KEY POINTS AUTUMN BUDGET 2021

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Highlights

General

- OBR expects the economy to regain its pre-pandemic size around the turn of the year, earlier than mid-2022 previously expected.
- Inflation to remain elevated across 2022 and 2023. Inflation is expected to rise further to 4.4% in Q2 2022 before returning to target by the end of 2024.
- Following the end of the furlough scheme in September, the OBR expect unemployment to peak at 5.2% in Q4 2021. It is expected to fall to 4.2% in 2024.

***Multiples!** It happens, perhaps thankfully not too often, that a Chancellor presents two Budgets in one year. It also happens, perhaps far too much on this occasion given the comments made by the Commons Speaker that pre-Budget leaks arise. And there have been 25 previous 'Conference of the Parties' (yes that's what COP actually stands for) before the one starting this weekend.*

The latter two points have combined to generate some interesting press coverage in the run up to today's Budget. For example, just days after the government declared the £620m investment through grants for electric cars, as well as an additional £350m to help the industry generally move towards a zero-carbon economy, and the more recent announcement of £6.9bn for English city transport, it was also reported that Tesla's market valuation broke through the $1tn barrier for the first time.

Of course, it's not all about big numbers and what needs to happen by 2050. COVID statistics may be falling, furlough may have gone and some businesses may be starting to recover, but the overall impact of the pandemic is still very clear to see, especially in the travel, tourism and hospitality industries, where support is still needed.

In another 'leak', the Chancellor, Rishi Sunak pledged that this Budget was to start "the work of preparing for a new economy post-COVID". However, this move to a new economy needs to be paid for. For many, tax based promises have already been broken with the introduction of the new Health and Social Care Levy.

So the Tax Team has reviewed the various announcements and summarise below some of the main points that could impact you or your business in the coming months.

Corporation Tax

- As previously announced increased to 25% from April 2023 on profits over £250,000.

  The rate for small profits under £50,000 will remain at 19%.

  Companies with profits between £50,000 and £250,000 will pay tax at the main rate reduced by a marginal relief.

- Benefit-in-kind rate for zero-emission company cars increased to 2% from 2022/23. 100% first year allowance for new and unused electric cars still apply.

- Annual Investment Allowance (AIA) at temporary £1 million level extended to 31 March 2023.

- R&D tax reliefs will be reformed to support modern research methods by expanding qualifying expenditure to include data and cloud costs and will take effect from April 2023.

CORPORATION TAX

Headline: Enhancing research and development (R&D) tax reliefs.

Detail: To follow from the consultation launched at the 2021 Spring Budget, and as part of the change to reflect modern research methods, the government has announced that data and cloud costs will be included as part of qualifying R&D expenditure. These changes are expected to take effect from April 2023. Further details and next steps will be published by the government in relation to these changes in the coming months.

EW Tax Team Say: *As this is likely to increase the amount of qualifying R&D expenditure companies can claim, naturally, this addition is welcome. However, given the recently implemented R&D tax credit cap, the further details to be announced will need to be considered carefully. It also remains the case, especially following the previously announced increase in the corporation tax rate (from April 2023), for companies to carefully decide whether carrying forward a loss is more beneficial than surrendering it for R&D tax credits.*

Headline: Annual Investment Allowance (AIA) set to remain at £1 million.

Detail: The temporary AIA extension is now set to remain in place until 31 March 2023. Enabling 100% tax relief on certain capital expenditures, originally, the extension was meant to cover the period from 1 January 2019 to 31 December 2020, increasing AIA from £200k to £1m. The Spring Budget extended the increase to 31 December 2021, and now again, the Autumn Budget has extended the increase for a further two years.

EW Tax Team Say: *Whilst it is good to see investment in equipment being encouraged, this will likely only be a bonus for larger companies and groups. For those companies already stretched by COVID, it would have been surprising to see AIA expenditure hit £200,000, let alone £1 million. It should be noted though that the extension will now coincide with the 'Super Deduction' announced earlier this year which gives a 130% deduction, as opposed to the 100% given by AIA.*

Headline: Rates of relief for Museums, Exhibitions and Theatres to increase.

Detail: From 27 October 2021, the headline rates of relief for the Theatre Tax Relief (TTR) and the Museums and Galleries Exhibition Tax Relief (MGETR) will temporarily increase from 20% (for non-touring productions) and 25% (for touring productions) to 45% and 50% respectively. Those rates will then reduce in April 2023 to 30% and 35%, with MGETR relief expiring and TTR returning to the increased rate in April 2024. Similar increases will also apply to the Orchestra Tax Relief.

