PKF

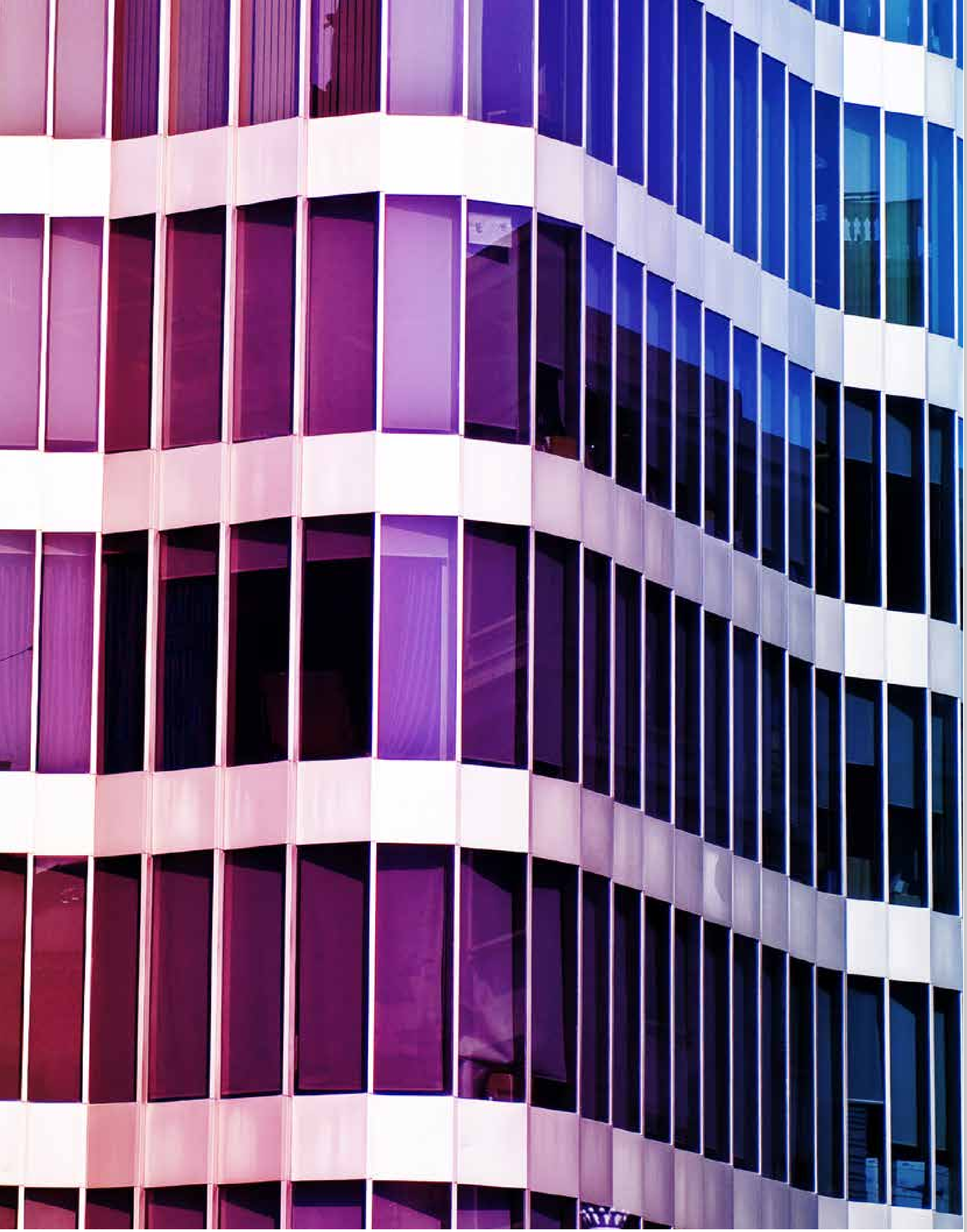
Autumn Budget 2021

What it means for you

Key points

- 6% growth forecast for 2022
- No changes in the main tax rates
- R&D reliefs changed to focus on UK-based expenditure
- 50% discount for Retail, Leisure and Hospitality
- £1m AIA extended to March 2023
- Further measures against promoting tax avoidance
- Significant reform and reduction of alcohol duties
- Tonnage Tax to focus on UK registered ships

In this guide...



Foreword

I expected, when I wrote earlier this month, that today's announcements would be primarily of a technical nature, with little in the way of significant change to the main elements of the UK tax system.

