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Autumn Budget 2021

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Budget 2021

Sunak's Spending Spree (& Sleight of Hand!)

Rishi Sunak has delivered his 3rd Budget speech, which contained a wide range of favourable announcements for both businesses and individuals. The 50% reduction in business rates for the Retail, Hospitality and Leisure sector was particularly welcome, even if it has a shelf-life of only one year.

The report from the OBR (Office for Budget Responsibility) has painted a positive picture of a rebounding UK economy and the Chancellor has clearly taken full advantage in using the extra revenues to fund a relatively large increase in public spending.

The much-feared tax increases that had been trawled in the media (such as Capital Gains Tax rates being increased from 20% to 45%) did not materialise and furthermore the Chancellor even went on to say that we can expect a reduction in taxes in his future Budgets.

Tax has always been driven by politics, but even more so now. The latest sleight of hand appears to be to keep the "bad news" outside of a Budget speech, such as the 1.25% increase in NIC and dividends tax that was announced only last month – perhaps this is why Rishi Sunak confidently announced that he will reduce taxes in his future Budgets!

Budget 2021

Income Tax and National Insurance Contributions – 2022/23

Personal Allowance

As previously announced, the tax free personal allowance has been frozen at the current level of £12,570 and this will remain in place until the end of 2025/26.

For taxpayers who have income over £100,000 in a tax year, the personal allowance will continue to be withdrawn. £1 of the personal allowance is lost for every £2 of income over the £100,000 threshold, creating the infamous "60% tax band". In 2022/23 people with income over £125,140 will therefore not receive any personal allowance.

Income Tax Rates

Income tax rates and bands have been largely untouched apart from the slight tweak to dividend tax below.

The basic rate of income tax remains at 20% and this rate applies to the next £37,700 of income after the personal allowance.

The higher rate of tax remains at 40% and this rate applies to income in excess of £50,270.

The additional rate of tax which applies to income over £150,000, remains at 45%.

As announced last month, dividend tax rates within the three bands above will all increase by 1.25% from April 2022 in order to ensure that those operating through limited companies do not avoid the equivalent 1.25% increase to national insurance as part of the health and social care reform. The dividend tax rates will therefore increase to 8.75% for basic rate taxpayers, 33.75% for higher rate taxpayers and 39.35% for higher rate taxpayers from April 2022.

Budget 2021

National Insurance Contributions

As announced last month as part of the health and social care reform, a 1.25% NIC increase across the board will be introduced from April 2022.

This will result in the main rate of employee's class 1 NIC being increased from 12% to 13.25%, with the rate on earnings above the upper limit being increased from 2% to 3.25%. Employer's class 1 NIC will also be increased by 1.25% from 13.8% to 15.05%.

A corresponding increase to the rate of class 4 NIC for the self employed will also be introduced. This will result in the main rate of class 4 NIC being increased from 9% to 10.25%, with the rate on earnings above the upper limit being increased from 2% to 3.25%.

These increases (along with the above corresponding dividend tax increase) will remain in place until April 2023, when they will be replaced by a separate 1.25% levy.

Scottish Tax Rates

Taxpayers north of the border in Scotland are subject to Scottish tax rates on their earned income which are slightly different to those in the rest of the UK.

Scotland have not yet announced their tax rates for 2022/23, they have set a date for their budget of 9 December 2021 so we will know more after this date.

The main 20%/40%/45% bands have in recent years been increased across the board by 1% to 21%/41%/46% accordingly in Scotland. There have also small 19% and 20% bands in Scotland before the 21% band kicks in.

The main difference previously however, is the level at which the higher rate tax begins. In Scotland this starts to be levied on income over £43,662 from April 2021 whereas those in the rest of the UK were not liable to pay higher rate tax until they hit £50,270.

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Basis Period Reform

Not announced as part of Rishi's speech, but released as part of the budget documents, was confirmation that the recently consulted "basis period reform" will go ahead from April 2024.

Unincorporated businesses with an accounts year end that does not tie in with the tax year end are generally taxed on the profits earned in the accounting period that ends in the particular tax year. For example a business with a 30 June accounts year end, the profits for the year to 30 June 2021 are taxed in the 2021/22 tax year.

From April 2024 onwards, all unincorporated businesses will be taxed on their profits earned on a tax year basis, regardless of their accounting period. This change has been introduced to ensure fairness and in theory to simplify matters ahead of the planned introduction of Making Tax Digital (MTD) for income tax from April 2024.

