021,

The stamp duty nil rate band on residential properties in England up to £500,000 will continue until the end of June. It will taper to £250,000 until the end of September, and then return to the usual level of £125,000 from 1 October 2021.

To support businesses as they re-open following lockdown, £5 billion will be made available in restart grants. Non-essential retail businesses re-opening first will be eligible for up to £6,000 but the leisure and hospitality sectors, which have been worse affected and will re-open later, will be eligible for up to £18,000.

However, the rate of corporation tax will increase to 25% in April 2023 for companies with profits over £250,000, whilst retaining a Small Profits Rate of 19% for companies with profits of £50,000 or less.

The Chancellor also introduced a super-deduction for companies investing in qualifying new plant and machinery. Under this measure a company will be allowed to claim 130% on most new plant and machinery investments that ordinarily qualify for 18% main rate writing down allowances.

He also confirmed the location of the eight Freeports in England. Freeports are special economic zones with favourable tariffs and lower taxes to make it easier and cheaper to do business.

Business groups welcome Budget

Business groups welcomed the Chancellor's Budget for protecting the economy now and kickstarting recovery from the COVID-19 pandemic.

Tony Danker, Director General of the CBI, said: *'The Chancellor has gone above and beyond to protect UK businesses and people's livelihoods through the crisis and get firms' spending. 'Thousands of firms will be relieved to receive support to finish the job and get through the coming months. The Budget also has a clear eye to the future; to ensure finances are sustainable, while building confidence and investment in a lasting recovery.'*
Meanwhile, the British Chambers of Commerce's (BCC) Director General, Dr Adam Marshall, commented:

'The Chancellor has listened and acted on our calls for immediate support to help struggling businesses reach the finish line of this gruelling marathon and to begin their recovery.

'Extensions to furlough, business rates relief and VAT reductions give firms a fighting chance not only to restart but also to rebuild.'

However, the Federation of Small Businesses (FSB) said that there was little in the Budget to aid job creation or help people return to work. Mike Cherry, National Chairman of the FSB, said: 'Thousands of small businesses are on the brink of collapse and thousands more are suffering from low confidence as cash reserves dwindle.

'The continuation of business rates and VAT discounts is critical, and it's important that those in supply chains benefit from them, not just those that neatly fit the definitions of frontline retail, leisure and hospitality.'

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BUDGET BULLETIN 2021 At a glance

Businesses

- The main rate of corporation tax will remain at 19% until April 2023.
- From April 2023 the main rate increases to 25%, with a Small Profits Rate of 19% for profits not exceeding£50,000. There will be marginal relief for profits between £50,000 and £250,000 (these thresholds are proportionately reduced for the number of associated companies and short periods). Family investment companies will not qualify for the 19%rate.
- Between 1 April 2021 and 31 March 2023, expenditure on new plant and machinery will qualify for a 130% super-deduction. Expenditure on assets in the special rate pool (such as integral features in buildings and certain cars) will benefit from a 50%first year allowance. The £1 million annual investment allowance limit for expenditure on plant and machinery will be extended until 31 December 2021.
- For the next two years the period over which businesses may carry back trading losses is temporarily extended from one to three years. The maximum carry back is for £2 million for each year.
- From 1 April 2021 the amount of SME payable R&D tax credits will be capped at £20,000 plus three times the company's total PAYE and NICs liability.
- From 1 June 2021 withholding taxes will apply to payments of annual interest and royalties to EU companies subject to the terms of the relevant double tax agreement.

Employers

- The furlough scheme will be extended until 30 September with employees receiving 80% of their wages. Employers to contribute 10% from July rising to 20% in August and September.
- Two further payments will be made under the Self Employed Income Support Scheme (SEISS), with the payment in May based on 80% of average profits and a further payment in July. The newly self-employed who filed a 2019-20 tax return before today can claim these fourth and fifth SEISS grants.
- The off-payroll working (IR35) rules announced in Budget 2018 and delayed last year will go ahead from 6 April 2021 as planned.
- A £3,000 incentive in England for new apprentice hires until September 2021.

VAT & indirect taxation

- VAT registration threshold will remain at £85,000 until 31 March 2024.
- The 5% rate for hospitality, accommodation and attractions has been extended until 30 September 2021. This will increase to an interim rate of 12.5%until the end of March 2022 before returning to 20%from April 2022.

Borrowers of Bounce Back loans given six more months for repayments

Businesses that took out government-backed Bounce Back loans to get through the coronavirus (COVID-19) pandemic will now have greater flexibility to repay their loans, the government has announced.

The Pay as You Grow repayment flexibilities now include the option to delay all repayments for a further six months. This means businesses can choose to make no payments on their loans until 18 months after they originally took them out.

Pay as You Grow will also enable borrowers to extend the length of their loans from six to ten years, which reduces monthly repayments by almost half.
They can also make interest-only payments for six months to tailor their repayment schedule to suit their individual circumstances.

