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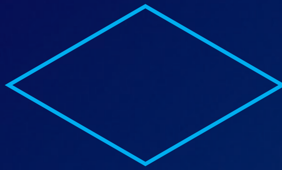

Budget 2021 – Getting to grips with the Chancellor's measures

The latest Budget outlined a number of new measures designed to support businesses in the weeks and months ahead as the UK leaves lockdown – but it also contained changes on the horizon, which could affect the amount of tax you and your business pay.

To help you prepare for these changes, we have produced a helpful factsheet, which looks over the Budget in a little more detail.

The Super Deduction

The Government's super-deduction and special rate first-year allowance has been designed to help businesses invest in qualifying plant and machinery, as the nation looks to rebuild.

This new capital allowance scheme will be available to companies from 1 April 2021 to 31 March 2023, offering them an incentive to invest in their recovery.

Thanks to the super-deduction you will be able to claim:

- A super-deduction providing allowances of 130 per cent on most new plant and machinery investments that ordinarily qualify for main rate writing down allowances
- A first-year allowance of 50 per cent on most new plant and machinery investments that ordinarily qualify for special rate writing down allowances. Special rate investments include:
  - Parts of a building considered integral – known as 'integral features'
  - Items with a long life;
  - Thermal insulation of buildings

This super-deduction effectively allows companies to reduce their tax obligations by nearly 25p for every £1 they invest.

Similarly, companies that are entitled to the first-year allowance for plant or machinery could access a reduction in tax of nearly 10p for every £1 spent.

Most tangible capital assets used in the course of a business are considered plant and machinery for the purposes of claiming capital allowances and as such, there is not an exhaustive list of plant and machinery assets.

However, the following may be able to benefit from these new capital allowances:

- Compressors
- Computer equipment and servers
- Electric vehicle charge points
- Foundry equipment
- Ladders, drills, cranes
- Office chairs and desks
- Refrigeration units
- Solar panels
- Tractors, lorries and vans.

> “To benefit from the relief the assets purchased must be new and not second hand or refurbished equipment.”

The relief is only available to incorporated companies, but unincorporated businesses continue to benefit from the Annual Investment Allowance (AIA) which permits a deduction of 100 per cent for qualifying plant or machinery expenditure up to the threshold of £1 million.

The AIA also remains available alongside the super-deduction for incorporated businesses, so businesses must review how they use these schemes together to maximise the tax relief available.

Extension of carry back losses

The period over which businesses may carry trading losses back for relief against profits of earlier years has been temporarily extended to support businesses affected by the pandemic.

This change will affect all companies and unincorporated businesses making losses from carrying on trades, professions or vocations and is intended to support the economic recovery following the COVID-19 pandemic.

> “The events of the last year have led many businesses to experience reduced demand for their products and services or disruption to their supply chains as a result of the restrictions.”

This has led to increased trading losses in the short term, which is why this new measure will attempt to provide a cash flow benefit to affected businesses by providing additional relief for trading losses over an extended period, thereby generating repayments for tax paid for two additional years.

This measure will come into effect for company accounting periods ending in the period 1 April 2020 to 31 March 2022 and for tax years 2020 to 2021 and 2021 to 2022 for unincorporated businesses.

What is changing?

Under the current Corporation Tax rules, a company incurring a trading loss in an accounting period can claim to offset the loss against total profits of the previous 12 months after first having set the losses against any profits of the accounting period in which the loss occurred.

Similarly, for unincorporated businesses, a person incurring a trading loss in a tax year can claim to offset losses against the person’s net income of the current year, the previous year or both years.

This extension will allow trading losses, whether against Corporation Tax or Income Tax, to be carried over three years, instead of one – with losses being carried back against later years first.

Corporation Tax

Companies can carry back an unlimited amount of trading losses to the preceding year.

After these losses are considered for the preceding year, a maximum of £2 million of unused losses will be available for carrying back against profits of the same trade for the two years prior.

This £2 million limit applies separately to the unused losses of each 12 months within the duration of the extension.

This cap of £2 million on the extended carry back of losses applies to accounting periods ending in the period 1 April 2020 to 31 March 2021, while a separate cap of £2 million applies on the extended carry-back of losses incurred in accounting periods ending in the period 1 April 2021 to 31 March 2022.

The £2 million cap will be subject to a group-level limit, requiring groups with companies that can carry back losses above a de minimis of £200,000 to apportion the cap between its companies.