In order to implement this change, we will have a year of transition in 2023/24 where all basis periods are aligned to the end of the tax year. For example the business above with a 30 June accounts year end, will be taxed on the 12 months profit to 30 June 2023 and then also the 9 months profit to 5 April 2024 so 21 months profit being taxed in one tax year. There will be relief for "overlap profits" that are essentially profits that were taxed twice when the business commenced, but in many cases these historic overlap profits are likely to be much smaller than the current level of additional profits being taxed. 2023/24 is therefore likely to be a bumper year in terms of profits being taxed for some businesses.

In order to mitigate this spike in taxable profits, there will be an option to spread this "adjustment" over 5 years if you prefer. This may or may not be an attractive option depending on the figures so planning around these changes will be crucial.

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Corporation Tax

Corporation tax rate

The Chancellor reminded us that the corporation tax rate will rise from the current 19% rate to 25% with effect from the financial year starting 1 April 2023.

The 25% rate will apply to companies with profits above £250,000. Companies with profits up to £50,000 will be taxed at a new "small profits" rate which will be set at 19%. Companies with profits between £50,000 and £250,000 will pay tax at the main 25% rate reduced by a marginal relief providing a gradual increase in the effective Corporation Tax rate.

Banking companies pay a surcharge on top of the main corporation tax rate, currently 8%, to take their rate to 27%. From 1 April 2023 the surcharge will be cut to 3%, which, added to the new 25% main rate, will give them a tax rate of 28%.

Research & Development (R&D) tax relief reform

Following a consultation launched at Spring Budget 2021, the Government has concluded that R&D relief will be extended by expanding qualifying expenditure to include data and cloud costs. R&D relief will also be reformed so that support is refocussed towards innovation in the UK (rather than overseas) and so that abuse is targeted effectively and compliance is improved.

These changes will take effect from April 2023 but further details of these changes are not yet available and will be set out "in due course", according to the Autumn Budget overview document.

Creative industry tax reliefs

The Chancellor announced a temporary extension to the relief rates for Theatre Tax Relief (TTR), Orchestra Tax Relief (OTR), and Museums and Galleries Exhibition Tax Relief (MGETR) for expenditure taking place from 27 October 2021, returning to current rates by 1 April 2024.

Creative industry tax reliefs (continued...)

The rates for TTR and MGETR will increase from 20% (for non-touring productions) and 25% (for touring productions) to 45% and 50% respectively from 27 October 2021. From 1 April 2023, the rates will be reduced 30% and 35%. The rate for TTR will return to 20% and 25% on 1 April 2024. For MGETR, the relief will expire after 31 March 2024 and no expenditure after this date will be eligible.

The rates for OTR will increase from 25% to 50% for expenditure taking place from 27 October 2021, reducing to 35% from 1 April 2023, and returning to 25% from 1 April 2024.

Residential Property Developer Tax

A new residential property developer tax (RPDT) on company profits derived from UK residential property development has been created. The tax will be charged at 4% on profits exceeding an annual allowance of £25 million. It will therefore only affect companies or groups of companies undertaking UK residential property development with annual profits in excess of £25 million.

The rationale for the new tax is that it will help fund the government's Building Safety Package, aiming to bring an end to unsafe cladding.

The tax will apply from 1 April 2022. Where a company's accounting period straddles 1 April 2022 the profits of the accounting period will be time apportioned to determine amounts falling before and after the start date.

Large businesses to notify HMRC of uncertain tax treatment

This measure introduces a new requirement for large businesses to notify HMRC when they take a tax position in their returns for VAT, Corporation Tax, or Income Tax (including PAYE) that is uncertain. Uncertainty is defined by reference to two criteria: that a provision has been made in the accounts for the uncertainty, OR that the position taken by the business is contrary to HMRC's known interpretation. It only affects very large businesses, those with a turnover of more than £200 million per annum OR a balance sheet total over £2 billion. Such businesses will be required to notify HMRC only if the tax advantage exceeds a £5million threshold.

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Capital Allowances - Annual Investment Allowance Extension

Currently the annual investment allowance (AIA) for businesses is £1M. This is the amount that businesses can spend in a year on qualifying plant and equipment that qualifies for 100% tax relief. The AIA had been set to reduce to £200,000 with effect from 1 January 2022. The AIA has now been kept at £1M until 31 March 2023, meaning that it will reduce to £200,000 with effect from 1 April 2023, in the absence of any further announcements.

In his March 2021 Budget, the Chancellor announced a 130% super deduction for qualifying plant and machinery effective until 31 March 2023. However, the super deduction only applies to expenditure by companies on brand new expenditure that is classified as "general pool". The AIA is more of a catch all. The AIA also applies to expenditure by unincorporated businesses and includes special rate pool expenditure, excluding cars. Therefore, today's announcement is still good news for many businesses, at least in the short term.

