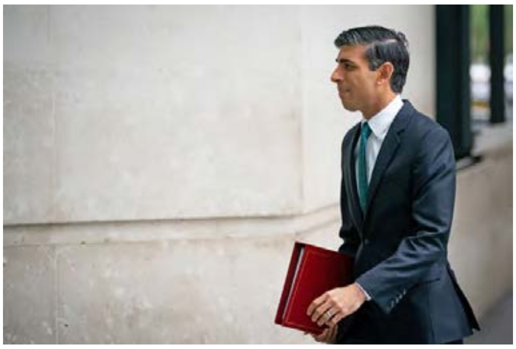
AUTUMN BUDGET 2021



Introduction

Chancellor Rishi Sunak has delivered the Autumn Budget 2021 which sets out the government's plans to "build back better" while fulfilling their ambition to "level up" across the UK.

The Chancellor reported that the UK economy has recovered faster than was anticipated following the Covid-19 pandemic. The government has provided £378bn of direct support for the economy over the last year and the pandemic is now expected to have a smaller long-term effect on the economy than previously feared. This Autumn Budget 2021 focused on the next stages of the economic recovery against the backdrop for businesses of global supply chain issues, rising transportation and energy costs, shortages in the labour market and inflationary pressures.

In its latest forecast the Office for Budget Responsibility (OBR) expects the UK economy to grow by 6.5% in 2021, followed by growth of 6.0% in 2022 and 2.1% in 2023. The OBR expects the economy to have regained its pre-pandemic size at the turn of this year, some six months earlier than previously thought. Unemployment is expected to peak at 5.2% in Q4 2021 and then fall to 4.2% in 2024.

Although the economic recovery has meant the public finances are in better shape than previously predicted, government borrowing and debt remain at historically high levels. Public sector net borrowing reached £319.9bn in 2020/2021, the highest level since World War II, and the OBR expects borrowing will remain high at £183bn this year. Public sector net debt increased to 96.6% of GDP in 2020/2021 and is forecast to reach 98.2% of GDP this year.

Whilst the level of public debt is considered affordable currently, the public finances are vulnerable to any increases in government borrowing costs. The Chancellor said that it is the risks associated with the UK's elevated level of debt that led to "tough but necessary decisions" around tax rises already announced; including increases in Corporation Tax, suspending the earnings link for state pension uprating, and the new health and social care levy.

On future government spending, the Chancellor announced that every department in government would see an overall increase in spending in real terms over this Parliament. There will be a combined cash increase of £150bn a year by 2024/2025 in total department spending which is the largest real term increase for any Parliament this century. The Chancellor confirmed previously announced increases in health and National Health Service (NHS) spending, and there were also announcements on education spending, commitments on building of affordable homes, and funding for the criminal justice system.

The government is to press ahead with its Plan for Growth published earlier this year to deliver on the vision for a high-wage, high-skilled, high-productivity economy. This means significant investment in innovation, infrastructure and skills. There will be record levels of public Research and Development (R&D) investment, increasing supply of growth-stage venture capital, and record spending on infrastructure and skills across all regions of the UK.

For businesses, the Chancellor confirmed that business rates would be retained but he did make commitments on a long-awaited reform. The increased annual investment allowance (AIA) would be extended, and there is to be

some reform to R&D tax reliefs to ensure that they better support cutting-edge research methods and that the UK more effectively captures the benefits of R&D funded by the UK taxpayer.

There was some additional support announced for working families. The National Living Wage will rise to £9.50 an hour from April 2022, and the taper rate in Universal Credit will be reduced from 63% to 55% as well as work allowances increasing by £500 a year. To assist with rising living costs, the planned rise in fuel duty was cancelled, as were the planned rises in duty on spirits, wine, cider and beer. Furthermore, there is to be a simplification of all alcohol duties which will see reductions in duty on lower alcohol drinks.

The Chancellor said this government is acting responsibly and ensuring the public finances are on a sustainable path; introducing new fiscal rules that will allow continued funding of public services and driving economic growth through record levels of investment, whilst ensuring that government debt falls over the medium term. He also said that by the end of this Parliament he wanted to be looking at cutting taxes.

Autumn Budget 2021 was very light on new direct tax announcements. In this summary we provide some details of the tax changes that have been announced that will be of interest to owner managed businesses, entrepreneurs and private clients. We hope you enjoy reading this summary, and if you would like to discuss anything within your own context further, please do not hesitate to get in touch.