- Cross-border Group Relief (CBGR) and other related loss reliefs are abolished from 27 October 2021.

Business Tax

- Income tax basis period for self-employed and partnerships aligned with the tax year from 6 April 2024.

VAT

- New regime of penalties for VAT will come into effect from periods starting on or after 1 April 2022.
- VAT registration threshold maintained at £85,000 up to and including 2023/24.

EW Tax Team Say: *The increase should be welcomed by those in the Arts industries generally, seeing as they will have been part of the organisations most impacted by the pandemic. The relief works by creating an additional deduction against any income received, thereby either reducing profits, or creating or extending losses. Any loss would then be available to surrender for a tax credit which could be a much-needed boost to cash flows.*

BUSINESS TAX

Headline: Change in how trading profits of sole traders and partnerships are taxed.

Detail: Currently unincorporated businesses, including LLPs, report their trading income based on the accounting period ended in the tax year. So, for example, for a partnership that normally prepares accounts to 30 September, the 2021 accounts would form the basis of the tax return for the year ended 5 April 2022. New rules are being introduced from 6 April 2024 whereby all such business will be taxed on trading profits arising in the tax year. To facilitate the move to the new rules a transitional year will commence on 6 April 2023.

EW Tax Team Say: *On 20 July 2021 HMRC released a consultation paper proposing the reform. However, in a matter of weeks after the consultation closing, the Treasury released a statement indicating that there would now be a delay before the reforms are finalised and subsequently implemented. Primarily to align to the new Making Tax Digital provisions, we now know this delay is only of one year.*

Whilst it is clear the reforms are aimed at small businesses, and will remove some complexity for many taxpayers, there were significant issues with the proposals for many partners in larger partnerships. Such issues were considered to include added complexity, less comprehension, augmented estimations being made in tax returns and increased exposure to unnecessary interest charges. It is unclear to what extent these concerns will be addressed by the final proposals and we are now awaiting the release of the draft legislation when the consultation response documentation will also be published.

EMPLOYMENT TAX

Headline: Introduction of the Health and Social Care Levy.

Detail: On 7 September 2021 the Prime Minister announced the government's plan to tackle the growing problems with the funding of social care. The plan, confirmed in the Budget, is a two-pronged approach.

The first is a 1.25% levy on Class 1 (employer and employee) and Class 4 (self-employed) National Insurance Contributions (NICs). NIC Classes 2 and 3 will remain unchanged. The levy will be introduced from April 2022 with a general increase in NICs of 1.25% for working age individuals and employers. Then, from April 2023, once HMRC's systems are updated, the 1.25% levy will be formally separated out and will also apply to the earnings of individuals working above State Pension age, and NIC rates will return to their 2021/22 levels.

The second part of the plan is a general increase of 1.25% in dividend tax rates. This will apply UK wide for dividends paid after 6 April 2022. The updated rates will therefore be 8.75% for the basic rate, 33.75% for the higher rate and 39.35% for the additional rate. The trust dividend rate will also increase to 39.35% to remain in line with the additional rate. The £2,000 dividend allowance will remain in place.

EW Tax Team Say: *The issue of social care has been growing over many years with some suggesting the country is facing a crisis. The levy is the current government's solution to the problem and is projected to raise £12bn per year which is to be ring fenced for health and social care.*

The government's position is that the levy has been introduced on NICs and dividends to spread the cost between employees, businesses and those who receive income from businesses in the form of dividends. However, opponents of the plan claim that a flat increase in NICs hits the poorest earners just as much as the highest earners and is therefore a regressive tax increase at a time when inflation is already digging into the budgets of individuals and businesses alike. They also point out that the last Conservative manifesto promised not to increase NICs.

Ultimately, this is a fairly large tax increase that will leave both individuals and businesses with less money and with an additional administrative burden. Businesses may want to look at additional ways to reduce their NIC liabilities such as offering employees salary sacrifice opportunities or low tax benefits such as electric vehicles. This may even be sufficient for all concerned to look again at employees' employment status and consider whether trading via a personal service company, having regards to the anti-avoidance legislation, produces a more favourable outcome.

