Budget update 2021

On 3 March 2021, the Chancellor of the Exchequer, Rishi Sunak, presented his second Budget to Parliament. As expected, the political theatre usually associated with Budget Day was overshadowed by the ongoing coronavirus pandemic.

The government has so far borrowed over £270 billion in order to fight a virus that has claimed the lives of over 120,000 people in the UK alone. The Chancellor made it clear that this level of borrowing was unsustainable and the process of repaying must begin sooner rather than later. That being said, there were no "shocking" tax announcements in his Budget statement, indeed it was relatively muted. However, advisers are very much looking forward to reviewing the various tax consultation documents that the government will issue from 23 March – the content is so far unknown.

Produced by the Tax team and focussing on tax issues affecting private clients, here are the key Budget Day announcements that may be of particular interest.

Income Tax – England and Wales, and Northern Ireland

For 2021/22, the income tax personal allowance rises slightly from £12,500 to £12,570 and will now remain at this level until 6 April 2026.

Entitlement to the personal allowance continues to be reduced by £1 for every £2 that total taxable income exceeds £100,000. Therefore, there will be no entitlement to a personal allowance for those individuals who have total taxable income exceeding £125,140 from 2021/22 onwards.

The headline rates of income tax for 2021/22 remain unchanged at 20% (basic rate), 40% (higher rate) and 45% (additional rate). The corresponding dividend income tax rates remain at 7.5%, 32.5% and 38.1%.

Furthermore, there is no change to the level of the dividend allowance in 2021/22 – the first £2,000 of dividend income remains chargeable to income tax at 0%.

The basic rate tax band increases from £37,500 to £37,700. The level at which an individual will be liable to pay higher rate income tax rises to £50,270. These levels are also set to remain until 6 April 2026. The additional rate threshold remains at £150,000.

Given that a person's taxable income may well increase over the coming years, and potentially quite significantly if the country experiences a period of high inflation, more taxpayers may find that they will become subject to higher rate income tax as a result of these measures.

No changes were announced to the Personal Savings Allowance (PSA) for 2021/22. Savings income (i.e. interest income) falling within this allowance is charged to tax at 0%. The PSA for basic rate taxpayers is £1,000 and £500 for higher rate taxpayers. Additional rate taxpayers do not qualify for the allowance.

The "starting rate for savings" is a band of savings income subject to 0% income tax that is available in certain circumstances. The starting rate for savings remains at £5,000 for 2021/22.

The headline income tax rates and bandings for 2021/22 (after the personal allowance) are summarised in the table below:

Rate	Band (£)	Tax Rate	Tax Rate - Dividends
Basic rate	0-37,700	20%	7.5%
Higher rate	37,701-150,000	40%	32.5%
Additional rate	150,000+	45%	38.1%

Income tax - Scotland

As announced by the Scottish Government on 28 January; the tax rates applied to non-savings income and non-dividend income for Scottish taxpayers in 2021/22 remain at 19% (starter rate), 20% (basic rate), 21% (intermediate rate), 41% (higher rate) and 46% (additional rate).

The headline income rates and bandings for non-savings and non-dividend income (after the personal allowance) are summarised in the following table:

Rate	Band (£)	Tax Rate
Starter rate	0-2,097	19%
Basic rate	2,098-12,726	20%
Intermediate rate	12,727-31,092	21%
Higher rate	31,093-150,000	41%
Additional rate	150,000+	46%

Scottish taxpayers are entitled to the same personal allowance as individuals in the rest of the UK.

Tax rates and bands applied to dividend and interest income are also the same as in the rest of the UK.

National insurance contributions (NICs)

The NIC primary threshold for employees, and lower profits limit for the self-employed, will both rise to £9,568 from 6 April 2021.

The upper earnings limit (above which the NIC rate is 2%) increases to £50,270.

The Class 2 NIC rate (paid by the self-employed in 2021/22 with profits in excess of the small profits threshold of £6,515) remains at £3.05 per week.