However, with the multiple spending announcements released by the Government in recent days (for which the Deputy Speaker roundly criticised the Chancellor) which all seemed to be of a positive nature, I started listening to the speech believing that there must be a significant piece of bad news on the way to pay for it all.

Instead, most of the Chancellor's speech focussed on a glowing appraisal of the recovery of the UK economy since the significant strains of the pandemic, largely as a scene-setter as to why fundamental changes were not required. Perhaps understandably so, given the significant increases already announced in September in the form of the Health and Social Care Levy and an increase in dividend rates alongside that. Indeed, towards the end of the speech, the Chancellor committed to reducing taxation by the end of the Parliament, but not today.

So, technical the budget indeed was. Perhaps the biggest stories in the news around the Autumn Budget, will be regarding the reform of Alcohol Duties, and the further 50% discount in Business Rates for qualifying businesses in the Retail, Leisure and Hospitality sectors.

There was, however, an underlying theme to many of these technical changes, and that was the increased ability of the Government to make changes in the structure of the taxation system away from some of the restrictions imposed by the EU. Alcohol Duty was a key element here where the basis could not previously be changed (as with Air Passenger Duty changes for domestic flights), but there are also changes to Tonnage Tax (in respect of how ships are taxed) and R&D Tax credit reliefs proposed, all of which focus benefits on UK-based activity, rather than that outside the UK. Cross Border Group Relief for Corporation Tax has also been abolished with immediate effect.

It will be interesting to see how other elements of the UK Tax system are focussed back onto the UK in the coming years. Immediately the EMI and EIS schemes come to mind, where the reliefs were originally intended for UK-focussed businesses but were expanded to worldwide activities to secure approval under EU State Aid rules. In addition, the Furnished Holiday Let rules were previously amended to apply for properties within the EEA, and again this relief could be rolled back for UK taxpayers in the future.

We shall see.

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Measures announced today

There were very few significant tax measures announced by the Chancellor today, and some are of extremely limited scope for most taxpayers. Those most likely to affect taxpayers are as follows:

Business taxes

- From April 2023, new legislation will increase the scope of R&D qualifying expenditure to include cloud computing and data costs. However, relief for overseas expenditure will be restricted to encourage domestic R&D spending.
- Creative sector tax credits have been given a boost with immediate effect. The headline rates of Theatre Tax Relief and Museums and Galleries Exhibition Tax Relief will temporarily increase to 45% for non-touring productions and 50% for touring shows. This will start to taper back down again from 1 April 2023.
- Orchestra Tax Relief will also temporarily double to 50% until 31 March 2023.
- Changes will be made to the Tonnage Tax regime so that only UK Flagged (rather than EU registered) ships are eligible.
- Rather than falling as planned, the Annual Investment Allowance of £1million will stay static until March 2023 to increase investment in capital expenditure.
- Reform of Business Rates from April 2023 also promises to help encourage more capital spending, with 12 months' relief following property improvements and further exemptions for green technology.
- Insurance companies will be able to spread the transitional impact of IFRS 17 for tax purposes, and the requirement for life insurers to spread acquisition expenses over seven years for tax purposes will be revoked.
- For businesses within Income Tax self-assessment, the basis period of assessment will move to the tax year itself from 6 April 2024, rather than an accounting year basis. This will be a 'simplification' of a complex basis of taxation for new businesses, but a potential complication for existing businesses through the transition period.

Property taxes

- With immediate effect, taxpayers selling UK residential property will have 60 days to report and pay CGT after completion.
- Annual Tax on Enveloped Dwellings will rise by 3.1% from 1 April 2022.

Indirect taxes

- Alcohol duties have been frozen with immediate effect. Reform will follow in due course to tax drinks based on their strength, with cheaper alcohol promised for products below 3.5% ABV.

Health and Social Care Levy and Dividend Tax changes

No changes were announced to Employment Taxes in the Budget, but this was expected given the Government announced its "big-ticket tax increase" separately in September when the Health and Social Care Bill was put to Parliament. The Bill introduces a ring-fenced Health and Social Care fund which will be paid for by a new 1.25% levy on wages, benefits, self-employed income and dividends.

The levy will be payable by both employers and employees for those in employment and will initially take the form of a one-year increase in the Class 1, 1A, 1B and Class 4 NIC rates for 2022/23, before the charge is separated and shown as a separate charge from 2023/24.

Although the levy will be payable on the same remuneration as Class 1 NICs, once separated, the levy will continue to be payable by employees who are over the state retirement age, whereas primary Class 1 NIC isn't.