Impact on Individuals

This was a relatively quiet Budget for individuals, with no significant announcements in respect of Income Tax, Capital Gains Tax (CGT) or Inheritance Tax (IHT). There are no changes to the Personal Allowance and Income Tax bands, which were frozen at their current levels until 2025/26 in the March Budget earlier this year, along with many other individual allowances. As previously announced, the government will introduce a new Health and Social Care Levy, initially collected via a temporary increase in the rates of National Insurance Contributions (NICs), which will see revenue ring-fenced to support UK health and social care bodies.

Income Tax and NICs

In September 2021 the government announced that it would introduce a new Health and Social Care Levy to fund historic investment in the NHS and social care. In 2022/23 the Levy will be delivered through a temporary 1.25% increase in the main and additional rates of Class 1 and Class 4 NICs. The following year the rates of NICs will revert to 2021/22 levels and the Health and Social Care Levy will be separated out as a stand-alone charge. Individuals above State Pension age will not be affected by the temporary increase to NICs for 2022/23 but will be liable to pay the Levy from April 2023.

With effect from 6 April 2022 the rates of tax applicable to dividend income will be increased by 1.25%. The dividend ordinary rate will increase to 8.75%, the dividend upper rate will be 33.75% and the dividend additional rate will become 39.35%. The dividend trust rate will also increase to 39.35% to remain in line with the dividend additional rate. The dividend allowance remains at £2,000 for the 2022/23 tax year.

There were no major changes announced to the taxation of benefits in kind. The car fuel benefit multiplier, flat-rate van benefit charge and flat-rate van fuel benefit charge will all increase in line with the Consumer Price Index from 6 April 2022. The car fuel benefit multiplier will increase to £25,300, the flat-rate van benefit charge will increase to £3,600 and the flat-rate van fuel benefit charge will increase to £688.

Basis period reform

Following consultation over summer 2021, the government is introducing a change to the way in which trading income is allocated to tax years. This will affect businesses which draw up annual accounts to a date that is different to 31 March or 5 April and businesses that commence from 6 April 2024. The aim of the measure is simplification of the basis period system and will mean that a business' profit or loss for a tax year will be the profit or loss arising in the tax year itself, regardless of its accounting date.

The measure will apply to sole traders, partners in trading partnerships and other unincorporated entities with trading income, such as trading trusts and estates and non-resident companies with trading income charged to Income Tax.

The reform will take effect from the 2024/25 tax year with a transition year in 2023/24. Further details will be published by the government on 4 November 2021.

Inheritance Tax

No changes were announced to IHT. As set out in the March Budget, the IHT nil rate band will remain at its current level of £325,000 and residence nil rate band at £175,000 until at least the 2025/26 tax year.

Pension and investments

The government will introduce legislation to increase the earliest age at which most pension savers can access their pensions without incurring an unauthorised payment tax charge from 55 to 57. The increase will have effect from 6 April 2028.

The annual subscription limits for ISAs and Junior ISAs remain unchanged at £20,000 and £9,000 respectively for the 2022/23 tax year. The annual subscription limit for Child Trust Funds also stays the same at £9,000.

Impact on Businesses

As expected, there were no significant changes to corporate and business taxes that were not already announced. The Chancellor is likely to be wary of upsetting a precarious recovery from the effects of Covid-19 so would prefer to largely leave things alone for now.

Corporate Tax rate

As previously announced, the rates of Corporation Tax are increasing from 1 April 2023. The headline rate of Corporation Tax is to increase to 25% for companies with taxable profits in excess of £250,000. Companies with taxable profits below £50,000 will continue to enjoy the lower rate of 19% and companies in the ‘margin’ between these limits will pay a higher marginal rate of tax at 26.5% on those profits falling between £50,000 and £250,000. These limits are reduced based on the number of associated companies.

Research and Development

R&D tax reliefs will be modernised to include expenditure for data and cloud costs which have previously been disallowed. In contrast, the rules are to be tightened to restrict relief to those activities being undertaken in the UK.

Capital Allowances

Businesses are currently enjoying a temporary increase to the AIA (which grants a 100% tax deduction in the year of acquisition for qualifying plant and machinery) to £1m. This was set to be reduced to £200,000 from 1 January 2022 but the Chancellor announced that the £1m level will remain until 31 March 2023.

However, this extension to the AIA may not be as generous as it first appears as the previously announced Super Deduction (which grants a 130% deduction in the year of acquisition for main rate pool plant and machinery) remains in effect until 31 March 2023 and would offer a more beneficial outcome than the AIA for certain assets. For assets falling within the special rate pool, the super deduction only offers a 50% deduction meaning the extended AIA will provide additional relief.

Finally, the super deduction has been confirmed to apply to leased assets, a confirmation that will be welcomed by landlords.

