KEY POINTS BUDGET 2021

Elman Wall
Audit Tax Advisory
A Xeinadin Company

Highlights

General

- GDP for 2020 as a whole fell by 9.9%, the largest annual fall in 300 years.
- As a result of the pandemic, borrowing reaches 16.9% of GDP in 2020/21, the highest level of peacetime borrowing on record, and underlying debt will peak at 97.1% in 2023/24.
- The OBR expects the economy to recover quickly when restrictions are lifted.

On 11 March 2020 the Chancellor, less than a month into his new role, provided an unheralded £30bn response to the imminent threat of COVID, with all the uncertainty the pandemic had at that point, being still 5 days before Matt Hancock advised "all unnecessary social contact should cease" and the first national lockdown commenced.

Even before Rishi Sunak stood up earlier this afternoon to make his second Budget speech, the running total of COVID related financial support had reached £280.1bn, almost 10 times the original emergency package from last year.

As the Chancellor stated, the priority is to see the economy emerge from the third lockdown without triggering mass unemployment and a wave of business failures.

Over the past 12 months, we have tried to help, support and advise our many clients and contacts as best we can, especially friends in the travel and tourism industry which has obviously been hard hit, and we remain ready to do so.

Whether you want an industry perspective or specific advice around aspects such as cash flow preservation, HR policies or restructuring, help is only a call away.

The last 12 months has brought much sadness with the loss of life and good businesses disappearing. However, perhaps finally there is some return to normality on the horizon. As we said last year, in this context, some of the Budget announcements lose their importance. Nonetheless the Elman Wall Tax Team has reviewed the various announcements and summarise below some of the main points that could impact on you or your business going forward.

Tackling COVID

- Coronavirus Job Retention Scheme (CJRS) extended for a further five months from May until the end of September 2021.
- Fourth Self-Employment Income Support Scheme (SEISS) will be worth 80% of three months' average trading profits.
- Fifth and final SEISS grant covering May to September targeted at people whose turnover has fallen by 30% or more.
- The Government will provide 'Restart Grants' in England of up to £6,000 per premises for non-essential retail businesses and up to £18,000 per premises for hospitality, accommodation, leisure, personal care and gym businesses.
- Temporary £20 per week increase to the Universal Credit standard allowance extended for a further six months.

RESPONDING TO COVID

Headline: £407 billion COVID support package

Detail: The Chancellor of the Exchequer stated that the Budget follows a year of extraordinary economic challenge as a result of the ongoing COVID pandemic, which has had a profound effect on the UK economy. The package of continued economic support for individuals, businesses and public services will reach £407 billion and is the largest peacetime support package for the economy on record. Building on measures announced over the past 12 months additional reliefs now include:

- An extension to the Coronavirus Job Retention Scheme (Furlough) to the end of September with a 10% contribution from employers for July and August and 20% for September. Employees will continue to receive 80% of salary for unworked hours.
- The Self-Employed Income Support Scheme (SEISS) has also been extended to the end of September 2021, with the 4th tranche covering the 3 months to April 2021 and the 5th and final claim being from May 2021. The tax treatment of those SEISS grants has again been confirmed as income to be taxed in the tax year they are received. The newly self-employed, not previously eligible for the grant, who have filed 2019/2020 tax returns can also apply. An 80% grant continues to apply where profits are reduced by 30% or more. A 30% grant will apply where profits are reduced by less than 30%.
- The Government is offering Restart Grants in England of up to £6,000 per premises for non-essential retail businesses and up to £18,000 per premises for hospitality and other sectors that are opening later; and an additional £425 million of discretionary business grant funding for local authorities to distribute.
- An extension to the temporary Universal Credit increase, plus a one off payment of £500 to eligible Working Tax Credit recipients across the UK was announced. The Government also expanded statutory sick pay, increased welfare support, supporting millions of households.

EW Tax Team Say: *The continued immediate support for the self-employed and those on furlough is greatly welcomed at a time of ongoing uncertainty. With Elman Wall's specialism in the travel industry, it goes without saying that we have seen the extreme financial strain that COVID has put onto businesses in this sector. Therefore the restart grant is also to be welcomed. However, there will be many that think this, along with the previous grants, does not go far enough.*

Corporation Tax

- Increased to 25% from April 2023 on profits over £250,000.

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

  Companies with profits between £50,000 and £250,000 will pay tax at the main rate reduced by a marginal relief.

- R&D tax credit for SME capped at £20,000 plus three times the company's total PAYE and NICs liability for that period.

- Eligible retail, hospitality and leisure properties in England will continue to be eligible for 100% business rates relief from 1 April 2021 to 30 June 2021.