The Pay as You Grow options will be available to more than 1.4 million businesses which took out a total of nearly £45 billion through the Bounce Back Loan Scheme (BBLS).
The Chancellor of the Exchequer, Rishi Sunak, said:

'Businesses are continuing to feel the impact of extended disruption from COVID-19, and we're determined to give them the backing and confidence they need to get through the pandemic.
'That's why we're giving Bounce Back loan borrowers breathing space to get back on their feet, through greater flexibility and time to repay their loans on their terms.'

Individuals

- **No increases in income tax rates, capital gains tax or inheritance rates.**
- **From 6 April 2021 the income tax basic rate limit will increase to £37,700 and the higher rate threshold will increase to £50,270. The personal allowance will increase to £12,570. These limits will be frozen until April 2026.**
- **The inheritance tax nil rate band of £325,000 and residence nil rate band of £175,000, as well as the pension Lifetime Allowance of £1,073,100 will be frozen until April 2026.**
- **The capital gains tax annual exempt amount will remain at its current level until April 2026.**
- **The increased SDLT nil rate band for purchases up to £500,000 has been extended until 30 June 2021. This will decrease to £250,000 until 30 September 2021 and then return to £125,000.**
- **A new penalty regime for VAT (from 1 April 2022) and income tax (6 April 2023) will be introduced. The new points-based late submission regime will be introduced with a £200 penalty for every late submission and a revised regime for late payment of tax.**

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BUSINESS TAX

Corporation tax rates
As widely anticipated the Chancellor announced an increase in the rate of corporation tax but not for another two years.

For 2021 and 2022, the main rate of corporation tax (for non-ring-fence profits) will remain at 19%.

However, from 1 April 2023, this rate will increase to 25% for companies with profits over £250,000. Companies with profits of £50,000 or less will continue to be taxed at 19%. Where profits fall between £50,000 and £250,000, the tax rate will be 25% but companies will be able to claim marginal relief.

The related 51% group company test will be repealed and replaced by associated company rules.

The diverted profits tax rate will also be increased to 31% from 1 April 2023 (currently 25%), maintaining the 6% differential between it and the main rate of corporation tax.

Temporary extension to carry back of trading losses
The period over which trading losses can be carried back is to be temporarily extended from 12 months to three years. This temporary extension applies for trading losses incurred by companies in accounting periods ending between 1 April 2020 and 31 March 2022 (tax years 2020/21 and 2021/22 for unincorporated businesses).

This extended carry back is not without restriction though. For companies, there is no limit on the amount of trading losses that can be carried back to the preceding year. But after that, a maximum of £2m of unused losses are available for carry back against profits of the same trade for the earlier two years. This £2m limit applies to each accounting period falling within 1 April 2020 to 31 March 2022.

For individuals claiming trading loss relief there is a similar regime. The amount of trading losses that can be carried back to set against profits of the preceding year remain unlimited and the current restrictions to carry back losses from a trade against general income will remain. There is however a separate £2m cap which will apply to the extended carry back of losses made in each of the tax years 2020/21 and 2021/22.

Capital allowances
For companies within the charge to corporation tax, increased allowances for expenditure on plant and machinery will apply temporarily. For qualifying expenditure incurred from 1 April 2021 up to and including 31 March 2023 companies will be able to claim:

- a super-deduction providing a first-year allowance 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

The relief will not apply to contracts entered into prior to Budget day on 3 March 2021. The general exclusions in section 46 of the Capital Allowances Act 2001 will apply and there will be exclusions for used and second-hand assets. The rate of the super-deduction will require apportioning where super-deduction expenditure is incurred in an accounting period which straddles 1 April 2023.

Interest or royalty payments to connected companies in the EU

From 1 June 2021, interest or royalty payments made from the UK to a connected EU company will no longer automatically be paid without deduction of withholding tax. Instead, the treatment of these payments will be governed solely by the reciprocal obligations under the relevant double tax agreements.

The Government intends to repeal the UK domestic legislation that gave effect to the EU Interest and Royalties Directive for payments made on or after 1 June 2021. This measure ensures that EU companies no longer receive any more favourable treatment than companies based elsewhere in the world.

Freeports

The Budget included an announcement on the location of eight English Freeports. Once tax sites within these Freeports have been designated, businesses in those tax sites will be able to benefit from a number of tax reliefs. These include:

- an enhanced rate of Structures and Buildings Allowance of 10% which will have effect for qualifying expenditure where the first contract for construction of the relevant structure or building is entered into on or after the date the Freeport tax site is designated. To qualify, the structure or building must be brought into use on or before 30 September 2026
- a 100% enhanced capital allowance which will be available for expenditure on plant and machinery incurred on or after the date the Freeport tax site is designated until 30 September 2026
- Stamp Duty Land Tax (SDLT) relief for purchases of land or property, subject to that land or property being acquired and used for qualifying purposes and subject to a control period of up to three years. It will apply to qualifying transactions with an effective date from the date the Freeport tax sites are designated until 30 September 2026

It was confirmed that eligibility for the fourth self-employment income support scheme (SEISS) grant will be based on the claimant's submitted tax return for 2019/20 which must have been submitted by 2 March 2021.