Complications exist for accounting periods that will straddle 31 March 2023. If you have an accounting period that that will straddles 31 March 2023 in which you are planning significant expenditure on plant and machinery, please seek professional advice.

Budget 2021

Capital Gains Tax (CGT)

Thankfully the widely anticipated increase to CGT rates did not materialise. There was also some good news in relation to the reporting of UK property disposals.

From April 2020, UK residents have had 30 days to file a return reporting gains arising on UK residential property where some CGT is payable (with the CGT also payable within 30 days). Non-UK residents have also been required to report all disposals of UK land and property (i.e. both commercial and residential) within 30 days, regardless of whether any CGT is payable (again with any CGT due for payment within 30 days).

In a measure which will be very much welcomed by taxpayers and tax agents, this 30 day deadline for filing a return and paying the CGT is extended to 60 days for disposals completing on or after 27 October 2021.

Budget 2021

Business Rates

The long-awaited outcome of the government's 18 months fundamental review of the business rates system has produced only a small number of changes, several of which will be temporary in nature and will benefit businesses for only one year. This feels very much as if business rates continue to remain in the "too difficult to change" in-tray, with the government perhaps fearful of losing some of the £25 billion that business rates raise each year.

The main changes announced are:

1. A very welcome relief for the Retail, Hospitality and Leisure sector whereby their business rates will be reduced by 50% for the 2022-23 tax year (this is essentially an extension of the current Covid relief whereby properties in this sector are eligible for a two-thirds reduction for the 2021-22 tax year).

2. All businesses will benefit from a freezing in the business rates multiplier for the 2022-23 tax year.

3. The current five-yearly cycle of revaluing properties will change to a three-yearly cycle with effect from 2023.

4. Introducing a new relief in April 2023 to support investment in property improvements. This new relief will provide 12 months of exemption from any increase in the rateable value of a property that arises from property improvement expenditure e.g. increasing the size of a property, or installing improvements such as CCTV.

5. Introducing new measures from 2023 to support green investment and the decarbonisation of non-domestic buildings. These measures will ensure that businesses are exempt from any increase in rateable value for a period of 12 months which arises from expenditure on equipment such as rooftop solar panels and battery storage used with renewables and electric vehicle charging points.

The government also announced that it will continue to listen to the calls for an Online Sales Tax and will publish a new consultation shortly.

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Universal Credit

The Chancellor has today announced a reduction in the taper rate in Universal Credit (UC) from 63% to 55%. The reduction will be implemented no later than 1 December 2021.

UC was first introduced in 2013 with the aim being to simplify the existing welfare and benefits system.

There are a number of eligibility criteria for claiming UC. If you qualify for UC you will receive a monthly payment from the government intended to help with your living costs.

There is no set amount for the payment you will receive, it very much depends on your own circumstances. The payment consists of the basic 'standard allowance' plus additional elements that are dependent on your circumstances.

Once you earn more than your work allowance your UC payments will be reduced at a steady rate, the taper rate.

The taper rate is currently 63% and as mentioned above this will be reduced to 55%. This means that for every £1 you earn over your work allowance you will be able to keep an additional 8p.

In addition to the reduced taper rate, the amount that households with children, or a household member with limited capability for work, can earn before their Universal Credit award begins to be reduced (the work allowances) is being increased by £500 a year.

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Alcohol & Fuel Duties

The Chancellor announced that a major reform of an outdated alcohol duties system is planned, after a consultation which will close on 30 January 2022. The number of duty bands is planned to fall from 15 to 6, with rates correlating more closely with the product's ABV. Rates will be reduced for very low alcohol products (those with an ABV of less than 3.5%).

A small producer relief will be introduced, but be available only to products with an ABV of less than 8.5%.

In a measure which will support pubs, duty rates on draught beer and cider will be reduced by 5%.

In the meantime whilst these proposals are being consulted upon and introduced, alcohol duty rates will be frozen at current levels.

For the 12th consecutive year the planned increase in fuel duty has been cancelled.

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Air Passenger Duty (APD)

From 1 April 2023 a new domestic band for APD will be introduced. This will cover all flights within the UK (excluding private jets). They will also introduce a new ultra-long-haul band to cover distances over 5,500 miles.

The rates from 1 April 2023 will be:

- Domestic flights - £6.50
- 0 – 2,000 miles - £13
- 2,000 – 5,500 miles - £87
- 5,500 miles plus - £91

This new lower rate of APD for domestic flights will help regional airports. Passengers flying long haul will pay more.