Employment Tax

- NIC rates increased temporarily by 1.25% points for 2022/23 only.
- From April 2023 new Health and Social Care Levy will apply at 1.25% at the NIC thresholds.
- National Living Wage increased from £8.91 to £9.50 an hour from April 2022.
- The September CPI figure of 3.1% will be used to uprating National Insurance limits and thresholds, and the rates of Class 2 and 3 NICs for 2022/23.

  The Upper Earnings Limit (UEL)/Upper Profits Limit (UPL) remain at £50,270.

Income Tax

- From April 2022, tax on dividend income will increase by 1.25% in line with Health and Social Care Levy, as 8.75%-33.75%-39.35%.
- Personal Allowance remains unchanged at £12,570 and will remain at this level until April 2026.
- Higher Rate Threshold remains unchanged at £50,270 from April 2021 and will remain at this level until April 2026.

Capital Gains Tax

- No change in rates of tax, nor reliefs available.
- Property disposal reporting and payment window for capital gains tax increased from 30 to 60 days.

Headline: Pension reform for the low-paid.

Detail: Following a consultation, a specific anomaly impacting on the low paid is to be addressed. Currently employees contributing to a pension using the relief at source approach will always receive the 20% basic rate tax uplift in their pension scheme. In contrast, employees under the net pay scheme may not even be benefitting from the 20% relief due to the level of pay, hence creating the anomaly. Therefore, legislation will be introduced in a future Finance Bill to make top-up payments directly to low-earning individuals saving in a pension scheme using a Net Pay Arrangement. These top-ups will start to be paid from 2025 to 2026 in respect of contributions made in 2024 to 2025 onwards.

EW Tax Team Say: *This change will introduce a broadly more equal system to make top-up payments directly to low-earning individuals saving in NPA schemes in respect of pension contributions made from 2024/25 onwards. It is perhaps surprising having identified the anomaly why it's still going to take several years to implement a solution for those who most need every penny. Still, this is to be seen as a positive outcome.*

CAPITAL GAINS TAX

Headline: Change to reporting and payment window for Capital Gains Tax (CGT) on property disposals.

Detail: From 27 October 2021 the deadline for both UK and non-UK residents to report and pay CGT after selling UK residential property will increase from the current 30 days after the completion date to 60 days.

EW Tax Team Say: *This extension was recommended by the Office of Tax Simplification, and is obviously welcome at first glance as it gives individuals more time to report and pay what can often be a heavy CGT bill. It does, however, raise questions as to the original ethos of the measure, presumably implemented to make the CGT cost a function of the sale, much like SDLT and solicitor fees. Issues around the original 30 day requirement arose not because people needed an extra 30 days, but because most individuals are unaware of these filing and payment requirements.*

Those selling property often don't think they need to mention the sale to their tax advisor until it's time to submit their tax return, and those involved in the sale, for example estate agents and solicitors, don't always explain the need for reporting. It appears, therefore, that the extension of the deadline may in fact be futile if the underlying issue of awareness isn't addressed.

TAX ADMINISTRATION

Headline: HMRC tighten up on tax compliance whilst continuing to modernise systems.

Detail: A number of comments were made in relation to ongoing HMRC operations. Firstly, is the increased level of HMRC activity as more resources are put into tackling tax evasion and, still muddying the waters, including tax avoidance in the same breath. This specifically includes looking at abuse of the various COVID support schemes. Secondly, HMRC continues to invest in building a modern digital tax system for the 21st century. The core of this is the MTD programme.

EW Tax Team Say: *For tax professionals, and therefore for many taxpayers, the quality of HMRC administration continues to be a major issue. The delays in MTD implementation have been well documented but less so are the everyday issues that remain. Yes, HMRC have struggled through the pandemic as well, but the time it takes for both business and individual taxpayers to receive refunds has been unhelpful at best, precisely at a time when such individuals needed cash support. The investment in HMRC administration is needed but it also needs to be applied in the right way. There remains a principle legal difference between tax evasion and tax avoidance and whilst both merit HMRC enquiry, perhaps the latter represents an easier target, whereas the former is where resources should be prioritised.*

DUTIES AND BUSINESS RATES

Headline: A significant reform of alcohol duties.

Detail: The government intends to greatly simplify the alcohol duty regime by reducing the number of categories by more than half, aligning similar products and ABV rates in a much more common sense-based approach. Reduced duty rates will be applied to lower alcoholic volume products with a new common small producer relief for beverages below 8.5% ABV. The new rates are hoped to encourage responsible drinking and reduce the impact on health. On top of this pubs will receive the benefit of the new relief for draught beers and ciders, in an attempt to encourage responsible drinking.

