The latest Budget provides food for thought

At times, it can be difficult to believe that Rishi Sunak has held the role of Chancellor of the Exchequer for little more than a year.

Taking over from Sajid Javid in February 2020, Sunak has presided over a remarkable window in the UK government's financial history, spanning the COVID-19 pandemic as well as the end of the Brexit transition period.

So, what can we expect next? Mark Collins, Head of Tax, takes a closer look at the Chancellor's new UK Budget.

So far, the UK government has borrowed more than £270bn to wage war on the COVID-19 virus and its knock-on effects – both human and economic. Sunak's latest Budget included £25bn in investment incentives for UK businesses, but he countered this by making clear that the process of repaying the costs incurred in 2020 must begin sooner rather than later. Referring to his newly-announced tax rises as "decisions no chancellor wants to make", Sunak nevertheless deemed these changes necessary in order to reduce government borrowing levels.

Sunak has placed an early bet on corporation tax changes across the Atlantic

From 1 April 2023, the UK corporation tax rate for companies with taxable profits over £250,000 will increase to 25% (up from 19%). Close investment holding companies (such as 'family investment companies') will also become liable for this rate of tax, no matter the level of their taxable profits.

In making this change, Sunak appears to be betting that President Biden will successfully push through his partial reversal of Donald Trump's 2017 tax cuts. Biden aims to take corporation tax in the US up to 28% from 17%. If successful, the UK would gain a competitive edge over the US despite its latest increase.

Capital gains tax reforms have not materialised, for now

Ahead of the Budget, capital gains tax (CGT) had been the subject of much speculation. Sunak himself had fanned the flames, asking the Office of Tax Simplification to make recommendations on CGT in a report delivered in November. But while many had expected a sharp increase in CGT rates, Sunak did not announce any changes in his Budget statement.

> Despite the nod towards fiscal orderliness, the latest Budget contained little in the way of 'shock' announcements. Indeed, some areas considered ripe for reform were left untouched.

However, given the Office of Tax Simplification's report and its recommendations, we believe that reform of CGT does remain a possibility in the relatively near term. From 23 March onwards, the government is expected to issue a number of tax consultation documents; the content of these documents is currently under wraps, but could shed some light on the path ahead for CGT.

An unwelcome but lucrative freeze on the pensions lifetime allowance

The lifetime allowance is the maximum amount that an individual can save in a registered pension scheme in a tax efficient manner, over their lifetime. Rather than increasing this in line with inflation, as had been expected, Sunak announced a freeze on the lifetime allowance, which will not increase again until the 2025/26 tax year. Increases in line with inflation would have seen the allowance rise by £88,900 by the end of the current parliament.

This manoeuvre is expected to raise a total of £225m for the Treasury each year. The news came as a relative surprise, and could contribute to more savers becoming disillusioned with pensions. Those with accumulated pension funds nearing £1m may find themselves reaching (or indeed breaching) the lifetime allowance sooner than might otherwise have been anticipated. It will particularly impact medium and higher earners who have been in defined benefit pensions (typically in the public sector) for many years, not least doctors and teachers. Last year, in his first Budget, Sunak raised the threshold at which the pension annual allowance was restricted, specifically in response to complaints by the medical profession, who were adversely affected if they increased their working hours.

Income tax allowances and national insurance thresholds will remain unchanged for four years

The headline rates of income tax for the coming year remain unchanged. However, there has been a small increase to the level at which an individual is liable to pay higher rate income tax, further adjusted upwards by very slight rises in income tax personal allowance. National insurance thresholds will also rise slightly.

Critically, both personal tax allowances and national insurance thresholds will now remain in situ until April 2026. More taxpayers could therefore find themselves subject to higher rate income tax over the next five years as a result of these fixed thresholds, particularly if the UK experiences a period of temporarily higher inflation.

A stamp duty relief extension will further support the housing market

The current relief on stamp duty land tax for residential property purchases below £500,000, due to expire at the end of March, has been extended until the end of June when it will begin to be phased out. Given high demand in the property market since the relief was introduced, this extension could fuel a further burst of buyer activity.

Watch this space for the Chancellor's next steps

Overall, despite the nod towards fiscal orderliness, Sunak's latest Budget contained little in the way of 'shock' announcements. Indeed, some areas considered ripe for reform – such as inheritance tax rules and rates – were left untouched. However, bearing in mind the tax consultation documents due to be released from 23 March onwards, the Chancellor's latest moves have provided considerable food for thought.

Mark Collins
Head of Tax

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