Banking companies

The rate of the surcharge on banking companies will be set at 3% and the surcharge allowance will be increased from £25m to £100m. These measures will come into effect from 1 April 2023.

“The 2021 Autumn Budget was predictably light on major changes to the tax system as the Chancellor tries to protect the fragile economic recovery from Covid 19.

This was a Budget for increased public spending and investment in the UK in order to assist with the bounce back from the pandemic.”

Jon Kicks
Tax Partner

Tax Compliance, Avoidance & Evasion

A budget light on mainstream tax reform continued to increase measures to tackle non-compliance, avoidance and evasion.

HMRC resources

The government announced a further £0.9bn in funding for HMRC, including:

- a further £292m to tackle the 'tax gap'
- £55m investment in the Taxpayer Protection Taskforce (as previously announced at Spring Budget 2021)
- £136m investment in IT systems to update and modernise how taxpayers manage their tax affairs and interact with HMRC

Reform of penalties and late payment interest

Previously announced reforms to the late payment penalty and interest regimes have been delayed, and will come into effect on 6 April 2024.

Compliance

- **Making Tax Digital (MTD) for Income Tax Self-Assessment**

As announced on 23 September 2021, the government is delaying the introduction of MTD for sole traders and landlords with income over £10,000 until 6 April 2024. General partnerships will not be required to join MTD until 6 April 2025.

- **Capital Gains Tax**

No changes were announced to the rates of CGT and therefore the top rate remains at 20% for 2022/23 (28% for gains on residential property). The lifetime limit on gains qualifying for business asset disposal relief remains at £1m and the lifetime limit for investors' relief remains at £10m for the 2022/23 tax year.

With effect from 6 April 2020 there has been a requirement for UK resident individuals and trustees to report and pay CGT on disposals of UK residential property within 30 days of completion. The government have announced that for disposals completing on or after 27 October 2021 this deadline will be extended to 60 days, giving taxpayers more time to fulfil their filing obligations and pay their tax liability. This extension also applies to non-UK residents disposing of property in the UK.

Notification of uncertain tax treatment

Large businesses intending to adopt an uncertain tax position in their tax filings will be required to notify HMRC of the nature of the uncertainty at the same time as their file the tax return. The measure affects large businesses, for Income Tax, Corporation Tax and VAT purposes where the uncertain tax treatment results in a tax advantage that exceeds the threshold amount of £5m; the legislation will contain distinct penalty, appeals and reasonable excuse provisions.

Economic Crime (Anti-Money Laundering) Levy

Businesses operating in the regulated sector are likely to be faced with a new fixed fee based levy from April 2023. Subject to consultation, including regarding the quantum of the fixed fees and an anticipated exemption for small businesses, it is intended to be

applicable to businesses operating within the following sectors:

- credit institutions
- financial institutions
- auditors, insolvency practitioners, external accountants and tax advisers
- independent legal professionals
- trust or company service providers
- estate agents and letting agents
- high value dealers, casinos, auction platforms and art market participants
- cryptoasset exchange providers and custodian wallet providers

HMRC, the Financial Conduct Authority, and the Gambling Commission will be responsible for the collection and management of the levy when it comes into operation.

Discovery assessments

A ruling in the Upper Tribunal case of HMRC v Jason Wilkes (‘Wilkes’) resulted in a loss for HMRC and the invalidation of discovery assessments raised to collect the High Income Child Benefit Charge where the tax payer had not submitted a tax return. Whilst that decision has been appealed to the Court of Appeal, the government has moved to ‘clarify the law’ and ensure that, with retrospective effect, HMRC is able to use the discovery provisions and raise an assessment where an individual fails to report and pay certain tax charges, including those arising under the High Income Child Benefit Charge, Gift Aid and certain pensions charges.

Some individuals affected by the decision of Wilkes have been granted reprieve however; the government has confirmed that whilst this provision is intended to be retrospective, an appeal submitted to HMRC on the basis of the arguments considered in Wilkes will be determined on the basis of the legislation as it then stood.

Promotors of tax avoidance

Following consultation, HMRC is provided with additional legislative powers targeted at persistent and determined promotors of tax avoidance; those new powers including higher penalties, asset freezing orders and public interest winding-up orders, all of which are intended to disrupt the activities of those marketing avoidance schemes.

Consultations

The government will explore the arguments for and against an online sales tax and will publish a consultation document in the near future.

THE **TAX TEAM**

Alongside our wider business growth, our tax team is now over 30 people, providing a market-leading service dedicated to the needs of the private business world. If you would like to discuss the Autumn Budget, or anything tax, feel free to contact any one of our specialists below.

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