  This will be reduced to 66% from 1 July 2021 to 31 March 2022.

CORPORATION TAX

Headline: Corporation tax increase to 25%

Detail: The main rate of corporation tax is to increase by 6% in April 2023 to 25%, affecting those companies with profits of over £250,000. Any company with profits between £250,000 and £50,000 will then experience tapered corporation tax rates. This is so as to introduce the small profits rate (SPR) for companies with profits lower than £50,000. These companies should not see any change in the 19% corporation tax rate that we've had since 2017. The Government is saying SPR will benefit nearly 70% of companies or around 1.4 million businesses in the UK.

EW Tax Team Say: *There was considerable pre-Budget expectation that corporation tax rate would rise, so there was a pleasant surprise in the Chancellor's announcement that is not across the board for all companies. This should be somewhat good news for the majority of smaller business and those who will still take some time to recover from the impact of COVID.*

The reintroduction of two rates of corporation tax and the tapering between limits takes us back 7 years to when such a system previously existed. There will remain planning opportunities to minimise the impact of this.

Headline: Changes to R&D tax credits regime

Detail: Over the past couple of years a number of consultation papers have been released and in conjunction with the summary of responses, now made available, it has been confirmed that a proposed change will be legislated for in the 2021 Finance Bill, having effect from 1 April 2021.

The result of this is that for accounting periods beginning on or after 1 April 2021, 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 claimant company's total PAYE and NICs liability for that period. This change is designed to deter abuse.

At the same time comments were made about bringing data and cloud computing costs into the scope of the relief and the Government has used those comments as a basis for now commencing a new more wide-ranging consultation to ensure the relief remains "fit-for-purpose in a rapidly changing R&D environment".

EW Tax Team Say: *The new capping provision was inevitable given the growth in claims over recent years, and unfortunately an increasing element of questionable claims, perhaps taking advantage of HMRC's limited resources to fully enquire into all claims. There are some safeguards within the new capping, so it is hoped many genuine claimants should not be impacted by the new rules.*

- Traineeships for young people: Employers who provide trainees (16-24 year olds in the 2021/22 academic year) with work experience will continue to be funded at a rate of £1,000 per trainee.
- New apprentices: Employers who hire a new apprentice between 1 April 2021 and 30 September 2021 will receive £3,000 per new hire.
- Trading loss carry-back rule temporarily extended from the existing one year to three years.
- Temporary 'Super Deduction' at 130% introduced for main rate assets and 50% First Year Allowance for special rate (including long life) assets for two years.

The new wider consultation on balance is to be welcomed, looking at how the two schemes (RDEC for large companies and the separate SME scheme) in the UK currently operate and whether relevant definitions, including what is R&D and what is qualifying expenditure, need to be updated. There is a possibility that the outcome could be to expand those businesses that are then eligible to claim the relief. We will be considering the consultation, which runs until 2 June, in greater detail.

Headline: Extended loss carry back for businesses

Detail: The trading loss carry-back rule will be temporarily extended from the existing one year to three years. This will be available for both incorporated and unincorporated businesses.

Unincorporated businesses and companies that are not members of a corporate group will be able to obtain relief for up to £2 million of losses in each of 2020/21 and 2021/22.

Companies that are members of a group will similarly be able to obtain relief but subject to an overall £2 million cap across the group as a whole.

EW Tax Team Say: *Effectively, this means that business with significant COVID derived losses can utilise these by carrying back against the prior three years profits where appropriate. This should be very welcome relief for previously successful businesses that have been devastated by COVID, and provide some very real cash flow benefit. For companies however there is an added consideration. Given the rise in corporation tax rates from 2023, there perhaps becomes a choice between cash now by carrying losses back, or a greater tax efficiency by carrying losses forward. It may well be some planning is required around this to maximise benefit.*

Headline: Super Deduction for capital expenditure

Detail: From 1 April 2021 until 31 March 2023, companies investing in qualifying new plant and machinery assets will benefit from a 130% first-year capital allowances. This upfront Super Deduction which allows companies to cut their tax bill by up to 25p for every £1 they invest, will be applicable to assets qualifying for the 'general pool'. Assets otherwise qualifying for the 'special rate pool' will benefit from a 50% first-year allowance. In addition the Annual Investment Allowance is to be temporarily reinstated back to £1m until 31 December 2021.

EW Tax Team Say: *This new 'Super Deduction' is designed to boost investment by businesses thereby helping stimulate the economy. Certain expenditure will not qualify for the Super Deduction e.g. used/second-hand assets and expenditures on contracts entered into prior to 3 March 2021, even if expenditures are incurred after 1 April 2021. Nonetheless this should provide an added bonus to those businesses who have otherwise lined up to incur such capital expenditure, assuming post COVID they remain in a position to do so.*

Employment Tax

- Employees with EMI share options working for less than 25 hours a week due to COVID will retain EMI tax advantage.