Class 4 NICs will be paid by self-employed individuals at a rate of 9% on taxable profits between £9,568 - £50,270 and at 2% on profits in excess of these.

Class 3 voluntary NICs will increase to £15.40 per week.

Carry back of income tax loss relief

In one of a package of measures designed to assist businesses that may have suffered economic hardship during the pandemic, the government announced a temporary extension to the trading loss carry back period for unincorporated businesses.

Broadly, the current rules allow sole traders and partners to offset trading losses against total income in the current and /or previous tax year subject to certain caps. These rules remain unchanged.

However, the new temporary provisions will allow sole traders to carry back trading losses for offset against trading profits (arising from the same business) for up to the previous three tax years. Losses must be carried back against profits in later tax years in preference to earlier years.

For the purpose of this claiming relief, trading losses generated in both 2020/21 and 2021/22 will be subject to two separate caps of £2 million.

Similar rules will be introduced for companies with accounting periods ending between 1 April 2020 - 31 March 2022.

Off payroll working (IR35 – personal services companies)

The so called IR35 rules were introduced over 20 years ago to tackle income tax and NIC avoidance where individuals work in a manner similar to an employee, but under the guise of a limited company.

Originally, the onus was on individual contractors to assess whether they were caught by the IR35 rules and to self-assess accordingly. From April 2017 public sector bodies that engaged personal services companies were compelled by the government to decide the tax status of their workers and to apply PAYE to payments made to them as appropriate.

The Budget reconfirmed that from 6 April 2021, a similar responsibility will fall upon medium- and large-sized businesses in the private sector.

Individual Savings Accounts (ISAs)

The ISA subscription limit for 2021/22 remains unchanged at £20,000. The Junior ISA and Child Trust Fund subscription remains at £9,000.

Pensions Lifetime Allowance

The lifetime allowance is the maximum amount that an individual may save in a registered pension scheme, in a tax efficient manner, over their lifetime.

Rather than increasing in line with inflation as had been expected, the Chancellor announced that the lifetime allowance for pension savings will freeze at £1,073,100 in 2021/22 and will not increase again until 2025/26.

Those with accumulated pension funds nearing £1million may find themselves reaching or indeed breaching the lifetime allowance sooner than they may have otherwise anticipated. Some individuals may still have the option to apply to protect higher amounts by applying for individual or fixed protection 2016.

Capital Gains Tax (CGT)

Despite much speculation, the Chancellor did not announce any changes to CGT rates. Many had expected rates to increase sharply following the submission of various recommendations to the government by the Office of Tax Simplification in November 2020.

The CGT annual exemption for 2021/22 will be set at £12,300 for most individuals and £6,150 for most trustees. It will remain frozen at this level until 2025/26.

To the extent that capital gains fall within the basic rate band, the rate of CGT is 10%.

The 20% rate applies where gains fall in the higher or additional rate bands. For disposals of residential property and carried interest, the rates are 18% and 28% respectively.

The Disposal of Business Assets Relief (formerly known as Entrepreneurs' Relief) rate remains at 10% on a lifetime allowance of up to £1million of qualifying capital gains.

Given that the Chancellor himself asked the Office of Tax Simplification to deliver its report, reform of CGT remains a realistic possibility in the relatively short term. Perhaps the government decided that the timing was not quite right? We will continue to monitor developments in this area with keen interest especially in light of the launch of a number of tax consultations expected from 23 March.

Social Investment Tax Relief (SITR)

The Social Investment Tax Relief Scheme was introduced in 2014. It is designed to support social enterprises seeking external finance by offering income tax reliefs to investors who invest in new shares or qualifying debt instruments. The maximum annual investment that an individual may make under the SITR scheme is £1million on which income tax relief is available at a flat rate of 30%. Capital gains tax reliefs are also available.

The original legislation contained a sunset clause that would close the scheme after 5 April 2021. Following representations, the Chancellor announced the sunset clause would be extended to 5 April 2023.