Under current legislation, a SEISS payment is taxed as income for 2020/21. Legislation will be introduced to ensure that payments from the scheme are taxed as income for the tax year in which they are received. A SEISS payment that an individual claims but to which they are not at that time entitled can be recovered by a tax charge. A further measure will be introduced that enables HMRC to recover payments where an individual was entitled to the payment at the time of claim but subsequently ceases to be entitled to all or part of it.

National insurance Class 4 limits

The Class 4 upper profits limit will increase to £50,270 in 2021/22 and remain at this level up to and including 2025/26. The lower profit limit is increased to £9,568.

VAT AND INDIRECT TAXES

VAT registration/deregistration thresholds
The current VAT thresholds for registration and deregistration (£85,000 and £83,000 respectively) will be maintained until 31 March 2024.

Reduced rate for the hospitality industry extended

The reduced rate of 5% which currently applies to certain supplies relating to hospitality, hotel and holiday accommodation and admission to certain attractions will be extended until 30 September 2021. A new reduced rate of 12.5% will then apply until 31 March 2022, after which the standard rate will apply. Regulation 55K of the VAT Regulations will be amended to ensure that businesses using the flat-rate scheme will also benefit.

New Payment Scheme in respect of deferred VAT

As a result of the coronavirus pandemic, businesses were allowed to defer VAT liabilities falling due between 20 March 2020 and 30 June 2020 until 31 March 2021. It was subsequently announced (on 24 September 2020) that businesses would be able to pay that deferred VAT in up to 11 monthly interest-free instalments. This measure will be legislated for in the Finance Act 2021. The legislation will also provide for a penalty of 5% of the outstanding VAT if a business has not, by 30 June 2021:

- paid its liability under the deferral scheme in full
- opted in to the New Payment Scheme, or
- made alternative arrangements to pay by 30 June 2021

The application of the penalty will be at the discretion of HMRC. It will apply instead of the normal Default Surcharge regime.

SDLT

The temporary increase in the SDLT nil rate band for residential property in England and Northern Ireland that was due to end on 31 March 2021 will be extended. The nil rate band will continue to be £500,000 for the period 8 July 2020 to 30 June 2021. From 1 July 2021 until 30 September 2021 it will be £250,000 and it will return to the standard amount of £125,000 from 1 October 2021.

TAX ADMINISTRATION

Late filing and payment penalties and interest harmonisation
A new regime is to be introduced for late filing and late payment penalties for VAT and income tax self-assessment (ITSA). For VAT, the regime will apply for accounting periods beginning on or after 1 April 2022. For ITSA, it will apply for accounting periods beginning on or after 6 April 2023 for taxpayers within the Making Tax Digital regime (those

with business or property turnover of over £10,000 per year) and 6 April 2024 for other self-assessment taxpayers. The measure is no surprise as it has been developed through three consultations starting in 2016, but nothing more had happened since 2018.

Late filing or submission penalties

A points-based system will come into effect. When a taxpayer misses a submission deadline they will incur a point. Points accrue separately for VAT and for ITSA. A taxpayer becomes liable to a fixed penalty of £200 upon reaching the points threshold. The points threshold depends on the taxpayer's submission frequency: annually = 2 points; quarterly = 4 points; monthly = 5 points. Penalty points accrued will automatically expire after 24 months provided the taxpayer remains below the threshold. After the threshold has been reached, all points will expire after the taxpayer has met their return obligations for a set period of time based on their submission frequency: annually = 24 months; quarterly = 12 months; monthly = 6 months.

If the taxpayer continues to miss deadlines after they have reached the points threshold and have been issued with a penalty, they will become liable for a further fixed rate penalty for each additional missed obligation. A taxpayer will not be liable to a point or penalty if they had a reasonable excuse for not submitting on time and will have right of appeal against both points and penalties.

Late payment penalties

There will be no penalty at all if the taxpayer pays the tax late but within 15 days of the due date. The first penalty will be set at 2% of the outstanding amount if payment is made between 16 days and 30 days after the due date. It will be set at 4% of the outstanding amount if there is tax left unpaid 30 days after the due date. A second late payment penalty is then chargeable at 4% per annum, calculated on a daily basis on the total unpaid tax from day 31.
To avoid or reduce penalties, the taxpayer can approach HMRC to agree a Time to Pay Arrangement.

Interest harmonisation

The VAT late payment interest rules will change, and will be similar to those that already apply for ITSA. When an amount is not paid by the due date, late payment interest will be charged from the due date to the date the payment is received. Late payment interest will apply in relation to VAT returns, VAT amendments and assessments and VAT payments on account. HMRC will normally pay repayment interest either from the last day the payment was due to be received or the day it was received, whichever is later, until the date the repayment to the taxpayer is authorised or offset.
Source: Budget 2021: Overview of tax legislation and rates (OOTLAR)

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