- Flat rate deduction on 'Use of Home office' remains unchanged at £6 per week.

- Temporary income tax and NIC exemption for home office expenses reimbursed by employer extended to 2021/22.

- NIC Class 1 primary threshold for employees and Class 4 lower profit limit for self-employed increased to £9,568 from April 2021.

  The Upper Earnings Limit (UEL)/Upper Profits Limit (UPL) increased to £50,270

EMPLOYMENT TAX

Headline: COVID impact on EMI schemes

Detail: This is a measure designed to protect employees who currently participate in the popular EMI share option scheme. One of the qualifying conditions for an employee, the 'working time requirement' could be jeopardised by being on furlough or indeed working reduced hours. It has now been confirmed that until 5 April 2022, if as a result of COVID employees are working below the 25 hours a week requirement, they should still retain access to the EMI tax advantages. This will apply both to existing participants of EMI schemes and in circumstances where new EMI share options are being granted.

EW Tax Team Say: *This is clearly a welcome, albeit fairly obvious continuation of the pre-existing measure that was introduced last year in light of COVID. It would be incredibly unreasonable for the measure not to be extended and would go against the Government's sentiment of continued positive fiscal acceleration as we all exit the pandemic. Allowing SMEs to incentivise their employees with shares which carry generous tax reliefs for both parties are obviously conducive to ambitious and strong, internally generated economic growth. Partly aligned to this a more general consultation paper has been released on the EMI scheme, with responses due by 26 May. There is some potential for positive reform of the scheme to encourage an even wider participation. We will be reviewing the consultation in more detail and responding accordingly.*

Headline: Extension to the temporary exemption for home office expenses

Detail: The Government are extending the temporary Income Tax and Class 1 National Insurance contributions (NICs) exemption for employer reimbursed expenses that cover the cost of relevant home-office equipment.

EW Tax Team Say: *As the impact of the COVID virus extends into the 2021/22 tax year and many will continue to work from home in the short to medium term the Government have extended the exemptions for home office expenses. This will give certainty to both employers and employees that there will be no negative tax impact of an employee purchasing necessary equipment to allow them to work from home, which is then reimbursed by the employer. The flat rate of £6 per week is also available to those who continue to work from home. This deduction can be claimed online for those who do not file personal tax returns, or as part of your annual return for those who do.*

Income Tax

- Personal Allowance increased to £12,570 from April 2021 and will remain at this level until April 2026.
- Higher Rate Threshold increased to £50,270 from April 2021 and will remain at this level until April 2026.
- Inheritance tax nil-rate band and residence nil-rate band remain unchanged at £325,000 and £175,000, respectively.

SDLT

- The temporary increase to the residential SDLT nil rate band to £500,000 in England and Northern Ireland extended until 30 June 2021.
- It will reduce to £250,000 from 1 July until 30 September 2021.
- It will return to £125,000 from 1 October 2021.

Headline: Changes to off-payroll working rules from April 2021

Detail: From April 2021 responsibility for operating the off-payroll working rules will transfer from an individual's Personal Service Company (PSC) to the medium or large sized private organisation they are engaged with. This change does not impact contracts made with small private sector organisations. The 5% allowance currently available to the PSC for the costs of administering the off-payroll rules will no longer be allowable from 6 April 2021.

EW Tax Team Say: *In an attempt to improve compliance with the off-payroll rules the Government have shifted responsibility for determining employment status from the individual, via their PSC, to the contracting organisation. This change follows a similar reform from April 2017 which was specific to public sector organisations and was highly likely to be extended to the private sector. It remains to be seen how big of an impact this additional compliance requirement will have on these businesses, and whether they change their approach to hiring via PSCs.*

STAMP DUTY LAND TAX (SDLT)

Headline: Stamp Duty Holiday Extension and a gradual transition back to pre-COVID bands

Detail: The Government have announced that they will extend the temporary increase in the residential Stamp Duty Land Tax nil rate band to £500k until 30 June 2021. From 1 July 2021, the bands will be slowly tapered back to the original pre-COVID bands. The nil rate band will then be tapered to £250k until 30 September 2021, before falling back down to £125k on 1 October 2021.

EW Tax Team Say: *The extension of the holiday will no doubt be good news for home movers and first-time buyers looking to purchase a home in the next few months. There has been a lot of talk recently about the delays in completion of home purchases and some had feared they would miss out on benefiting from the extended nil rate band. However, along with the additional support the Government have announced through the mortgage-guarantee scheme, it may be the case that we see many more people taking advantage of the holiday in order to jump onto the property ladder.*

VAT

- Reduction to VAT rates to 5% for tourism and hospitality sector extended to 30 September 2021.