Enterprise Management Incentives (EMI) scheme

The EMI scheme is a tax advantaged share option scheme introduced in 2000. Targeted at smaller, potentially high growth companies; where EMI share options are exercised, the gain arising is exempt from income tax and national insurance contributions. Instead, CGT applies to the sale of the shares, generally at a preferential rate, under the Disposal of Business Assets Relief rules.

A number of conditions apply before individual participants may access tax reliefs under the EMI scheme. Crucially, one of these conditions is a minimum commitment of 25 hours working time per week or, if less, 75% of their total working time.

Given that many employees have been, or remain, furloughed due to the coronavirus pandemic, their working time requirement may not be met. The government will bring in rules to ensure that new EMI options issued to employees who have not met the working time requirement as a result of the pandemic will still qualify for the usual tax breaks.

Inheritance Tax (IHT)

For the relatively modest amount of revenue it raises, IHT is a complex and controversial tax that many consider to be well overdue reform. Despite this, once again, no significant changes to IHT were announced.

The IHT nil rate band remains at £325,000 for 2021/22 and, having been set at this level since 2009/10, will now remain frozen until 6 April 2026. The residence nil rate band, which is available to some estates, where the deceased leaves their home to their lineal descendants, will remain at £175,000 for the same period.

Stamp Duty Land Tax (SDLT) – nil rate band extension and phased withdrawal

In an effort to stimulate the housing market during the pandemic, in July 2020, the government announced a temporary increase to the amount a purchaser could pay for residential property before SDLT was payable. The SDLT nil rate band was raised from £125,000 to £500,000 for residential sales that completed in the period 8 July 2020 – 31 March 2021.

Given the success of this measure, and the resulting backlog of sales that would otherwise likely miss the 31 March completion date, the £500,000 SDLT nil rate band will remain in place until 30 June 2021.

From 1 July – 30 September 2021, the SDLT nil rate band will reduce from £500,000 to £250,000 and is expected to return to £125,000 for sales that complete on or after 1 October.

Alignment of Self-Assessment penalties with VAT penalties

From 6 April 2023, the current Self-Assessment penalty regime will change to a "points-based" system for the late submission of returns and a percentage-based penalty for the late payment of tax.

Individuals will accrue a point for each failure to meet a submission deadline and, once the points threshold is reached, a fixed £200 penalty will apply for each subsequent failure.

The threshold will be two points for taxpayers who submit their tax returns annually, but a higher threshold may apply where submissions are due more frequently than annually. Penalty points will expire after 24 months of continued compliance with filing deadlines.

Unless a taxpayer has agreed a Time to Pay arrangement (TTP) with HMRC, the new late payment penalty rules will apply tax based penalties calculated as a percentage of underpaid tax at certain dates as detailed in the table below.

HMRC will continue to apply late payment interest to liabilities that have not been paid by the due date.

HMRC will have discretionary powers to either reduce or not charge a penalty for late payment if it considers that to be appropriate in the circumstances. This will include where the taxpayer has a "reasonable excuse" for late payment.

Corporation Tax increases

The Chancellor announced that from 1 April 2023, the corporation tax rate for companies with taxable profits over £250,000 will be 25%. Companies with taxable profits under £50,000 will continue to be taxed at 19%. Profits between these levels will be subject to a tapered rate.

In addition, close investment holding companies (such as "family investment companies") will become liable to corporation tax at 25% from 1 April 2023 regardless of the level of their taxable profits.

New late payment penalty rules

Days after payment due date	Action by taxpayer	Penalty
0-15	Tax payment made or TTP is proposed by Day 15 and agreed with HMRC	No penalty is payable
16-30	Tax payment made or TTP is proposed by Day 30 and agreed with HMRC	Penalty will be calculated at half of the full percentage rate (2%)
Day 30	Tax is still unpaid, no TTP agreed with HMRC	Penalty will be calculated at the full percentage rate (4%)
Day 31+	Tax is still unpaid, no TTP agreed with HMRC	Additional penalty will start to accrue at 4% per annum

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