EW Tax Team Say: *The Chancellor spent a significant part of the Budget referring to this reform, for what in the end only represents a 3p saving on a pint. Given there was press speculation that prices would rise about around 10 times as much as businesses passed on higher employment costs, it is perhaps questionable whether all the hype was merited.*

Tax Administration

- The new penalties for the late submission and late payment for income tax self-assessments will take effect on 6 April 2024 for taxpayers required to submit through MTD, and 6 April 2025 for all other taxpayers.
- MTD for income tax self-assessment to be introduced from 6 April 2024 for sole traders and landlords; 6 April 2025 for partnerships.

This is welcome news for a sector that has suffered tremendously through the pandemic, but it doesn't end there – while the above is under consultation the duty rates on beer, cider, wine and spirits will be frozen for another year. It seems that the government not only wants to help people back into work but also to have a pint afterwards!

Headline: Air Passenger Duty (APD).

Detail: New rates of APD will be introduced for flights from 1 April 2023. From then, flights within the UK will be subject to a reduced rate band (£6.50 for economy) while a new 'ultra-long-haul' band will be introduced for destinations to countries with capitals more than 5,500 miles from London. These, and the other APD rates, will increase with RPI in subsequent years.

As part of the follow up to the recent consultation, further variations in the rates of APD will require operators who account for APD to examine and update their systems.

EW Tax Team Say: *While the government has suggested that these measures are in support of its environmental objectives, the green lobby may take a different view given that air travel is a significant source of emissions in the UK and elsewhere. APD is devolved to Scotland (since July 2017), but the same rate and band changes will be introduced there – presumably to provide a level base for the tax and to avoid passengers shopping for the best APD rates if each nation acted independently. Devolving APD to Wales has been considered previously but rejected.*

That said, the lowering or freezing of APD rates will encourage domestic travel and help support the travel industry in difficult economic times. Government forecasts an increase in APD revenue from 2023 and in subsequent years, but this could be a consequence of the anticipated increase in air travel rather than as a direct consequence of these rate and band changes.

Headline: Business rates halved for retail, hospitality, and leisure sectors.

Detail: Alongside the Budget, the government has published its findings on the review of business rates. The result is an announcement that there will be various steps taken to reduce the overall burden of business rates. This includes the introduction of a new temporary business rates relief for eligible retail, hospitality and leisure properties for 2022/23. Eligible properties will receive 50% relief, up to a £110,000 per business. The government will also freeze the business rates multiplier for a second year from 1 April 2022 – 31 March 2023. In addition, there will be more frequent valuations taking place every three years, which would be delivered from 2023.

DUTIES AND BUSINESS RATES

- Alcohol will be taxed in a progressive manner, ensuring higher strength products incur proportionately more duty.

  A new small producer relief will be introduced.

- From 1 April 2023 the government will introduce a new domestic band for Air Passenger Duty (APD), covering flights within the UK.

  Flights within the UK will be subject to a reduced rate band (£6.50 for economy, £13 for those travelling in all other classes).

- Over 90% of retail, hospitality and leisure businesses will receive at least 50% off their business rates bills in 2022/23.

- The taper rate in Universal Credit (UC) reduced from 63% to 55% meaning claimants will be able to keep an additional 8p for every £1 of net income they earn.

Savings

- ISA annual subscription limit for 2022/23 remains unchanged at £20,000.
- Junior ISAs and Child Trust Funds subscription limit remains unchanged at £9,000.
- Starting rate for savings tax band remains at its current level of £5,000 for 2022/23.

An introduction of a new business rates Improvement Relief to encourage businesses to adopt green technologies such as solar panels, which would allow every single business to make improvements to existing properties and benefit for 12 months relief from higher business rates increases – this to take effect from 2023 and be reviewed in 2028.

EW Tax Team Say: *With many retail businesses suffering through lockdown the rates support was most welcome. However, concern was mounting about future payment whilst the retail trade still struggles to return to normality. Therefore, any continuing freeze or reduction in business rates is to be welcomed. There is no doubt that the 50% relief in business rates for eligible sectors will be a huge help to keep afloat some of those most hard hit by the pandemic. That combined with the Improvement Relief available, may be an opportunity for businesses to grow whilst adopting a greener approach, which is ultimately what the government intended.*

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