The levy will cause a noticeable reduction in take-home pay for employees and a significant increase in staffing costs for employers. Whether the separation of the levy from the main NIC charges paves the way for future increases to the levy as a means of raising taxation without changing the headline rates only time will tell.

Increase on dividend tax rates

Dividend rates will also be increasing by 1.25% in line with the Health and Social Care Levy with effect from 6 April 2022 as follows:

	Rates to 5 April 2022	Rates from 6 April 2022
Basic rate	7.5%	8.75%
Higher rate	32.5%	33.75%
Additional rate	38.1%	39.35%

Importantly, this increase does not affect the dividend allowance of £2,000, and this will continue to be taxed at 0%.

The tax charge associated with an overdrawn company director's loan account will also increase from 32.5% to 33.75% from April 2022 as this charge is linked to the higher dividend rate.

Planning opportunities?

A pre-planned rise in taxes often brings with it a potential opportunity for tax planning, in this case, especially for smaller owner managed businesses.

Bring forward dividends

If dividends are usually paid after 6 April, there could be a benefit in accelerating these to the current tax year, or increasing other dividends paid prior to 6 April 2022, so long as that would not push the taxpayer into a higher tax rate. This can be quite tricky to gauge as there are various bands of income where the effective tax rate increased without an actual change in the tax band. For example, this could apply to the tipping points where the Child Benefit claw back begins or where personal allowances are reduced.

It is vital to ensure there are distributable reserves and the dividends can legally be declared.

Clearing overdrawn loan accounts

Where a director holds an overdrawn loan account with their company, it may be time to review settling some of this debt to avoid an increase in the tax charge after April 2022.

What didn't change in the Autumn 2021 Budget?

Income Tax bands for 2021/22 and 2022/23	
Basic rate	£1 to £37,700
Higher rate	£37,701 to £150,000
Additional rate	over £150,000

Income Tax rates on non-dividend income for 2021/22 and 2022/23	
Basic rate	20%
Higher rate	40%
Additional rate	45%

Personal Allowance for 2021/22 and 2022/23

- Remains at £12,570 and the income limit remains at £100,000
- The Personal Allowance is reduced by £1 for every £2 above the £100,000 limit

Dividend Allowance for 2021/22 and 2022/23

- Remains at £2,000

Personal Savings Allowance for 2021/22 and 2022/23	
Allowance for basic rate taxpayers	£1,000
Allowance for higher rate taxpayers	£500

Pension tax relief for 2021/22 and 2022/23	
Lifetime Allowance limit	£1,073,100
Annual Allowance limit maximum	£40,000
Annual Allowance limit minimum	£4,000

Capital Gains Tax for individuals for 2021/22 and 2022/23	
Income tax basic rate taxpayer	10% (18% where gains on residential property not eligible for Private Residence Relief and carried interest)
Income tax higher rate taxpayer	20% (28% where gains on residential property not eligible for Private Residence Relief and carried interest)

Capital Gains Tax for trustees and personal representatives for 2021/22 and 2022/23

- 20%, or 28% where gains on residential property not eligible for Private Residence Relief and carried interest

Capital Gains annual exempt amount for individuals and personal representatives for 2021/22 and 2022/23

- Remains at £12,300

Rate on gains subject to Business Asset Disposal Relief (formerly Entrepreneurs' Relief)

- Remains at 10%
- Lifetime limit on qualifying gains remains at £1,000,000

Company car tax rates 2021/22 and 2022/23

- Rates unchanged except for those cars with no CO2 emissions (1% 2021/22 and 2% 2022/23)

Individual Savings Accounts (ISAs)

- The maximum you can save in ISAs remains at £20,000
- The maximum you can save in Junior ISAs remains at £9,000

Inheritance tax

- Nil-rate band limit remains at £325,000
- Residence nil-rate band limit remains at £175,000
- Taper threshold for residence nil-rate band remains at £2,000,000
- Rate (for estates) remains at 40%
- Rate (for chargeable lifetime transfers) remains at 20%
- Reduced rate (for estates leaving 10% or more to charity) remains at 36%

Corporation Tax rates for 2021/22 and 2022/23

- Main rate remains at 19% but the rate will change to 25% with effect from the 1 April 2023
- The numerous Capital Allowance rates remain unchanged and the Annual Investment Allowance of £1 million remains for both financial years

Digital Services Tax

- Remains at 2%

VAT for 2021/22 and 2022/23

- Standard rate remains at 20% and reduced rate remains at 5%
- The registration threshold remains at £85,000
- The deregistration threshold remains at £83,000

Our expert team can help you understand the impact of the Budget on you and your business

To find out more please contact us.

Get in touch today to see how we can help...

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