Income Tax

The system for Income Tax somewhat mirrors the system for Corporation Tax, in that trading losses can be carried back by individuals to set against profits of the preceding year remains unlimited, while a separate £2 million cap will apply to the extended carry back of losses made in each of the tax years 2020 to 2021 and 2021 to 2022.

However, the current restrictions to carry back losses from a trade against general income will remain.

The £2 million limit applies separately to the unused losses of each tax year within the duration of the extension. Income Tax payers will not be subject to a partnership-level limit.

The future of Corporation Tax

The nation must recover the substantial cost of the COVID-19 pandemic, which has seen the Government pledge spending of up to £406 billion to support jobs, businesses and the economy.

In response to this crisis, the Chancellor Rishi Sunak announced in the Budget that the rate of Corporation Tax would increase by six per cent in two years so that the UK’s top rate will rise to 25 per cent.

Not every business will face this higher rate of Corporation Tax, as the Government intends to introduce a tapered system from April 2023, that will see the most profitable businesses pay more.

Under this new tapered regime, businesses with profits of £50,000 or less, which is around 70 per cent of actively trading companies, will continue to be taxed at the current rate of 19 per cent.

A tapered rate will then be introduced for profits above £50,000 so that only businesses with profits of £250,000 or greater will be taxed at the full 25 per cent rate.

This progressive higher rate of tax will, therefore, only affect those businesses enjoying the most success. The Treasury estimates that just 10 per cent of UK companies will pay the highest rate when it is introduced.

It is not yet known how the tapered system will work for those with profits of between £50,000 or £250,000, but the Government say that, despite this increase, the UK will still maintain some of the lowest corporate tax rates in the G7.

The hike in Corporation Tax is expected to raise an additional £22 billion in revenues a year with the tax take increasing from £48.8 billion in 2022-23 to £71.3 billion in 2023-24.

> "The introduction of the Corporation Tax rise will occur after the Office for Budget Responsibility (OBR) expects the economy to return to pre-pandemic levels."

Once we have a clearer idea of how the tapered system will affect businesses and their shareholders, we will look to bring you an update.

The personal tax freeze

At first, the freezes on various allowances may not seem to have a substantial impact, but when you factor in wage growth and inflation, estimates suggest that by April 2026 millions more people may face paying tax for the first time.

What is being frozen?

Several personal tax thresholds will increase according to CPI (Consumer Price Index) rates for the 2021-22 financial year up to April 2022 and will then be frozen until April 2026, while others will remain at their current rates for the next five years.

One of the areas that will see an increase next year is Income Tax, this will increase according to CPI before being frozen, alongside National Insurance contributions, which means that the personal allowance will reach £12,570 from April 2021 and will remain unchanged for the following five years.

Similarly, the Income Tax higher rate threshold will rise to £50,270 next month and then remain frozen until April 2026. This is likely to mean that most taxpayers will see incremental rises in the amount of tax they pay each year.

When it comes to pensions, the pensions lifetime allowance will not grow according to September 2020's CPI rate of 0.5 per cent but will now remain at its current level of £1,073,100 until April 2026.

Meanwhile, the annual pensions allowance will also remain frozen at £40,000 for the next five years. This may make it harder for some taxpayers to benefit from making tax-free contributions to their pension pot to reduce their overall tax bill.

The Capital Gains Tax (CGT) annual exempt amount (AEA) will also remain at £12,300 for the next five years for individuals, personal representatives, and some types of trusts, but for most trusts, the limit will be £6,150.

The freeze will also affect the main and residence Inheritance Tax nil-rate band, which will remain at current levels (£325,000 per person for the main nil-rate band and £175,000 for the residence nil-rate band). The residence nil-band taper will also continue to start at £2 million.

Impact on taxpayers

Initially, this change may only seem small, but when you consider the accumulated loss of tax savings from the incremental changes to these personal tax allowances each year it is clear to see that by 2026 many of us will be paying much more tax.

The decision to freeze personal tax means that it is important for taxpayers to consider how they are remunerated and how they prepare for retirement.

More investors may choose tax-advantageous investments schemes, such as venture capital trusts (VCTs) and the enterprise investment scheme (EIS) to ensure they remain within personal allowances, especially when it comes to pension planning.

It is important that business owners, directors and investors consider this personal tax freeze and take steps now to ensure their finances and plans remain tax-efficient.

Need help?

If you are struggling to plan for the future in light of the announcement made in the Budget or would like to know what opportunities these measures offer to your business we are here to help.

Our experienced team have carefully considered these new initiatives and can advise you and your business on the best steps to take next to reduce your personal and business tax burden.

If you need advice, please contact us today.

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