  It will increase to 12.5% from 1 October 2021 to 31 March 2022.

- VAT registration threshold maintained at £85,000 up to and including 2023/24.

- MTD for VAT will apply to VAT registered businesses (including self-employed and landlords) that are not already required to operate MTD from 1 April 2022.

Savings

- ISA annual subscription limit for 2021/22 remain unchanged at £20,000.

- Junior ISAs and Child Trust Funds subscription limit remains unchanged at £9,000.

- Starting rate for savings tax band remain at its current level of £5,000 for 2021/22.

VAT

Headline: VAT rates and thresholds

Detail: The taxable turnover thresholds which determine VAT registration and deregistration will remain at £85,000 and £83,000 respectively. These limits are announced to be in place until April 2024.

The Chancellor also announced the continued temporary 5% reduced rate of VAT for those in the hospitality sector until September 2021. After September the rate will remain at 12.5% until March 2022.

EW Tax Team Say: *The reduced rate extension will have been somewhat expected by many in the hospitality industry. With normality not expected until the end of this year, it would have been a surprise if the scheme hadn't been extended. It's aimed at helping those businesses most affected by the current and prior year circumstances, but part of the reasoning behind this rate reduction is to also entice businesses to lower their 'menu prices', something even a cash flow boost may not currently allow.*

Headline: VAT deferred payment scheme

Detail: After allowing businesses to defer their VAT payments for the periods between 20 March 2020 and 30 June 2020, a new Government portal has been created to make payments under the New Payment Scheme easier and to allow for instalments where business won't be able to pay in full by March 2021. Businesses who deferred their payments will have to sign up to the portal by June 2021, though signing earlier will allow the payment to be spread over more instalments.

EW Tax Team Say: *We would advise that businesses who deferred their VAT payments sign up to the scheme as soon as possible. The scheme allows for the instalments to be interest free and by signing up in March, payment can be spread over up to 11 instalments.*

Headline: Extension of MTD

Detail: Currently certain VAT registered businesses need to retain records in accordance with the MTD requirements. However, there are around 1.1m VAT registered businesses who do not need to comply as their turnover is below the threshold limit. With effect from 1 April 2022 the MTD requirements of retaining records digitally and filing VAT returns via MTD software will now extend to such businesses.

EW Tax Team Say: *This is an expected extension as the MTD roll-out continues. Landlords and non-VAT registered business are likely to follow on in the near future as well.*

Tax Administration

- The Government set to reform the penalty regime for VAT and Income Tax.
- The Government will invest over £100 million in a Taxpayer Protection Taskforce of 1,265 HMRC staff to combat fraud within COVID support packages.

Tax Administration

Headline: Interest harmonisation and penalties for late payment and late submission

Detail: The Government is to reform the penalty regime for VAT and Income Tax Self-Assessment (ITSA), introducing a new points-based penalty regime for regular tax return submission obligations, replacing existing penalties for VAT and ITSA. The proposals represent a major change in penalty approach and follows various consultations on the topic. The new regime will link points to the frequency of compliance failures, with points dropping out after a 24 month period if certain conditions are then met. Alongside these submission penalties, a new tax geared penalty regime will be introduced in respect of late payments. These changes, however, are not immediate and will be phased in over the next couple of years.

EW Tax Team Say: *There is no doubt, taxpayers will need to familiarise themselves to the new regime as HMRC continue to 'encourage' adherence. As the legislation currently stands, HMRC penalise different taxes in different ways, so it certainly makes sense to harmonise these. We believe this change will impact those who are generally non-compliant with the various deadlines and hopefully incentivise those individuals to ensure returns are filed and paid on time.*

Headline: Taskforce to crack down on COVID fraud

Detail: £100m will be invested to create a new team consisting of 1,265 workers within HMRC to investigate fraud relating to the COVID financial support that was offered. Those who have made unlawful claims will be prosecuted.

EW Tax Team Say: *Looking back a year from now, it seemed like the Government was creating multiple grants and financial support systems without putting rigorous checks in place. Of course, this was due to creating such financial support on short notice. So, undeniably there would have been fraudulent claims made by those who supposedly found a hole in the system. HMRC have always warned they will follow up in looking at such cases and now they are being given the resources to do so.*

It is essential that businesses and individuals who have made any claims ensure they have the supporting evidence in the event of an enquiry. It is worth noting that whilst this team are in the process of formation, HMRC have already begun opening enquiries.

xeinadin group

TAXATION AWARDS WINNERS